



SUSTAINABILITY REPORT 2005

the posco movement

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About the Report

This report is concerned with POSCO's efforts to contribute to sustainable development from a social, environmental and economic perspective. With this report, we aim to help stakeholders in their decision-making by reporting information in a transparent and balanced manner. This report is POSCO's third sustainability report and contains activities and performances related to sustainability covering Pohang and Gwangyang Works, Pohang Head Office and Seoul Office, for the period of January 1st through December 31st, 2005. Additionally the report discusses the activities of POSCO's four regional major subsidiaries and joint ventures as case studies.

Special Characteristics of the Report

1. In the preparation of this report, we referred to a variety of international guidelines including the evaluation criteria of the financial sector and the analyses of leading companies' sustainability reports. In particular, we followed the "2002 Sustainability Report Guidelines" of the Global Reporting Initiative.
2. With the aim of more effective reflection of the opinions and needs of stakeholders, we utilized the results of a survey, covering major stakeholders, in choosing the content for the report in addition to other feedback processes.
3. POSCO established the procedures for publication of the report, including documentation of definitions of reporting indicators, after receiving the opinions of the independent verifier of the previous report.
4. Selected content of this report was verified by a third party, KPMG, in order to ensure the credibility of the report. The selected information includes quantitative data and qualitative statements.

Standards of Reporting Data

The financial information in 2005 Sustainability Report is according to the non-consolidated financial statements of POSCO. Please refer to POSCO's Annual Report 2005 for the consolidated financial statements and related information.

Numerical data and accounting figures in the report are denominated in Korean Won (KRW). For your information, USD1 was equal to KRW1,010.0 at the noon buying rate of the U.S. Federal Reserve in New York City on December 30, 2005. The unit, "ton," indicates a metric ton.

There were no changes in standards used in calculating reported data unless otherwise specified. The report is published in two editions: Korean and English. In the event of discrepancies between the two, the English version shall prevail.



Sustainability Report 2005

The more influence a company has on society, the more responsibilities it has to society. Since its foundation, POSCO has ceaselessly endeavored to fulfill its duties as a sincere and honest corporate citizen. To report such valuable activities to our stakeholders, we have published a Sustainability Report describing our efforts in sustainable management over the past year. We believe that our sustainability report will help readers to understand the actions taken by POSCO and what directions the Company will take while aiming to fulfill its social, environmental and economic responsibilities in the future.

THE POSCO MOVEMENT

Protection
Treatment against
Fugitive Dust

Storage Yard
for Raw
Materials

Contribution to
Local Community

Environmental
Electronic
Message Board

Recycling
Byproducts
(internal use)

Recycling
Byproducts
(external use)



Scrap

Wastewater
Treatment
Facility

Water

Steam

Gas

Electricity

Environment
Center

Environmental
Electronic
Message Board

Ministry of
Environment

Heat in Housing
Complex

CEO'S LETTER TO STAKEHOLDERS



We will keep striving to identify and incorporate issues through communication, and make efforts to sustain development for a better society through our business because, after all, we are an integral part of the world that we live in.

Dear Customers, Shareholders and Stakeholders

Thank you for showing interest in and support for POSCO.
I am pleased to tell you about POSCO's sustainability activities and their results as published in POSCO's third Sustainability Report.

In 2005, POSCO posted sound business performances such as KRW21 trillion in sales, KRW4 trillion in net income and crude steel production of 30.5 million tons. These outcomes were all the more meaningful as we achieved them despite intense competition stemming from difficult business conditions due to a steel glut, rises in raw material prices, and mergers and acquisitions among steel companies. Despite such unfavorable conditions, we laid the groundwork for future growth by signing a memorandum of understanding with the government of Orissa in India for the construction of an integrated steelworks in the region and the setting up of a corporation in India.

In practicing sustainability management, we seek to pursue environmental protection, to fulfill social responsibilities and to enhance economic profitability in a balanced manner for the

sustainable development of society. While understanding that sustainability management greatly affects the survival and competitiveness of a company, POSCO will conduct related activities more systematically in the future.

POSCO's major areas of focus include the environment, climate change, safety and health, win-win relationships and cooperation with small and medium-sized companies, and a wide range of social contribution activities in the fields of education, culture, the arts and sports.

With climate change surfacing as an international issue, emissions of greenhouse gases and energy management have been recognized as significant issues. POSCO, with a number of steady investments in environmental management to its credit, has secured and executed various countermeasures in conjunction with the Korean government and citizens' groups, in preparation for the implementation of the Kyoto Protocol in Korea, to take effect in the near future.

Safety and health activities at worksites and in neighborhoods are basic responsibilities of a company. In 2005, POSCO

recorded its fewest accidents in the last five years with the securing of systematic safety organizations and programs.

POSCO has grown alongside its suppliers and outside service partners having introduced systems to assist them in their development from an early stage. In particular, our benefit sharing program, in which POSCO and its suppliers together carry out tasks for improvement and sharing benefits as a result of improvement, has been benchmarked by many other companies as an excellent model to help small and medium-sized companies to grow and develop.

POSCO continued to support educational foundations, football clubs, and cultural and art events while our employees continued with their volunteer activities. In 2005, we extended the scope of our social contribution activities to the Asian region with the establishment of the TJ Park Foundation. Our social contribution activities in various sectors will be conducted more strategically in the future in order to elevate their efficiency and effectiveness.

In addition, POSCO has made steady efforts to become a more trusted company through improvements in corporate governance such as the separation of CEO duties from the BOD Chairmanship as approved at the 2006 general shareholders meeting.

In recognition of POSCO's efforts in sustainability management, POSCO was selected as a member company of the 2005 SAM DJSI (Dow Jones Sustainability Index) as one of leading companies in the steel industry in September of 2005. The SAM DJSI evaluates the sustainability of major companies in the world.

This Sustainability Report will usefully serve to educate readers about POSCO's strategies and the outcomes of its efforts while outlining POSCO's economic, environmental and social performances in a balanced manner in accordance with GRI Guidelines. Furthermore, we have established 'POSCO Sustainability Reporting Guidelines' to set up our own internal reporting procedure, based on the experience in publishing previous reports. We expect that this will enhance readers' understanding and trust in POSCO while reflecting changing business environments and the demands of stakeholders.

Taking the publication of the Sustainability Report as an opportunity to improve our performances in the future, POSCO will endeavor to make contributions to sustainable development for a better society by listening to a wide variety of voices, by steadily monitoring related issues and by actively reflecting results in management activities.

Thank you.

May 31, 2006



Lee Ku-Taek
Chief Executive Officer

MISSION & SHARED VALUES

POSCO's mission is to contribute to the sustainable development of humankind by offering products and services that are the foundation of a society. To this end, we seek to build widespread respect for POSCO by pursuing the highest standards, by respecting creativity and by attaching great importance to basics and principles.

Established in 1968, POSCO has played a pivotal role in the development of the Korean economy by supplying steel products, a basic material for industry. In POSCO's early days, it was very important to secure human resources to make up for a lack of technologies and experience. In order to elevate the capabilities of employees, we offered various educational programs, including trainings at advanced foreign iron and steel companies, and sought to stabilize the lives of employees with the building of housing complexes and schools. In addition, POSCO contributed to society through the establishment of scholarship foundations, cultural facilities and professional football clubs, and maintained close ties with communities through employee participation in volunteer service activities. Since the 1990s, we have directed the focus of our welfare management systems at satisfying the diversified needs of our employees while bolstering our community contribution activities through donations and volunteer services.

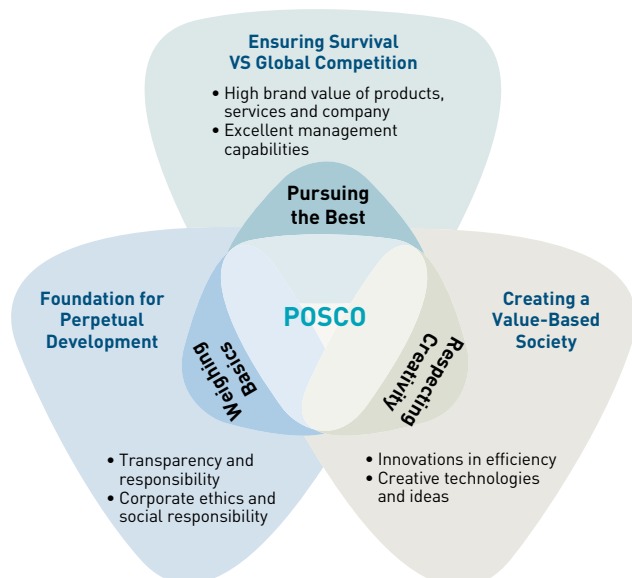
Although steel products are indispensable to industry, steel production processes consume a large quantity of natural resources and cause pollution. Since its early days, POSCO has landscaped the grounds around its plants to ensure a more pleasant working environment, has made substantial and consistent investments in facilities for the reduction of pollution, and has held to pollution emission targets which are stricter than those called for by law. Since the 1980s, when sustainable development started to surface as a major international issue, POSCO has invested significant amounts of cash and effort in developing environment-friendly processes and products. Furthermore, after evaluating the effects of POSCO's operations on communities and the environment, we have made ceaseless efforts to reflect the results of such evaluations in our management policies and practices while making environment-related data public to communities.

As global competition became more intense in the late 1990s, POSCO stepped up to the next level with privatization in 2000. After privatization, POSCO reestablished its mission and values with the aim of becoming a company well-respected and trusted by its stakeholders around the world. As part of this new outward focus, we have integrated all work processes into a digital system through a large-scale six-year innovation process and have sought to pursue a rational work system through Six Sigma activities. Additionally, in order to develop an ethical corporate business culture, POSCO devised a set of ethical standards in 2003, which

has been applied with various systems. In 2004, we announced plans for sustainability management to systemize balanced activities in economic, environmental and social growth.

As of the end of 2005, POSCO employed 19,004 people, and Pohang and Gwangyang Works produce such intermediate materials as hot- and cold-rolled steel, plates, wire rod and stainless steel, which are used in construction materials, ships, automobiles, electric appliances, food containers and medical equipment. POSCO has a total of 14 domestic subsidiaries in sectors that generate synergies with POSCO's steel business such as construction, production and sales of steel products, facilities and maintenance. Our subsidiaries in Australia, the U.S., Canada and Japan are involved in the steel trade and material sales. We also have subsidiaries involved in production, processing and the selling of steel products in China, Japan and Southeast Asia. Of late, POSCO announced plans to construct an integrated steelworks with an annual production capacity of 12 million tons in India.

SHARED VALUES



BUSINESS STRATEGIES

The steel industry is not exempt from tougher global competition. With the aim of maintaining competitiveness in a rapidly-changing business environment, POSCO has selected strategies that focus on utilizing POSCO's capabilities in the steel business, strengthening technological and managerial innovations, and building global production bases.

Having surpassed one billion tons in the production of steel, the world steel industry faces a second Renaissance. However, such growth was accompanied by rapid rises in the price of raw materials and fiercer competition among steel companies, thereby making business environments harder to predict than ever. It is expected that the trend of steelmakers towards mergers and acquisitions will increase and that globalization will continue. In addition, because of a lack of balance between the supply and demand for materials and an oligopoly in the materials markets, the bargaining power of suppliers has strengthened. Therefore, competition among steelmakers to secure raw materials is expected to become more intense on a mid- to long-term basis.

Beginning in the first half of 2005, polarization in the steel products market became more conspicuous. With an increase in the production of general steel products led by China, conditions in world steel markets deteriorated while the market for high-quality steel products remained relatively stable thanks to a steady jump in demand. POSCO seeks to secure a foundation for global growth and steel technology leadership while planning to intensify original cost competitiveness. POSCO will also work to create and develop innovations in its corporate cultures in preparation for difficult business environments such as restructuring in world steel markets and large inflows of low-priced steel products.

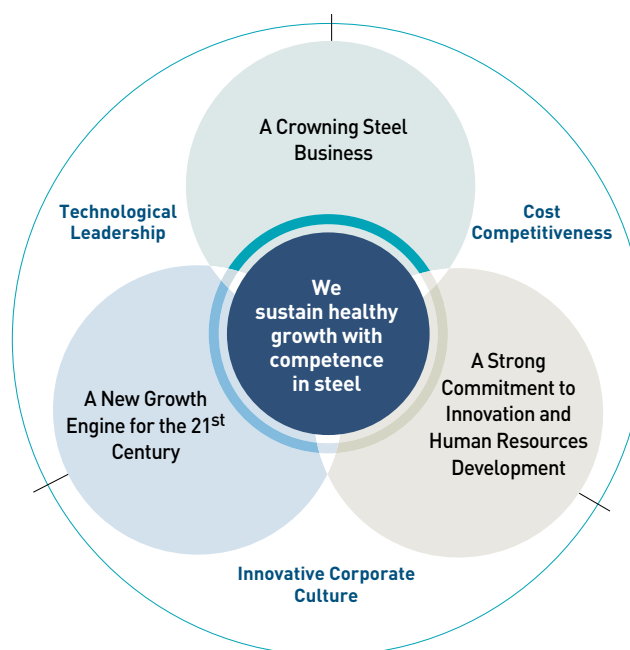
ESTABLISHMENT OF GLOBAL PRODUCTION SYSTEM

POSCO aims to build the capacity to produce 50 million tons of crude steel by the end of 2010. We plan to bring domestic production up to 25 million tons by 2008 with investments in facilities to advance the product line-up and raise production capability. Furthermore, POSCO plans to build an overseas base with a yearly capacity of 15 million tons by the end of 2010. For the overseas production, we are building an integrated mill in India and other production facilities in China, and seeking to enter the Brazilian market.

SECURING FUTURE GROWTH ENGINES

POSCO will steadily push new lines of business in order to acquire future growth engines. We will develop our non-metals businesses such as magnesium plates, which are used in cars due to their light weight and high degree of strength. POSCO has also entered the power-generation fuel cell business in preparation for future changes in energy paradigms. With completion of the Gwangyang LNG Terminal in 2005 and the acquisition of POSCO Power in 2005, POSCO broadened the scope of its business areas in the energy sector. We are also considering further advancements into other sectors of the LNG Value Chain.

VISION 2010



Mid-term Investment Plan

	2006	2007	2008
○ Mid-term Investments	<div> <div style="width: 33.33%;"></div> <div style="width: 33.33%;"></div> <div style="width: 33.33%;"></div> </div>		
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○ Advancement of Product Mix	<div> <div style="width: 100%;"></div> </div>		
	<div> <div style="width: 100%;"></div> </div>		
○ Production Facilities	<div> <div style="width: 100%;"></div> </div>		
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TECHNOLOGICAL LEADERSHIP

In 2005, POSCO established a mid-term technological development strategy to change its product line-up from general steel products to high-quality products. POSCO aims to secure new markets while increasing the demand for its strategic products through new marketing strategies. At the same time, POSCO's research institute will focus on new product research and development and Early Vendor Involvement (EVI) activities, and the steelworks will establish new production technologies and stabilize newly-built facilities. With these efforts, POSCO expects to raise its portion of strategic products to 80% of the product mix in 2008 from 40% in 2005.

POSCO aims to maintain its global leadership in steel technologies through the commercialization of Finex, a next-generation iron-making technology, and strip casting, an innovative technology that makes steel sheet straight from molten-iron (integrating the coiling and rolling processes).

COST COMPETITIVENESS

POSCO will concentrate on improving its cost structures for the purpose of reducing costs by KRW1 trillion in the next three years. In order to establish a stable and economical supply of materials, we will increase our direct development of, and investment in the development of raw materials. In 2005, we decided to co-found a nickel mining company in partnership with a nickel ore exporter in New Caledonia in a bid to secure a stable supply of nickel, a main material for stainless steel.

ESTABLISHMENT OF INNOVATIVE CORPORATE CULTURES

POSCO will secure organizational capabilities befitting a global company by establishing innovative corporate cultures centered around Six Sigma activities. A total of 5,864 tasks were undertaken over a period of three and a half years from May, 2002 to 2005, as part of POSCO's Six Sigma initiative. Among these, Black Belt tasks stood at 1,859 and Green Belt tasks at 3,969 while 25% of the total workforce, 4,364 employees, obtained Belt titles.

Major goals of the Six Sigma movement for 2005 were development and application of the 'POSCO Six Sigma', activation of large projects, establishment of the Six Sigma movement led by work-site operations, and the strengthening of the Six Sigma movement at POSCO-related companies. POSCO's version of the Six Sigma movement has been fitted to POSCO's systems and cultures by employing the merits of other methods such as Toyota's production system while inducing all employees to apply Six Sigma methods in their daily work activities. In applying the movement across the organization through established methods, we aim to achieve rapid assimilation of the Six Sigma initiatives.

The launch of the Innovation Strategy Planning Group in 2005, provides a central focus and organizing capabilities for POSCO's innovation activities. In addition, the innovation of organizational capabilities and Standard Operating Procedures (SOP) are being implemented as a Six Sigma Mega Y project. The innovation of organizational capabilities aims to expedite tasks such as the establishment of a globally applicable way of working, the establishment of fair and rational evaluation and remuneration systems, the strategic nurturing of future leaders, the development of employees' leadership capabilities, and the early establishment of a work site-oriented lifetime learning program. The SOP aims at narrowing individual deviations and heightening work performances by defining the operating procedures for each employee.



* Innovation of corporate culture by 6 sigma

Strategic Products

Automotive Steel Sheets		<ul style="list-style-type: none"> • Completed high-speed and consecutive production technologies for alloyed galvanized steel sheets • Developed MAFE and ACE steel • Commercialized 490Mpa-class dual-phase high-strength steel • Developed and designed automotive steel frame in cooperation with nine Korean and foreign carmakers • Completed the TWB (Tailor Welded Blank) and hydro-forming facilities
High-Quality API Steel		<ul style="list-style-type: none"> • Responded to worsening condition of the environment due to oil field development and increases in long-distance transport • Mass-produced hot-rolled API-X70 with low-temperature tolerance • Mass-produced corrosion-resistant API-X65 used for oil transportation • Developed X60 for sour gas pipelines
400 Series Stainless Steel		<ul style="list-style-type: none"> • Improved defective surfaces and ridging for better quality • Raised sales ratios by diversifying export markets and developing new markets • Developed low-cost high-quality new products
Electrical Steel		<ul style="list-style-type: none"> • Completed facilities to mass-produce 0.23mm domain refined steel • Established 70,000-ton grain-oriented steel production system • Developed high-grade 2.1-watt, non-oriented electrical steel used in electric / hybrid / fuel-cell cars
High-Quality Hot-Rolled Steel Products		<ul style="list-style-type: none"> • Made efforts to raise the quality of non-corrosive sulphuric acid resistant steel, high-performance tubes, and high-performance structural steel
TMCP Steel		<ul style="list-style-type: none"> • Strived to establish a system to mass-produce TMCP-type high-strength steel to meet rising demand in the shipbuilding industry
High-Grade Wire Rods		<ul style="list-style-type: none"> • Set up custom-tailored production process for tire-cord wire rods • Organized a joint technological cooperation committee with customers for tire-cord wire rods
High-Grade Cold-Rolled Steel Products		<ul style="list-style-type: none"> • Developed high-performance coated steel products such as anti-fingerprint chrome-free products, electro-galvanized steel for liquid crystal displays and plasma display panels • Developed cold-rolled steel products with special functions such as sulphuric acid resistant steel and high-carbon steel • Developed steel products for monitors such as inner shields and shadow masks • Developed ultra-slim steel products for receptacles such as D&I, DR-BP

MAFE Steel: Micro Alloy Free Exposed. High-strength steel made by extracting micro alloys in nano-size such as CuS, MnS and AlN.

ACE Steel: Aerosols Charged with Electrostatic. Galvanized iron with improved functions and surface-look by refining spangles.

API: American Petroleum Institute

TMCP (Thermo-Mechanical Control Process): Conventional steel plate relies on chemical composition for higher strength, causing higher carbon equivalents. TMCP refines the grain by controlled rolling and accelerated cooling for higher strength and durability, thus showing better weldability due to low carbon equivalents.

STAKEHOLDER ENGAGEMENT

A corporation is by nature social, having relationships with various stakeholders. POSCO has a variety of communication channels set up to receive feedback from stakeholders, and this information is provided to overall operations. Such efforts are a part of POSCO's management philosophy and an important element in the development of POSCO.

TOOLS FOR COMMUNICATING WITH STAKEHOLDERS

The fundamental aim of our communication activities is to form relationships for co-development. Because of the size and character of its business, POSCO has a large impact on a wide range of stakeholders and thus, many influential groups and people make requests of POSCO and give us feedback on our performances and operations. Such communications with stakeholders are of great importance to us and are encouraged throughout the organization. POSCO includes dialogue, the receiving of feedback, and cooperation as significant parts of its corporate culture. The following table shows examples of communication activities in each sector of POSCO. More details about communications can be found in related sections of this report.

SURVEY OF STAKEHOLDERS' OPINIONS ON SUSTAINABILITY MANAGEMENT

POSCO's CSM Team collected opinions on POSCO's sustainability management policies and the previous year's sustainability report

from a total of 14 organizations including four non-profit organizations (NGOs) in November of 2005. In this first stakeholder survey, the opinions of all possible stakeholders were not represented due to the limited sample size of only 14 people, but because the survey was conducted with people and experts in various fields related to sustainability, the opinions expressed provided meaningful and potentially useful suggestions as to directions to take in making future improvements. In keeping with the results of the survey, POSCO's management aims to make improvements in corporate governance, seeks to establish social contribution strategies, and looks to develop stronger partnerships with NGOs. The management also plans to introduce a sector-by-sector practice guide for sustainability management in 2006.

According to the survey, the sustainability report gave people an opportunity to better understand POSCO by providing a wide range of detailed information on POSCO's business, operations and activities. In general, we found that participants believed that

POSCO's Vision for Stakeholders

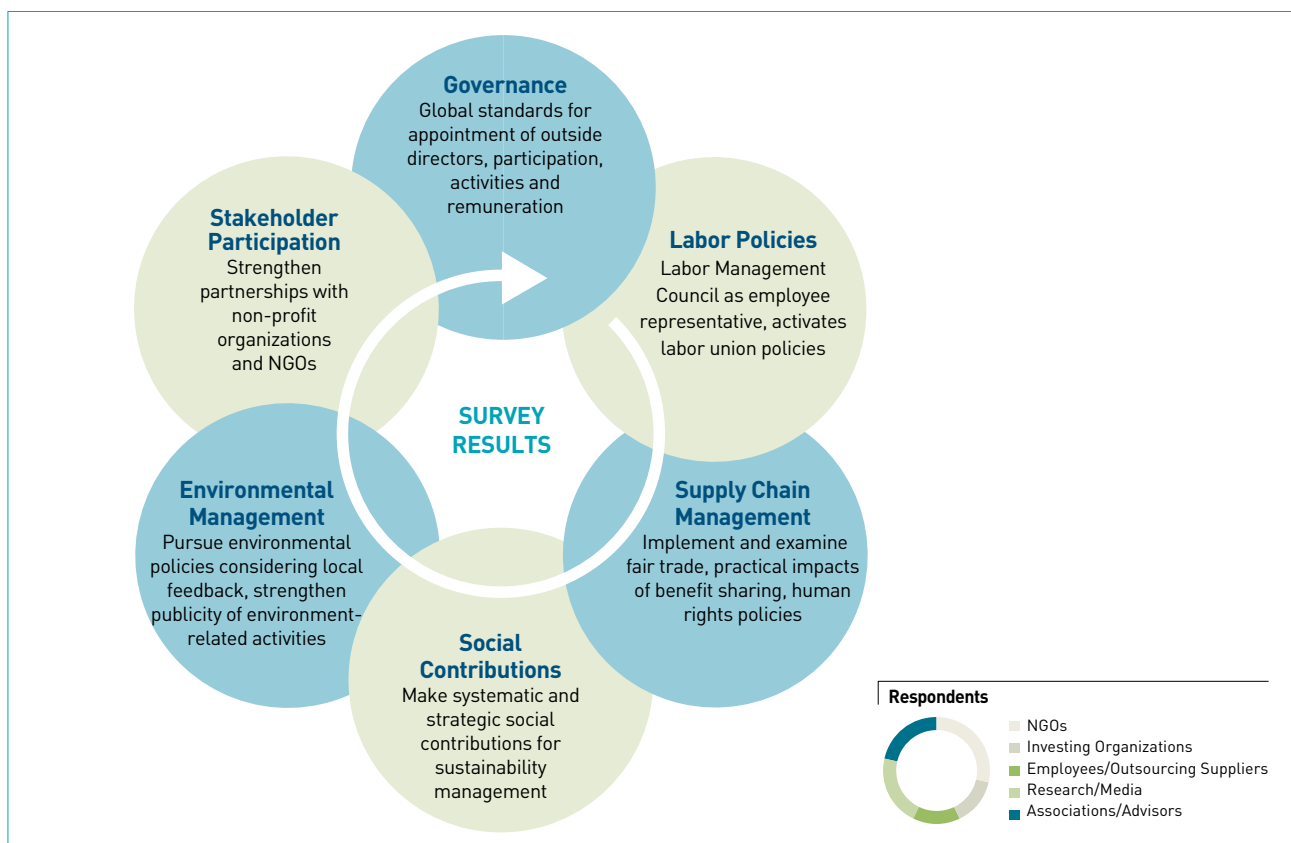


reporting had improved in nine out of ten surveyed sectors such as corporate governance, environmental management and stakeholder policies. At the same time, respondents felt that POSCO should put more effort into meeting the expectations of NGOs, which hold high standards on environmental and social issues. Four NGO participants in the survey also indicated their belief that out of ten sectors, our reporting improved in four sectors, no change was made in two and four needed improvement.

Those surveyed requested the following information, as well as more detailed information in publication of the next sustainability report. Participants wanted to see more details regarding the activities of outside directors including committees the directors have belonged to, cases involving ethics and achievements in ethical practices, environmental issues raised in the media and through civil petitions, the various roles of the Labor-Management Council and the level of employee satisfaction with labor policies, explanation of the project in India, detailed information on the benefit sharing program, and the inclusion of stakeholders in sustainability management activities. In preparing the present sustainability report, these and other concerns were taken into account as much as possible.

The survey was important in being a first attempt to include stakeholder participation in our sustainability report. Building on the knowledge gained and the experience in dealing with such feedback, the CSM team plans to develop a variety of methods for the collection of feedback from major stakeholders on a regular basis. The CSM team's plans include forums with NGOs and related industries in cooperation with related departments of POSCO and researchers drawn from within and from outside POSCO. The feedback gained from such outreach activities will be relayed to management, which will devise strategies in response to various issues. POSCO aims to improve its response systems to gain more feedback from stakeholders while enhancing its reporting and the core materials to be used in the preparation of the sustainability report.

Results of Sustainability Issue Survey



CORPORATE GOVERNANCE

In strengthening long-term sustainability, a sound and transparent system of corporate governance is necessary for the raising of a company's value. POSCO consistently strives to build an advanced corporate governance system by increasing the professionalism of its managers, by ensuring the independence of the board of directors (BOD), and by providing transparent information for stakeholders.

POSCO's form of corporate governance is such that the BOD advocates for the interests of shareholders, large and small alike, and supervises POSCO's professional management. POSCO's management and the BOD conduct business using balanced constraints to promote long-term shareholder value. Since privatization in 2000, POSCO has made stringent efforts to improve corporate governance with such enhancements as expansion in the number of outside directors, improvements in the appointment of directors, and the strengthening of specialized committees so as to promote the independence, specialization and effectiveness of the BOD. POSCO's Corporate Governance Charter, established in March of 2004, speaks for these efforts. At the general shareholders' meeting in February of 2006, shareholders decided to separate the CEO position from the chairmanship of the BOD, further shoring up the independence of the BOD.

Process for Establishing Advanced Corporate Governance

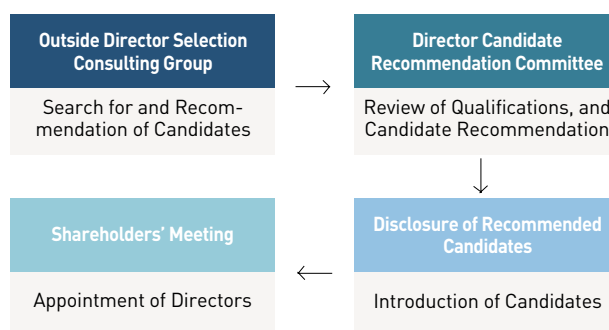
Mar. 1997	Introduction of an outside director system
Mar. 1999	Introduction of Global Professional Management (GPM)
Mar. 2000	Expansion and reorganization of a specialized committee system
Mar. 2004	Adoption of the Corporate Governance Charter, expansion of ratio of outside directors to 60%, introduction of cumulative voting and voting in writing (to strengthen the rights of minority shareholders), deletion of the provision on the issuance of convertible preferred shares
Feb. 2006	Separation of the CEO position from the chairmanship of the BOD, establishment of grounds for the operation of the CEO Candidate Recommendation Committee

COMPOSITION OF THE BOD

At present, nine out of the 15 BOD members are outside directors. The Outside Director Selection Consulting Group consists of five experts from various fields and recommends candidates for consideration. After a preliminary screening of candidates, the Director Candidate Recommendation Committee examines the qualifications of those who have made it past the first screening. The best candidates are then chosen and shareholders at the general shareholders' meeting decide on the appointment of outside directors.

The BOD oversees six specialized committees, which report directly to the board. The chairs for five of the committees are outside directors while the Audit Committee, the Evaluation and

Outside Director Appointment Process



Compensation Committee, and the Insider Trading Committee consist of outside directors only. Members of the Audit Committee must fulfill certain requirements for independence as set by the Sarbanes-Oxley Act. In 2005, BOD meetings were held seven times and the participation rate of outside directors stood at 85.7%, while the overall participation rate was 91.4%. A number of major decisions were made at the meetings regarding the listing of POSCO stocks on the Tokyo Stock Exchange, the purchase of treasury stocks, the acquisition of equities in KIECO from the Hanwha Group, and the construction of an integrated steelworks in India. In addition, we formed the CEO Candidate Recommendation Committee and established grounds for the operation of the committee in order to appoint the best possible CEO for POSCO, who will independently and transparently lead a global POSCO. Additional information is available at POSCO's Internet website.

COMPENSATION FOR DIRECTORS AND EXECUTIVES

Standing and outside directors are paid wages and bonuses that fall within a maximum ceiling for total remuneration as approved in shareholder resolutions. At the February, 2005, annual general meeting for shareholders, shareholders approved a ceiling on the remuneration of executive directors of KRW4.5 billion and the actual amount of payment was KRW4.01 billion. The shareholders' meeting in February, 2006 also approved a ceiling on the remuneration of outside directors at KRW6.0 billion.

The remuneration of executives comprises a basic salary, a performance salary and incentives. The basic salary for each position is determined by the BOD and performance salary rates are determined by evaluation criteria set by the BOD. Incentives may be paid in accordance with exceptional performances as determined by the BOD.

Major Roles and Constitution of Specialized Committees

Director Candidate Recommendation Committee	<ul style="list-style-type: none"> Examines qualifications of candidates for director positions and recommends candidates as outside directors Appoints CEO from among standing directors Examines qualifications of members before appointment to specialized committees 	Standing director: 1 Outside directors: 3
Evaluation and Compensation Committee	<ul style="list-style-type: none"> Pre-examines evaluations of and compensation for management Evaluates management performances 	Outside directors: 4
Finance and Operations Committee	<ul style="list-style-type: none"> Pre-examines major outside investment plans and the amendment of Operation Rules for BOD Examines and makes decisions on cash donations between KRW100 million and KRW1 billion Examines or makes decisions on issuing bonds and major borrowings 	Standing directors: 2 Outside directors: 3
Executive Management Committee	<ul style="list-style-type: none"> Pre-examines or examines and makes decisions on major inside investment plans Deals with major matters regarding classification of positions, human resource development, and working systems and welfare of employees 	Standing directors: 6
Audit Committee	<ul style="list-style-type: none"> Audits directors' work and executes legal rights such as the appointment of outside auditors Consents to the appointment or dismissal of those in charge of the internal audit department Conducts matters entrusted by the BOD 	Outside directors: 4
Insider Trading Committee	<ul style="list-style-type: none"> Pre-examines or examines and makes decisions on insider trading specified in the laws on monopoly regulations and fair trade 	Outside directors: 4

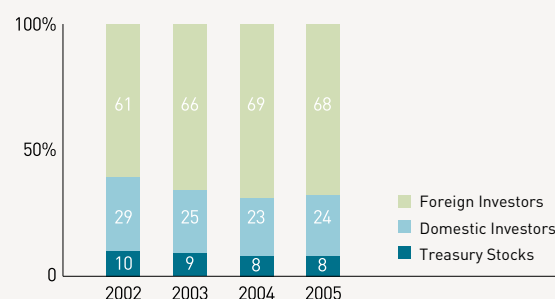
The performance salary of the CEO is determined in accordance with the results of evaluations of overall management performance, which combine qualitative and quantitative evaluations. The quantitative evaluation is made in accordance with the degree of achievement of management targets as determined by the BOD and the degree of achievement in comparison to past performances in terms of Economic Value Added (EVA), Earnings before Interest, Tax, Depreciation and Amortization (EBITDA), sales revenue and the rate of change of share prices. The qualitative evaluation is made in accordance with the achievement of mid-term management strategies as determined by the Evaluation and Compensation Committee, exclusively composed of outside directors.

Other than the CEO, standing directors and executive officers receive their performance salaries in accordance with the management performances of POSCO and after evaluation by the CEO. Additionally, all details regarding remuneration including retirement allowances, are determined by the BOD after examination by the Evaluation and Compensation Committee.

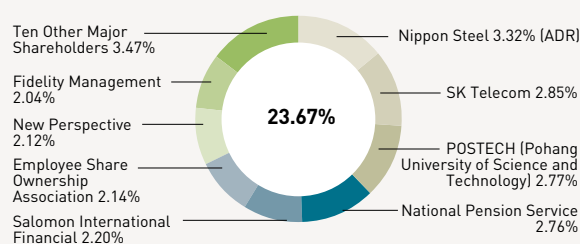
SHAREHOLDERS COMPOSITION

As of the end of 2005, POSCO's largest shareholder was SK Telecom with 2,481,000 shares, or 2.85% of the total issued shares. At foreign stock exchanges, the proportion of stocks in the form of ADRs was 27.38% and this amount was not counted in the reckoning of stocks to decide the largest shareholder.

Shareholders Composition



Stockholders and Their Equities in 2005



LISTED ON THE TOKYO STOCK EXCHANGE



POSCO listed its stocks on the Tokyo Stock Exchange, the first for a Korean company. The trade of 14 million American Depositary Receipts (ADRs), 4% of total issued stocks or 3.5 million shares of POSCO, officially began at 9 am, on Nov. 22, 2005. After being listed on the New York Stock Exchange (NYSE ADR: PKX) and the London Stock Exchange (LSE: 0549q.L) in 1994 and 1995, respectively, POSCO formed a 24-hour-a-day global stock trading environment with the listing on the Tokyo Stock Exchange. POSCO stocks are now traded on three major world stock exchanges with Tokyo's being second in terms of market capitalization.

BUSINESS ETHICS

“One of the reasons why POSCO continues to produce sustainable growth is that morality, a core value, has been instilled in the hearts of POSCO employees.”

- CEO quote at Jan. 3, 2005 ceremony to mark pledging of the code of conduct -

“When we feel that business ethics and the interests of POSCO collide, it benefits POSCO on a long-term basis to put business ethics before the interests of POSCO.” This remark by the CEO spoke volumes of the significance of business ethics to POSCO and its will to put such convictions into practice. In recognition of POSCO’s efforts to abide by strict business ethics, POSCO received a prize from the Korea Independent Commission against Corruption and the grand prize from the Korea Academy of Business Ethics.

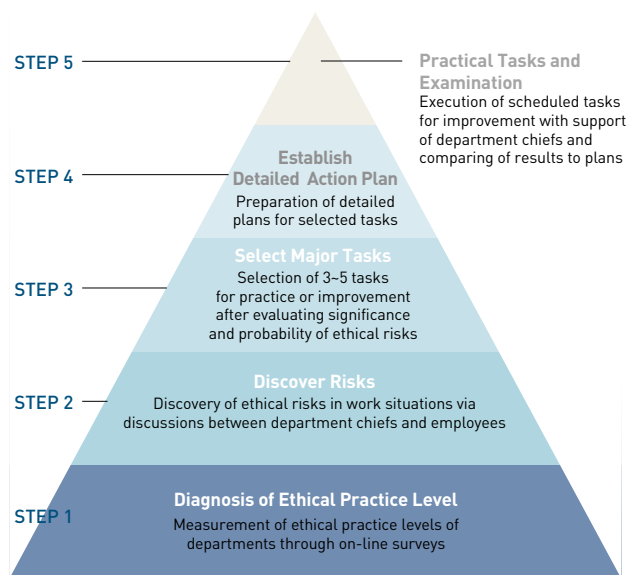
To establish a corporate culture based on ethical business practices, POSCO has devised a wide array of systems and work processes, and put efforts in training employees for proper business conduct. POSCO offers 20 hours of e-learning and four hours of off-line education a year to each employee and runs a variety of programs such as quizzes, plays and games to make education programs more interesting for employees. In 2005, we introduced case study-oriented e-learning courses as an addition to our existing line-up of e-learning courses. There were also offline courses according to employees’ positions and ranks such as supervisors, team leaders, department managers and executives. In addition, as the pronunciation of the numbers 6 and 2 is close in sound to ‘Yulli’ the Korean word for ethics, we designated days ending in 6 and 2 as ‘ethics days.’ On these days, the opening screen of POSCO’s intranet displays a pop-up on ethical business practices. The 2005 ethical pop-up was programmed in consideration of the practical effect it might have on employees and as a test of ethical behavior.

In June of 2005, we initiated a Voluntary Ethical Practice Program to spread awareness of unethical practices and to give ethical alternatives. This one-year program places responsibility for instituting ethical practices with department chiefs, and is designed to enable employees to discover ethical risks within each department and to take action of their own accord to improve departmental behaviors. At present, a total of 340 tasks for improving ethical practices are being conducted across POSCO.



* Business ethics workshop

Main Content of Voluntary Ethical Practice Program by Stage



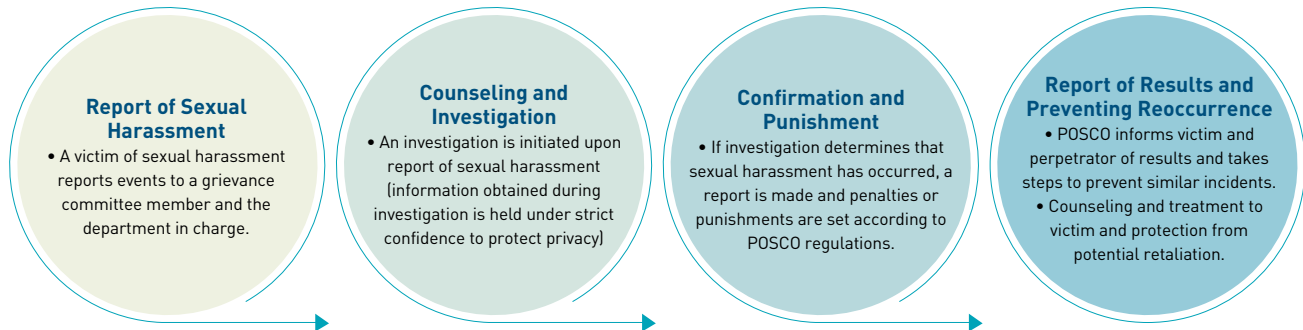
Corporate ethics become more effective when conducted in conjunction with partner companies and other stakeholders. We have steadfastly introduced our ethics management and explained standards that our stakeholders must follow through meetings with new partner firms, workshops with executives of customers, and in meetings with materials suppliers.

HUMAN RIGHTS

The Labor Standards Act of Korea bans forced labor and the hiring of minors under the age of 15. Korea has been a member of the International Labor Organization (ILO) since 1999 and has ratified Convention 138. Accordingly, POSCO has a duty to uphold Korea’s Labor Standards Act and ILO’s Convention on Child Labor. In addition, we abide by the Law for the Promotion of Employment of Physically Challenged People and Rehabilitation through Jobs.

We prohibit discrimination on the grounds of place of birth, gender, age or religion. If an employee believes he or she has been discriminated against, he or she can report the incident through POSCO’s reporting system on corporate ethics and receive support and counseling. With a goal of preventing sexual discrimination, POSCO enforces employment rules that prohibit discriminatory

Internal Grievance Procedure on Sexual Harassment



treatment in terms of employment, promotions, wages, education or retirement. Furthermore, all employees are required to participate in an on-line educational program on the prevention of sexual harassment. In the event of the occurrence of sexual harassment or similar problems, the situation is handled through a set of standardized grievance procedures.

Employees and ordinary people can report on lapses in corporate ethics. In 2005, the Ethics Counsel Center received a total of 106 reported cases (71 on-line, 13 via e-mail and 22 by telephone). A wide variety of complaints were received including ones involving the protection of POSCO assets, sound social behavior, and conflict of interests. Through a system of rewards for the reporting of non-ethical practices, we paid out KRW110 million for seven cases as of 2005.

FAIR TRADE

POSCO respects the goals and purposes of the Fair Trade Act such as the promotion of fair and free competition among companies, the furtherance of creative sales activities, and the balanced development of the national economy. POSCO has also put into practice the Fair Trade Corporate Compliance Program to encourage the establishment of a business culture of internal fair trade compliance. In 2005, the Insider Trading Committee examined seven cases of possible insider trading. We also expanded the number of members of the Voluntary Advisory Committee from 13 to 15 and the number of leaders of the fair trade practice from 10 to 21. We have steadily improved in this area through the work of the fair trade-related conference groups, such as the Voluntary Advisory Committee (three times per year), workshops for practicing leaders (three times per year), and workshops for subsidiaries (twice per year).

With an eye toward increasing employee understanding of the Fair Trade Act, POSCO produced a revised edition of the Fair Trade Compliance Handbook and distributed to related departments and subsidiaries. The revised edition contains amendments in laws and case studies of deliberations and resolutions, as well as various Q&A sections. We also distributed a handbook about large business groups in May of 2005, after having distributed ones on

subcontracting in August of 2004 and on unfair trade and provisions in November of 2004. In addition, we published a self-examination guide and distributed to all employees to enable employees to examine and report violations of the Fair Trade Law on their own.

POSCO made further efforts to increase employee knowledge of fair trade by making changes in its e-learning course. A total of 10,386 employees completed the course, which ran throughout 2005. At the same time, 854 employees took part in 14 classes on the practicalities of fair trade as taught by lecturers including those from the Fair Trade Commission. POSCO also placed emphasis on the significance of publicity stemming from fair trade compliance. Through pop-ups on POSCO's intranet and with publication of the monthly "Fair Trade News," POSCO emphasized and encouraged employees to become aware of significance of fair trade.

We determined the level of employee awareness of the fair trade issue and collected opinions on improvements through a survey of staff members at related departments for the performances evaluation of the Corporate Compliance Program in 2005. Based on the results of the survey, POSCO will conduct custom-designed training programs by class and sector with the participation of outside experts. At the same time, we plan to increase the percentage of employees taking the e-learning course to 95%. Furthermore, in aiming to spread a culture of fair trade compliance amongst business groups, we plan to conduct trainings through management meetings with the subsidiaries while scrutinizing the state of fair trade compliance by our major subsidiaries.

Corporate Compliance Program: An in-house compliance system established in August of 2002 to prevent violations of the Fair Trade Act through education and supervision.

RISK MANAGEMENT

Eliminating possible negative effects on business operations in advance is the core goal of risk management. POSCO strives to minimize the risk factors with a systematic risk management program, which regularly examines implementations and improves processes.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

To secure the transparency and reliability of the financial reports, domestic and foreign reform laws on accounting systems such as the Act on External Audit of Joint-Stock Corporations, the Securities and Exchange Act and the Sarbanes-Oxley Act make it compulsory for the management to check and approve the effectiveness of internal controls when submitting business reports and annual reports (20-F). These laws also stipulate that outside auditors be required to express a written opinion on the internal control.

POSCO, with stocks listed on the Korea Stock Exchange and the New York Stock Exchange, established a procedure that the CEO or CFO certifies on internal controls for financial reporting. It also implemented a system in 2003 that evaluates operation of a Disclosure Committee, internal control, and the code of conduct and the rules of disclosure. Twice in 2004, and once in 2005, a total of 57 departments undertook self-examinations that included 2,656 control activities, and an independent department carried out objective testing, the results of which showed that the internal control system was effective and thorough. In accordance with the Act on External Audit of Joint-Stock Corporations, the management reports the results to the Audit Committee and the BOD every half-year.

In March, 2005, POSCO increased the reliability of the financial reporting calculations and disclosure of its consolidated financial statements by expanding the internal control system to major subsidiaries. We also established guidelines for operating internal control system and completed a framework that includes designs for internal controls, organizations and their roles, and the reporting processes in detail.

INTERNAL AUDITS

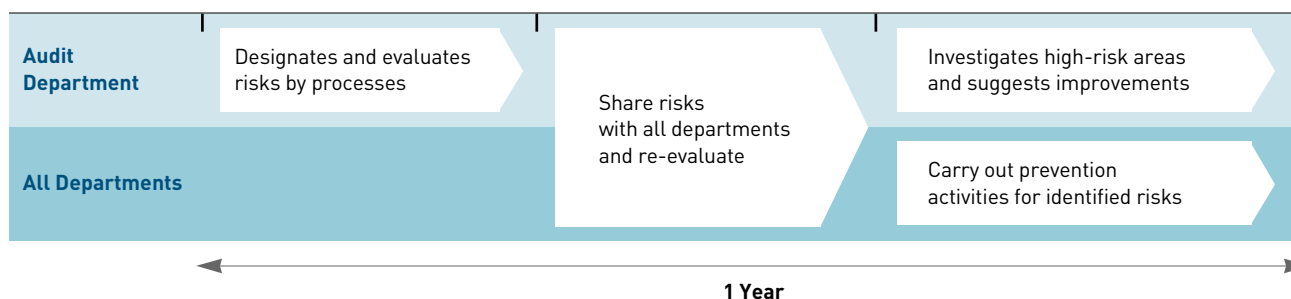
Because the minimization of job risks is more fundamental to improving measures than is an audit oriented to finding fault, POSCO will focus on using the Risk Management System (RMS) as a basis for internal audits. In keeping with the results of audit records and analysis of work processes in each sector in past years, POSCO's risk management system, completed in 2004, will be fully operational in 2006.

POSCO's RMS graded risks according to the possibility of occurrence, the impact on POSCO, and the current levels after classifying work processes into 302 categories designated in accordance with 1,004 risks. Risks include causal factors that might impede an increase in sales or profits and induce unnecessary costs.

In the fourth quarter of every year, each department, together with the Audit Department, make agreement on and re-evaluate risks through deliberations of the system. New items are registered and improvements are made to related processes after the reassessments, and departments then proceed with their own prevention activities. The next year's audit plan is made based on these, which include regular inspections on prevention activities in high-risk areas.

It is expected that the participation of each department in perception and minimization of risks will increase the effectiveness of prevention. In 2005, with the adoption of the RMS and implementation of a self-examination, the Maintenance Department of Gwangyang Works reduced its maintenance costs by KRW70 million and improved related processes.

RMS - Based Prevention Activity Process



CRISIS MANAGEMENT DRILLS IN PREPARATION FOR EMERGENCIES

POSCO fully recognizes the significance of crisis management and its impact on national security. Therefore, in order to cope effectively with emergencies such as war, terrorism, calamities and disasters, we conduct Eulji Training drills in cooperation with government administration organizations every year. The concept behind the process is that when a situation report is made, the control center for the drill sends a message without prior notice, and the person at the situation center receives and processes it and files a daily situation report.

The training in 2005 consisted of simulation training, which included operation of the command post on computers, simulations training, discussions on the supply of raw materials, and the restoration and operation of Pohang harbor. The session improved the effectiveness of POSCO's emergency systems by applying various scenarios including cyber terrorism. The Audit Department was engaged in the drill as the performance evaluator.

In addition, in 2005, Pohang Works and Gwangyang Works introduced innovations to improve the framework for the prevention of disasters. We changed the existing management system of fire fighting facilities into a specialized integrated anti-disaster and prevention system that attempts to anticipate and mitigate the effects of disasters. The new system seeks to discover blind spots in examination processes and to devise measures against damage from storms and floods, earthquakes, tidal waves, extreme heat or cold, and heavy snow.

Aiming at securing the stability and continuity of the operating system in case of any emergency, Pohang Works executed a mock drill of Business Recovery System (BRS) for the Manufacturing Execution System (MES) for the purpose of evaluating the recovery capabilities of the MES, in December 2005. The main function of the BRS at Pohang Works is to recover the MES system by utilizing a test version of MES in Gwangyang when a disaster hits the Pohang Data Center, and vice versa.

The term, BRS, originated from the recovery of the stock market in the wake of the terrorist attacks on New York City in 2001. The markets quickly resumed stock trading with little or no damage to the trading system.

INTERNAL SUPERVISION SYSTEM AGAINST VIOLATIONS OF FAIR TRADE ACT

Each department operates a self-examination and counseling system, which enables employees to examine the work processes for possible violations of fair trade laws. Employees are able to utilize checklists and discuss possible violations with specialized departments. In 2005, we prepared upgraded fair trade checklists: one specifically for self-examination and the others classified by department and violation type. We designated seven core departments such as sales, purchasing and outsourcing as departments requiring obligatory self-examinations and produced and distributed self-examination guidebooks on fair trade covering self-examination systems and methods and fair trade checklists in July of 2005.



* Fair Trade Web Site

SUSTAINABILITY MANAGEMENT

With the newly launched Corporate Sustainability Management (CSM) Team, POSCO seeks to effectively manage sustainability. We will continue to strive for effective communication with stakeholders and the systemization of our internal management framework.

By officially launching the Corporate Sustainability Management (CSM) Team in 2005, POSCO secured an organizational basis for incorporating sustainability into the overall management. CSM Team analyzes the trends and efficiently manages comprehensive stakeholder-related issues. It also has functions of analyzing processes in terms of sustainability and coordinating activities of related departments. Future challenges will be systemizing stakeholder communications and reflecting them on our operations, and expanding sustainability issues along the subsidiaries and suppliers.

The foundation of sustainability management is based on the conducting and maintaining effective internal and external communications. Every year since 2004, POSCO has delivered information on its management activities related to the economic, environmental and social activities and performances to stakeholders with the publication of sustainability reports. Selected information in these reports has been verified by an independent organization. Additionally, to respond to growing interest in sustainability, we enhanced the quality and quantity of information on POSCO's web site. For our employees, we offer e-learning programs to expand employee participation in sustainability management.

POSCO conducts active exchanges with external groups. We take part in the Sustainability Report Project Group of the International Iron and Steel Institute, the Environment Committee, and the carbon dioxide reduction project, and are involved in responding to the Climate Change Convention, the Life Cycle Assessment (LCA) and Life Cycle Inventory (LCI) projects. As a leader of Korean industry, POSCO participates in the Korea Business Council for Sustainable Development (KBCSD), which has pursued a balance between economic growth, environmental protection and social development since its foundation in 2002. In June of 2005, the POSCO Research Institute, POSCO's think tank, became a member of the Global Reporting Initiative (GRI), securing a footing for POSCO to upgrade its sustainability reporting system in accordance with global trends and pending issues. In December 2005, POSCO became a member of the WBCSD as the first steel company to join the organization. Using this membership as a turning point, POSCO will solidify its sustainability management leadership in the steel industry.

In September, 2005, POSCO was chosen to be added to the Sustainable Asset Management's Dow Jones Sustainability Index or SAM DJSI. From the steel industry, only three companies, were

selected: POSCO, Dofasco and Arcelor. In being selected for this index POSCO's performances were recognized by the world steel industry as a bellwether in sustainability management. In observing assessments of POSCO over the past three years, POSCO's total points steadily rose while POSCO narrowed the gap with the leading company in the steel industry.

This sustainability assessment by the SAM included a total of 76 inquiries in 20 categories covering the economy, the environment and society. In particular, the assessment indicated that the social segment increased in importance in the assessment, and that a quantitative index-based performance-oriented trend was beginning to show as well. This means that sustainability management policies and management systems are rapidly spreading to many companies.

According to the results of the assessment, POSCO received the highest points in the economic section. POSCO was deemed an excellent performer in the steel industry in terms of investor relations such as POSCO's regular operating performance meetings held at home and abroad, POSCO's CEO forum, and the solid ethical management practices that POSCO has sought to spread to related companies, suppliers and outsourcing partners. At the same time, although the governance sector scored higher than in 2004, it still requires further effort to reach a level of global best practice.

The 2005 assessment result of the environment sector indicated that POSCO faces some challenging tasks. In terms of climate change, the response of the steel industry was considered to be very strong in comparison to other industries and POSCO received a relatively high score. At the same time, the general environmental management was rated lower than others selected by the DJSI. In particular, the results showed that POSCO needed to extend the scope of its environmental reporting to subsidiaries and that POSCO needed to make the definition of indicators clear and to secure processes for the managing of target figures on detailed indicators. It was also suggested that POSCO needs to improve its web site reporting of environmental performances.

For the social sector, POSCO was rated an excellent case in the steel industry in terms of suppliers management, the development of human capital and stakeholder participation. On the other hand, a strategic approach was named as an item for improvement in terms of social contribution activities while efforts to expand the scope of reporting were urgently needed in terms of the reporting

of social performances. The assessment results also revealed that POSCO needed to make concerted efforts to improve its performances in the management of labor policies and POSCO's influence on communities.

POSCO requested that the SAM provide benchmarks so as to be able to make an objective analysis of the findings and to learn of the items requiring improvement in the 2005 assessment. Various tasks from the benchmarked standards will be noted in the guide on sustainability management practices and these will be distributed to each department.

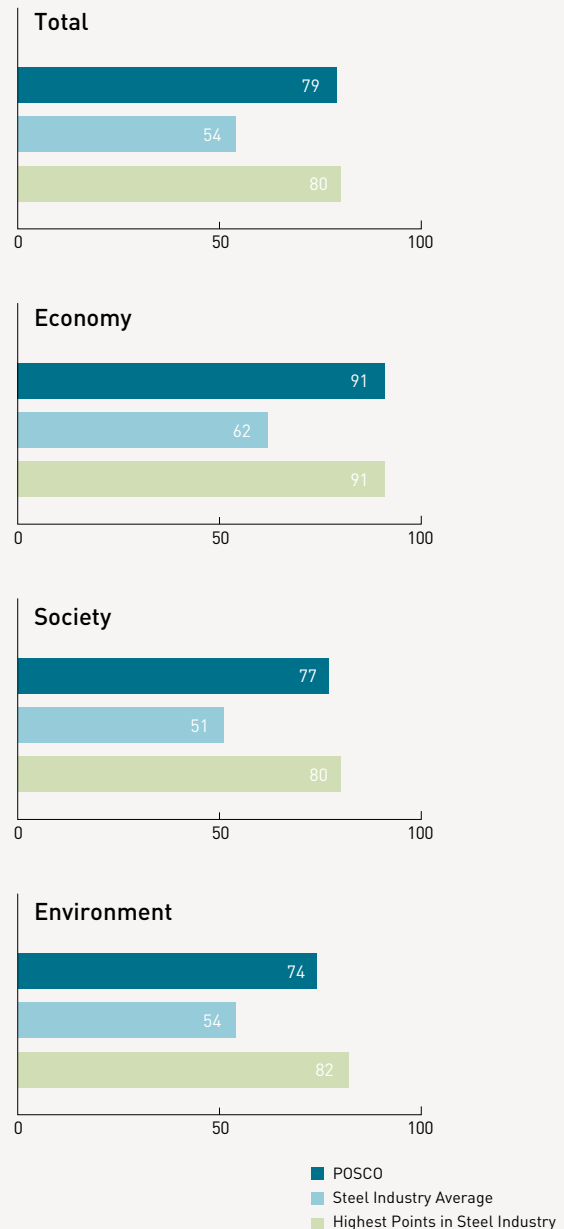
The Dow Jones Sustainability Indexes

Dow Jones, a financial indexes provider, manages the DJSI, which provide information on changes in value of leading companies in sustainability management. The companies are selected through objective and transparent assessment procedures. To conduct the assessment process, Dow Jones enlists the services of the SAM of Switzerland to evaluate about 2,500 companies in the universe of Dow Jones World Indexes and selects member companies for the SAM DJSI through media research, analyses of stakeholders and large-scale surveys.

The SAM constantly monitors companies selected as member companies and replaces 10~15% of the companies through annual re-assessment. In the 2005 assessment, 54 companies were dropped from the list and 57 companies were added, leaving a total of 317 companies as 2006 SAM DJSI members. As stocks of SAM DJSI member firms are typically recommended as favorite stocks for Socially Responsible Investment, membership offers the added benefit of attracting stable and long-term investors.



SAM DJSI Assessment Results



PRIZES AND RECOGNITIONS IN 2005



- 🏆 Grand Prize as The Most Respected Company in 2005 awarded by the Korea Federation of Industries and the Seoul Economic Daily (Feb. 2005)
- 🏆 Transparent Management Grand Prize as chosen by five major economic organizations including the Korea Employers Federation (Feb. 2006)
- 🏆 Ranked First in the Steel Sector of the World's Most Respected Companies by Fortune Magazine
- 🏆 Ranked as one of Asia's 50 Best Companies by Forbes Magazine (Oct. 2005)
- 🏆 Ranked 6th out of the 150 Best Companies in Asia by Business Week Magazine
- 🏆 Ranked 2nd Most Popular Company Among College Students by Job Korea, a job and career Internet portal
- 🏆 Named the company that satisfies jobseekers the second most by Korea Recruit Co.
- 🏆 Ranked first in the steel sector in the Nationwide Survey of College Students by the University News Network



H U M A N

caring movement

Respect for people is the true power moving POSCO forward. POSCO's dream is to substantially enrich human life through steel production, and this dream can be seen in the strong pride of employees, POSCO's impression on its customers, the stable growth of its partners and POSCO's effect on the sustainable development of society. In believing that people are the most precious resource, POSCO demonstrates its respect for human beings through strong social commitments.



HUMAN

- 22 Safety & Health
- 24 Employees
- 29 Customers and Suppliers
- 33 Social Contributions

SAFETY & HEALTH

“What our employees have to focus on are safety and health. When all employees realize that safety comes first, our company can position itself as an advanced company that thinks highly of people.”

- CEO at the monthly management meeting on Jan. 4, 2005 -

POSCO's fundamental responsibilities are for the safety and health of its employees at all workplaces and efforts to meet these responsibilities are an essential element of our competitiveness. Since its foundation, safety and health have developed as established parts of POSCO's corporate culture, partially based on the interest and will of the CEO. At the same time, our “no-accident” record is recognized not as an ideal but as a goal by employees.

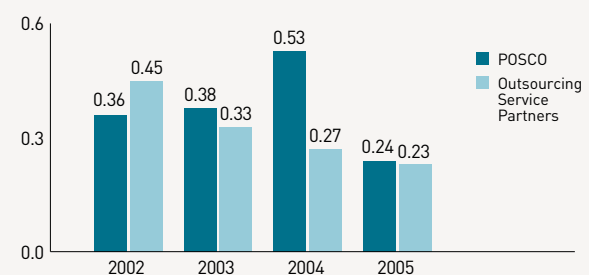
Our Safety and Health Management Guidelines provide a guide to safety and health matters throughout POSCO, while the Pohang and Gwangyang Works have their own safety and health policies. The policies apply not only to all POSCO employees, but also to the employees of outsourcing service partners. The quarterly Industrial Safety and Health Committee in each of POSCO's steelworks deliberates on various safety and health matters. Seven members from labor and seven from management take part in the committee, and the general superintendent of each steelworks assumes the position of chairman. Industrial Safety and Health Council in respective sectors of each steelworks meets regularly, as well.

SAFETY

Activities to advance safety start with education. In accordance with the POSCO Safety Program we conduct safety education classes for employees from new recruits to team leaders. We also offer safety lectures through e-learning courses. Examples of various safety-related programs are an Isolation & Locking System (ILS), a Tool Box Meeting (TBM), and Process Safety Management (PSM), as well as Cardinal Rules and Autonomous Safety Management Licensing System.

The safety teams at the Pohang and Gwangyang Works developed a second-phase company-wide integrated e-Safety System, which was put into full operation in April of 2005. This program aims to make our facilities safer in the event of major disasters, and enables us to deal efficiently and effectively with relevant laws by preventing omission of or delay in examinations prescribed by law. Additionally, the system provides access to safety-related statistics and to reports on accidents, further enhancing the efficiency of POSCO's safety management. Before the second phase system was put in place, POSCO operated the first phase of the integrated company-wide e-Safety System, which was made operational in May of 2004. The program was designed to aid in the effective execution of work that was monitored by the government such as

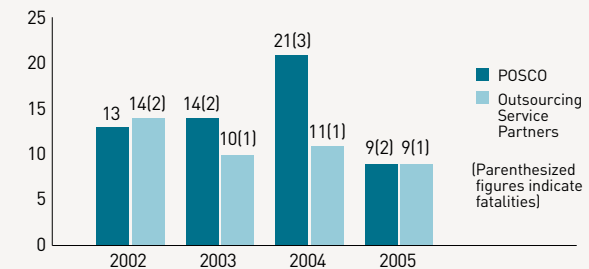
Lost-time Injury Frequency Rate (LTIFR)



* LTIFR = (Number of injuries / yearly working hours) X 1,000,000

* Yearly working hours used for calculation of LTIFR of outside service partners is calculated based on the data provided by them.

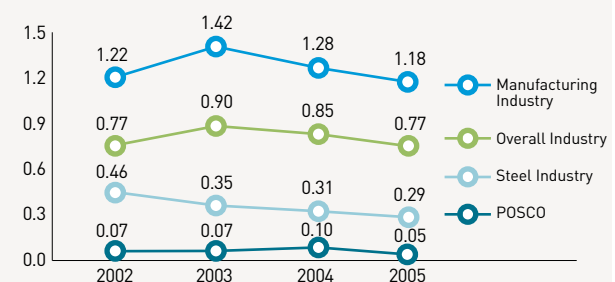
Number of Injuries



* Injuries that cause work suspension of four days or more are counted here according to related Korean law.

* The 2004 data for the number of injuries and LTIFR of POSCO have been changed to 21 and 0.53 from 19 and 0.48, respectively from Sustainability Report 2004 due to additions from late determination of injuries.

Injury Rate



* Injury rate: number of injured workers for each 100 workers

* Source: overall and manufacturing industry average are from the Ministry of Labor, and the steel industry average is from the Korea Iron & Steel Association.

inspections of gas facilities, dangerous machinery and equipment, and fire fighting facilities as stipulated by law.

E-SAFETY SYSTEM: This is an in-house computer network to support the field of safety management in such areas as injuries statistics, near misses, defects of dangerous machinery and devices, and post-management of them, and evaluation of danger levels. It is possible to refer to this system for the latest injuries status of each sector and for information regarding near miss cases on a real-time basis.

POSCO assists its outsourcing service partners by producing assistance programs for a wide range of sectors such as health and safety education and training and safety diagnoses. In particular, we promote active communications between POSCO and its outsourcing service partners through a Safety Coordinator system, which facilitates more active communication and exchanges of information geared to safety.

In keeping with strict safety management practices and procedures, in the event of an accident, an immediate examination is carried out and the results are registered in the e-Safety System, which can be accessed by all employees. We also keep indicators of worksite safety, including the Lost-time Injury Frequency Rate and the Injury Rate of employees. The Lost-time Injury Frequency Rate is the number of lost-time injuries per one million employee workhours. In accordance with related laws and regulations, injuries requiring medical care of four days or more are recognized as lost-time injuries. The Injury Rate is a percentage of the number of injured workers over the number of employees. Safety-related indicators are reported at monthly management meetings with all executives and managers participating, and strict safety management is enforced in accordance with the results of the indicators.

HEALTH

POSCO's Health Care Center conducts medical examinations, makes diagnoses and maintains a clean work environment so as to effectively protect the health of employees. The Health Center operates POSCO's healthcare management system, which integrates and manages the health-related data of employees.

In order to facilitate the prevention of health problems in employees, the medical center provides preventative treatment

and counseling on acute and chronic diseases and runs a physical treatment room that provides complimentary medical treatment and assistance to employees who exhibit symptoms of bone or muscle-related diseases. Furthermore, we run a specialized stress counseling system for the purpose of encouraging the development of healthy work environments through the effective management of stress. In Dec. 2005, we opened 'Hutopia,' a psychological counseling room in Pohang and we have been offering employees counseling opportunities through contracts with local psychological counseling rooms and clinics in Gwangyang.

POSCO administers examinations such as detailed ear examinations for employees at noisy workplaces, lung examinations for employees at dust-laden workplaces, and tests of liver and blood for employees exposed to chemical materials. We also focus on preventing worsening of diagnosed diseases of employees.

POSCO has devised measures to protect its employees' health at worksites through work environment evaluations. We also place great emphasis on the prevention of bone and muscle-related diseases through ergonomic improvements and guidance on correct working postures. As part of these efforts, we endeavor to encourage the use of stretching exercises to prevent accidents and promote employee health. Such activities help to reduce fatigue and to increase the flexibility of muscles and joints. Added to this, we continually improve and distribute high-quality personal protection equipment to protect workers from harm in working environments.

We are on campaign of 'Five Healthy Lifestyles'. As smoking is a major cause of various diseases and cancers, we encourage a variety of anti-smoking activities. We operate an advanced fitness center that offers systematic exercise and training programs for the effective treatment and prevention of chronic and bone or muscle-related diseases.

At the same time, we conduct monthly medical service activities with the participation of doctors and nurses for residents in villages without doctors. Such efforts contribute to a stronger bond between communities and POSCO.

OPENING OF SAFETY EXPERIENCE CENTER



Gwangyang Works opened the innovative Safety Experience Center in September of 2005, which demonstrates the roots of POSCO's safety culture. The Safety Experience Center has a total floor space of 879m², and has a safety exhibition room, nine experience and practice rooms, and an information materials room. The purpose of the Center is to enable people to experience and study various themes in safety, from safety at industrial worksites, to traffic and home safety. Avoiding the conventional lecture-style education, we offer a practical, hands-on safety education where study and work are connected through the reproduction of simulated working environments in, for example, electric machinery worksites such as cranes and sealed spaces. Gwangyang Works plans to open the Safety Experience Center to its outsourcing service partners and related construction companies. Gwangyang Works seeks to add the Center to the Works tour program for the general public.

EMPLOYEES

The core capability for the takeoff of POSCO is competitive human resources. By investing in employee welfare, labor-management harmony, and knowledge management, POSCO supports the self-realization of employees and improvements in their quality of life, while intensifying global competitiveness.

To secure international competitiveness is the goal of POSCO's human resources management towards becoming a global company. Namely, we intend to optimize our human resources by innovating organizational structures in conjunction with the 'Global POSCO' strategy and by rationally improving the way we work. For this goal, POSCO is hiring talented people who will work in the strategic future growth sector and raising competitiveness of manpower by offering off-job domestic and abroad study programs and sending employees to overseas regions to train them as regional specialists. Together with this, through profit sharing, the Employee Share Ownership Association and the Labor-Management Council, we have promoted employees' participation in management and make labor-management harmony strong. While improving living environments and educational conditions, we have maintained higher welfare standards and raised the quality of life for employees by introducing advanced systems such as a four-team three-shift system, a five-workday system and Cafeteria Benefit Plan.

Directions of Human Resource Systems and Labor Relations



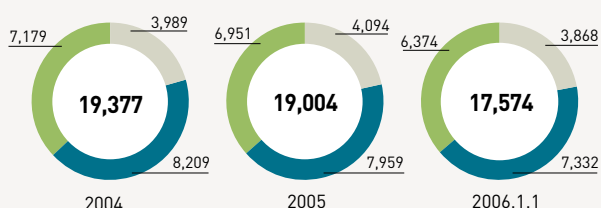
STATUS OF HUMAN RESOURCES

We are working to improve the efficiency of our manpower to secure future labor competitiveness while preparing for rapid changes in business environments. As part of these efforts, total employees numbered 17,574 as of January of 2006, not including those who retired on December 31, 2005, due to spin-offs for the specialization of service in respective sectors and to our outsourcing policies for effective human resources management.

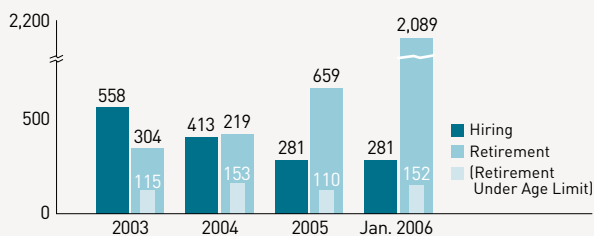
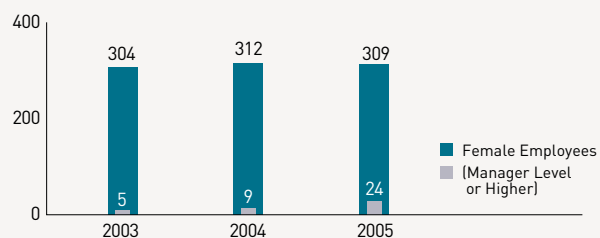
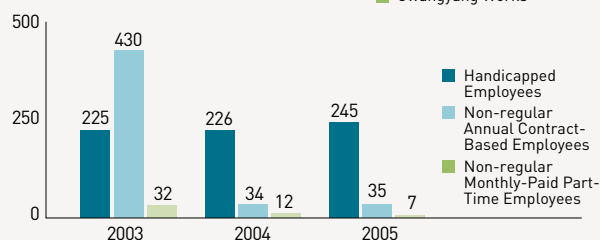
We observe laws related to the employment of physically-challenged people so that they can live humane lives through jobs fitted to their abilities. As of March, 2005, the number of handicapped workers employed by POSCO was 245 even though the number set by law was 228.

Composition of Human Resources

(Unit: person)



*The number of employees as of January 1, 2006, excluding those who retired on December 31, 2005 (due to outsourcing, etc.)



*The number of employees in January of 2006, excluding those who retired on December 31, 2005 (due to outsourcing, etc.)

COMMUNICATION WITH EMPLOYEES

Labor-Management Council

The Labor-Management Council is an organization that encourages the exchange of ideas and opinions between employees and management. The council consists of 20 people (10 employees and 10 managers). The Labor-Management Council meets every quarter and extraordinary meetings are held to discuss urgent or controversial matters.

The Works Council and the Division Council meet every quarter. The Department Council meets every other month, and the Section and Plant Councils meet monthly. These councils offer employees a forum to express opinions and air complaints and allow for a search for solutions. The councils decrease employees' inconvenience and raise their trust in representative organizations by quickly dealing with matters of interest according to conditions at respective work units of POSCO. In addition, individual employee problems or questions, received by phone, e-mail or through the home page, are discussed and resolved.

A total of 414 coordinators from each department, elected through a direct voting system in January, 2005, discuss and solve pending issues and matters of common interest along with the Labor-Management Council, and communicate with one another regarding the state of POSCO's management and policies.

In the fourth quarter of 2005, the Labor-Management Council decided to carry on 'Corporate Competitiveness Improving Activities'. Major items are the setting of an innovation mindset with Quick Six Sigma (QSS) at work sites, increasing productivity, elimination of waste factors by improving systems and practices, and putting into practice a priority on safety throughout POSCO.

Young Board

POSCO organized and manages the Young Board, which is made up of 20 selected employees from various departments such as production, research, marketing and planning. The Young Board, which holds bi-yearly discussions, makes suggestions on POSCO's

development and reports these to the CEO. At the moment, 40% of the members of the Young Board are in charge of duties and females make up 10%.

Subjects of Reports in 2005

2005

- Direction of Changes after Five Years by Analyzing Changes in the Past Five Years
- Developing a Creative Company
- How Much Has Changed in the Way We Work?
- How to Form Reliable Company Cultures

Intranet POS-B

POSCO operates the intranet site POS-B as a space where employees can exchange opinions with others. Employees can discuss topics about the company and their anxieties related to work on the intranet site. Departments can monitor the message board, answer questions, and reflect solutions to problems in management practices. POS-B, which acts as a vital communication channel between employees and management, even allows employees to write to the chief executive officer. In 2005, employees registered and discussed 2,800 messages on POS-B. Of these, 125 messages contained discussion of anxieties related to work. Such messages were answered directly by those in charge of the work and solutions found to improve the conditions causing anxiety.

Employee Engagement Survey

The employee engagement survey aims to measure how engaged employees feel in their work. It replaces the old employee satisfaction survey and has been conducted since 2003. During 2005, multi-dimensional improvements were made in respective sectors, focusing on sectors and classes where employee engagement was found to be low, as reported in the 2004 survey. We will continue to put steady efforts into system improvements, meetings and team empowerment activities suited to employee classes and sectors for the purpose of elevating the level of employee engagement.

Major Matters Discussed at Labor-Management Council in 2005

Meetings		Topics
Regular Meetings	1Q	<ul style="list-style-type: none"> •Improvement of the quality of safety footwear and assistance on work uniforms •Extension of events engaging families of employees
	2Q	<ul style="list-style-type: none"> •Introduction of day care centers •Support for Employee Share Ownership Association
	3Q	<ul style="list-style-type: none"> •Increasing housing loans and reducing interest rates •Agreement to run a cooperative labor-management study group to improve a support system for medical costs •Agreement to devise general measures to improve Green Life Program
	4Q	<ul style="list-style-type: none"> •Corporate Competitiveness Improving Activities •2006 employee education plan
Extraordinary Meetings	Wage	•Entrusting POSCO with pay raises in consideration of its business conditions
	Arbitration	•Agreement to change the wage system

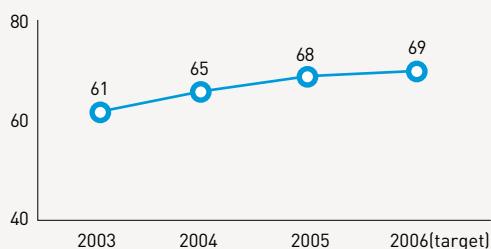
Employee Engagement Enhancement Activities

Site	Activities
HQ	<ul style="list-style-type: none"> Improving engagement levels of short-service employees <ul style="list-style-type: none"> Decreasing promotion periods and assigning Six-Sigma tasks for novice employees Improvements in working systems and the activation of communication such as expansion of informal gatherings and improvement of atmospheres in organizations
Steelworks	<ul style="list-style-type: none"> Pohang: Pursuing activities focused on job site support such as improvements in working environments, welfare services and education and sharing of information to establish lifetime education Gwangyang: Focusing on mitigating a recognition gap between POSCO and employees such as improvements in working and living facilities and strengthening special lectures, education and face-to-face activities for employees

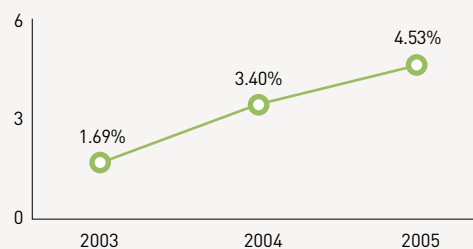
employee independence and raising productivity. The Labor Welfare Fund was created to support the welfare of employees on a stable long-term basis with POSCO donating a portion of profits to the fund. The fund management rules were revised twice, including an increase in housing loans was made in 2005, according to the decisions made by the Labor-Management Council.

The new Employee Stock Ownership Plan is managed for five years, from 2002 to 2006, with the intention of creating a sense of ownership for employees and to allow employees to share in the increasing value of POSCO. When an employee purchases treasury stocks, POSCO matches the number of purchased stocks with an equal number of stocks, free of charge. The limit for the purchase of treasury stocks was KRW2.4 million up until 2003, but beginning in 2004, it was raised to KRW4 million. If an employee wishes, he or she can receive a loan through the Labor Welfare Fund for the purchase.

Employee Engagement Survey Results



Equity of Employee Share Ownership Association



Compensation and Welfare

POSCO employs a yearly negotiated salary system for assistant managers or higher where one's wage can vary depending on performance. Added to this, we are solidifying our human resources management of compensation so as to be based on abilities and performances, by providing opportunities for early promotion to employees with excellent working records. In order for employees to share in management performances, we run a profit-sharing system, in which employees can receive a portion of operating profits.

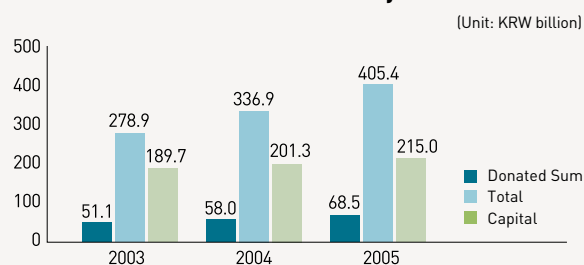
EDUCATION AND CAREER MANAGEMENT

Education

To realize management strategies of growth and innovation, POSCO set goals for employee education for 2005 are the following: strengthen education to establish six sigma innovation; establish self-directed lifetime learning systems early; strengthen education to increase global business capability; and provide innovative education and create results.

In 2005, the average training time per employee was 366 hours and the total man-days were 713,090. This included internal offline training, e-learning, extra-company training, lifetime learning programs and training led by departments. As lifetime learning was introduced beginning in April, the amount of training time and the number of trainees increased greatly. The POSCO Human Resources Development Center was given an "Outstanding" grade in Internet-based training (e-learning) and extra-company training (off-line) by the Ministry of Labor in its evaluation of nationwide job training organizations in 2005. In particular, the center was picked as the best Internet-based training organization and was honored with the Minister of Labor prize for two years in a row.

Donations to Labor Welfare Fund by Year

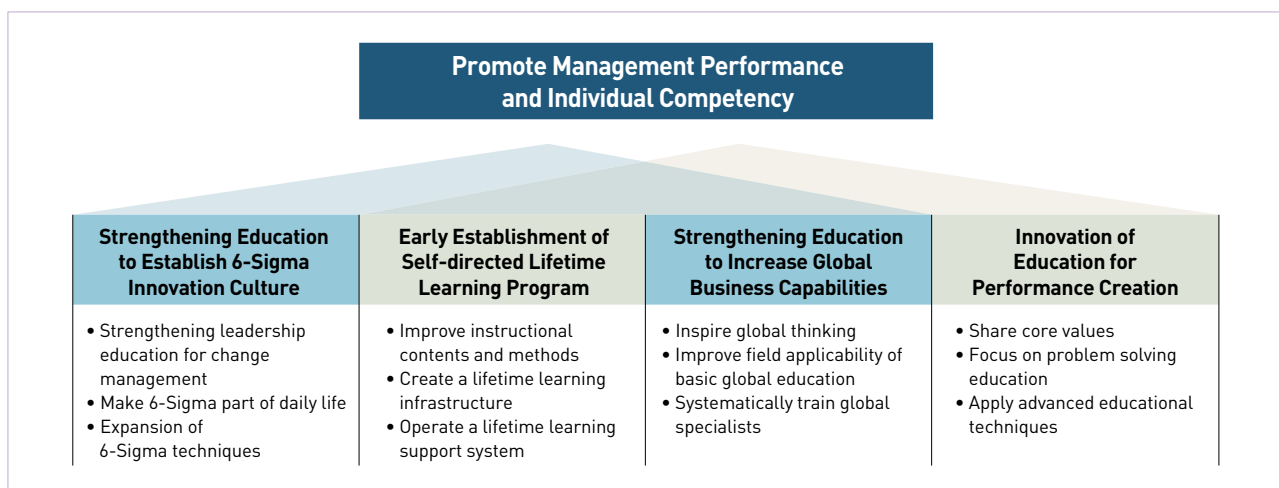


POSCO has invested a great deal of resources in the welfare of its employees and their families so as to stabilize their lives and meet the welfare needs of its employees. We have managed the Labor Welfare Fund since April of 1991, with the aims of promoting

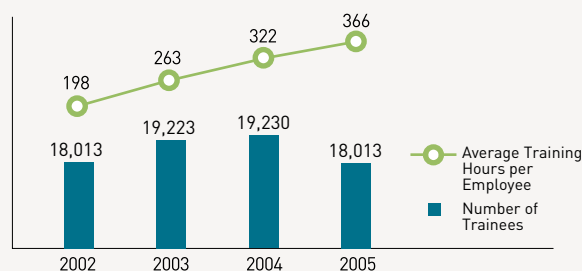
Introduction of Lifetime Learning Program

POSCO introduced the Lifetime Learning Program in April, 2005 to enable employees to pursue not only a better quality of life through the balance of work, rest and study, but also to strengthen our

Management Goals of Education



Average Training Time per Employee



competitiveness. The Lifetime Learning Program allows employees to take part in study programs for self-development or for the improvement of job competence while taking into consideration the manpower requirements in each department and the needs of individual employees. POSCO's Lifetime Learning Program is unique as each department takes the lead in developing and managing learning programs to satisfy the needs of employees. The program consists of cultural, value sharing and job competency studies, which increase the quality of life, share our core values, and improve job competency.

2005 was the first year of the full implementation of this program. The main focus was to build up the learning infrastructure for the formation of an atmosphere conducive to learning. To accomplish this, we developed a lifetime support system, opened cultural courses, and fostered an in-house professional instructor. We are planning to strengthen our support for an early adjustment of worksite-oriented lifetime learning based on the employee's participation and passion.

POSCO Certified Professional System

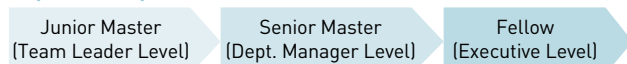
POSCO created the POSCO Certified Professional System to nurture core professional engineers so as to enhance employee capabilities for developing high-level technologies. We started the system in September, 2005, by significantly altering the professional system begun in 1993. POSCO selected top experts in core strategic products and process innovation technologies in the operating sector, and in high-level maintenance technologies in the maintenance sector. As such, POSCO chooses high-quality engineers in core technology sectors and designates them as specialized manpower for technological innovation. We provide certifications of technological prowess and show chosen employees a vision of how they can rise to executive positions through the application of individual tasks and systematic career development.

Lifetime Learning

Category	Sharing Value	Job Capabilities	Culture
Goals	Increasing trust between employees and POSCO through the sharing of core values	Nurturing knowledge workers by encouraging employees to strengthen their capabilities as professionals	Offering various opportunities to enhance the value of life
Contents	Business environment, innovative mindset, ethics, safety and security	Deepening and expanding knowledge for duties and switching duties	7 Habits, a boundaryless organization, book discussion and cultural lectures

Dual Human Resources Development Roadmap

Experts Group



Management Leaders Group



e-Leaders Academy

POSCO manages an e-Leaders Academy and selects employees from the team leader class, Six Sigma black belt members with high growth potential, and supports them so that they can attend the Techno MBA course at POSTECH (Pohang University of Science and Technology). This course is designed to develop future-oriented leaders imbued with global leadership skills and visions of innovation by focusing on leadership and global capabilities.

Knowledge Management

POSCO's knowledge management pursues the vision of facilitating learning about the organizational culture and nurturing the knowledge of all workers. The targets of 2005 were to establish convenient systems for knowledge activities and to create superior knowledge. To achieve the targets, efforts have been focused on the knowledge management system, the Communities of Practice, and the Digital Library. In March of 2005, we shored up the functions of the Knowledge Plaza such as the sharing of core knowledge and the offering of custom-made knowledge. An average of 7,000 employees log into the KMS every day and conduct 130,000 knowledge searches per day. Above all, we aim to intensify work support through the KMS with the establishment of an outside expert data base.

Community of Practice (CoP) activities that were begun in July, 2004, to create new knowledge and establish the advancement of work processes, are being actively implemented at POSCO's ironworks and are being positioned as a work infrastructure in which all employees act as knowledge workers. CoPs activities are aimed at creating knowledge and elevating individual capabilities while employees carry out their mission as part of a voluntary study community with a common interest. As of 2005, CoPs activities amounted to 2,970 and members numbered 52,500 while employees overall joined an average of 2.7 CoPs per employee. The POSCO Digital Library improved its custom-tailored service by producing a webzine and introducing an e-book. It also continued to digitize resources so as to strengthen its overall digital function.

POSCO received the 2005 Asian Most Admired Knowledge Enterprise (MAKE) grand prize at the 6th World Knowledge Forum and took home the "Corporate Value Expansion" prize, the grand prize of the Maekyung-Booz Allen Knowledge Management Awards, in November of 2005. The awards were given in recognition of POSCO's efforts at forming a human network, which interacts with outside experts through CoPs and which shares specialized knowledge with customers and suppliers.

In-House Venture System

POSCO's In-House Venture System aims at nurturing employees who seek challenges and seeks to promote creative corporate cultures. There are two kinds of in-house ventures: the independent-company type and the intra-company type. An independent-company type becomes an independent corporation after six months of preparations while an intra-company type spins off after about two years of in-house venture activities after having internalized business items and processes related to POSCO's management strategies.

In-House Ventures

	Venture Team	Business
In-House Venture Teams	MTS	Sells general management and process management systems for machine tools
Spin-Off Ventures	TFS Global	Offers IT total solutions related to fluids
	ESCO Pro	Develops, produces and sells general analysis systems of energy facilities as an energy services company (ESCO)
	CS 365	Wholesale/retail, events, leisure and sports, travel, other life and cultural services
	CTA	Develops clean production technologies and technology transfer business
	Woori DCI	Diagnoses, cleans, supports and maintains precipitators and cleans annealing facilities
	RCC	Offers consulting on preparations for Climate Change Convention and the cutting down on emissions of greenhouse gases

MTS: Machine Tool Service

CASE STUDY: IN-HOUSE VENTURE

CTA (Cleaner Technology Application), POSCO's in-house venture No.3, held its inaugural ceremony in January of 2005 and began full-scale sales activities. CTA plans to push its business in such sectors as clean technology, facilities and materials based on clean production technologies developed over many years thanks to POSCO's policies to produce environment-friendly products and know-how, and its efforts to apply them to work sites. In addition, the seventh in-house venture, RCC or Response to Climate Change was spun off at the end of 2005. RCC is mainly involved in consulting on the devising of strategies to tackle the provisions of the Climate Change Convention. It provides consultation on the registration of records for decreasing greenhouse gases and the establishment of systems for energy-saving and reducing greenhouse gases. For the past two years, RCC has secured valuable experience and solid technological knowledge and capabilities through its in-house venture activities. Based on these, RCC will expand its business in the steel sector, as well as into other sectors.

CUSTOMERS AND SUPPLIERS

POSCO pursues co-prosperity through win-win relationships with customers and suppliers. In order to raise customer value, we are concentrating on systematic customer relationship management and the raising of customer satisfaction while actively taking part in co-development and in finding new markets. In addition, we are conducting various support policies in management innovations, technological development, exchanges of manpower and cooperation in purchases and sales for co-development with suppliers and outsourcing service partners.

CUSTOMERS

POSCO carries out steady improvements in related systems to raise customer value and aims to provide rapid and systematic customer assistance with the improvements. POSCO's Customer Relationship Management (CRM) includes an integrated customer information database to accumulate and analyze customer information to determine the needs of customers. This information acts as a base for deepening our understanding of customers, which enables POSCO to offer various custom-made services in accordance with customer needs. In addition, we run a web-based communication channel to receive questions, comments, and complaints about services and products from customers and to satisfactorily answer questions, solve problems and work out complaints.

By visiting customers regularly, POSCO conducts customer care activities to listen to customers' complaints and comments and then takes steps to solve problems. We act quickly to solve problems or complaints from potential customers through our Voice of Customers (VOC) program, received on- and off-line, and operate a management system that keeps track of customer complaints while monitoring the response process. In 2005, we handled 1,951 VOCs via on-line alone.

In 2005, POSCO actively stepped up assistance measures for small and medium-sized customers, which directly buy products from POSCO, after considering a worsening shortage of materials. We devised and carried out general assistance measures in view of each customers' special characteristics and further increased the ratio of direct transactions involving e-Sales, POSCO's online sales channel for small and medium-sized enterprises (SMEs), to provide more

opportunities for buying to end-user SME customers. In addition, in morning auctions, only small and medium-sized customers are allowed to take part. Furthermore, by expanding discounts for cash payments and extending credit periods, POSCO provided financial assistance of KRW4.5 billion to small and medium-sized customers. (Refer to win-win and cooperation with SMEs)

After conducting surveys to gauge customer satisfaction every year, POSCO reflects the results in related policies. The survey is administered by an outside research organization to secure its objectivity and reliability, and the research organization surveys customers at home and abroad and holds in-depth interviews with a number of customers. The survey is made up of questions regarding 12 items such as prices, sales volume, payment conditions, handling orders, abilities to process orders, and so on, and the level of customer satisfaction is measured through a seven-point scale system. POSCO's customer satisfaction score in 2005, in a survey of 198 domestic customers and 94 overseas customers, stood at 82.1, an increase of 5% from 2004.

SUPPLIERS AND OUTSOURCING SERVICE PARTNERS

The competitiveness of POSCO's entire supply chain is an essential element in our performances. We are executing various programs in order to secure safe, stable and competitive supply chains. POSCO makes use of differentiated purchasing strategies by classifying suppliers into a prime group, a value group, an improvement group and a cycling group by their significance and performances through the SRM system.

EXAMPLES OF PARTNERSHIPS WITH CUSTOMERS

• API Steel Application Center

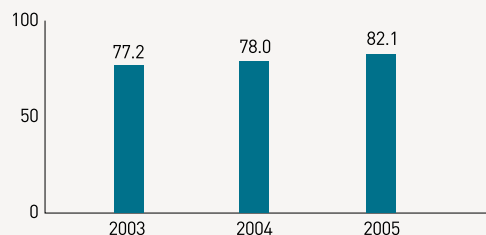
POSCO prepared a base to offer general API steel technology services with the completion of the API Steel Application Center in May, 2005. The KRW21 billion center consists of a molding experiment hall, an evaluation hall and a welding hall and aims to achieve three goals: creation of advanced technologies, enhancement of partnerships with customers, and the offering of general solutions. Results of technological development by the research center are shared with energy, steel pipe and construction companies and we can expand our technological development system by intensifying EVI (Early Vendor Involvement) activities from the early days of a product's development. POSCO plans to build a win-win system with customers by offering differentiated technologies that better satisfy customer needs.

• Tire Cord Technology Cooperation Committee

POSCO manages monthly working group activities and a manager-level council called the 'Tire Cord Technology Cooperation Committee' in conjunction with Hyosung Corp. and Hankook Tire, and launched in March of 2005, to raise the value of tire cord wire rods and to commercialize high-strength wire rods.

We are also realizing tangible results from technological cooperation among our supply chains such as the winning of a quality certificate from one of our customers regarding 3600MPa-class (tensile strength: about 360kg/mm²) high-strength tire cords in 2005.

Customer Satisfaction



In 2005, we determined our major purchasing policies, which include the continuation of long-term cooperative relationships with excellent suppliers, the implementation of a global sourcing network, the establishment of a benefit sharing system, the activation of facility purchases after checking prices and quality, the expansion of "green purchase" activities and the establishment of a trusted purchase culture.

In February, 2005, POSCO gave PCP (POSCO Certified Partner) certificates to 14 suppliers, for having received excellent evaluations in product delivery, creditability and dedication. We encourage our leading suppliers to perform at their highest levels by giving practical benefits, for example, advantages in contracts such as long-term contracts and exemptions from blemish and contract deposits. PCP suppliers are expected to play an important role in strengthening the competitiveness of the supply chain network through the conducting of activities designed to create ideas for improvement or to find defects in products.

We are also committed to improving working conditions and convenience for outsourcing service partners' employees while thoroughly reviewing systems to elevate competitiveness. In 2005, we introduced an evaluation system of outside service core performance indicators to objectively and fairly evaluate the job performances of outsourcing service partners. The evaluation system of core performance indicators allows top performing companies to develop in conjunction with POSCO by using the systematic evaluation indicators to evaluate new systems for the improvement of management practices.

Beginning in 2006, we will expand the exchange of information with outsourcing service partners and strengthen the support for

workshops and education. For the management of outsourcing service partners, we hold quarterly workshops to explain business conditions at home and abroad and listen to their concerns and problems. For mid-level managers of outsourcing service partners, we offer training in skills for managing change and labor-management issues. Rank-and-file employees of outside service agencies are able to attend technological education courses offered by POSCO.

Cooperation and Win-Win Systems with SMEs

Recently, polarization has been a hot issue in our society. Gaps between large companies and SMEs are one component in the polarization issue. It is essential for the stable growth of industry that large companies and SMEs develop hand-in-hand. In addition, in keeping with the idea that when the competitiveness of the entire supply chain network goes up, the competitiveness of individual companies becomes stronger, POSCO conducts win-win management strategies on the basis of close cooperation between large companies and SMEs.

In addition to pursuing win-win strategies and cooperation, POSCO aims to raise mutual competitiveness by discovering and developing businesses that SMEs need and then satisfying those needs. In 2005, we executed various support programs in four sectors, management innovation, technological development, manpower exchanges and cooperation in purchasing and sales to help SMEs develop on a stable footing. In particular, we launched an SME Support Team to provide further support to SMEs. This specialized team secured communication channels, and devised a plan for company-wide activities while monitoring progress in each sector.

Thanks to these efforts, POSCO won the award for cooperation with SMEs from the President of Korea in Dec. 2005. POSCO's win-win management practices in conjunction with SMEs were presented in a special program broadcast on national TV under the title of a "Depolarized Society – Roadmap of Hope" and as part of discussions between responsible stakeholders entitled "Large Companies and SMEs – Conditions for Successful Win-Win Strategies." We plan to make further enhancements in our cooperative activities already in progress, to expand support systems to include subsidiaries, and to upgrade POSCO's exclusive SME supporting projects in the supply chain.

CASE STUDY: POSCO-SME COOPERATION PROCESSES

As part of practical support measures for SMEs, POSCO stepped up localization of large-sized plants and the giving of orders to SMEs. As POSCO can save investment costs and SMEs can accumulate technological and sales power through such efforts, it is expected that the win-win effect will be great. POSCO strives to create win-win effects for its business with SMEs through active risk taking by devising measures after confirming all risks that can take place. Although it is expected that giving orders to SMEs may cause many problems because of their limited experience, we believe that the excellence of their technological capabilities is reason enough to try to create mutual benefits for POSCO and SMEs.

In November, 2005, an SME received and started a KRW100 billion environmental investment project to improve the environment by cutting down on the emission of harmful gases such as SOx, NOx, and Dioxins in sintered gas. Such gases are the result of production processes at POSCO's desulphurization and denitration facilities for four sintering plants at Gwangyang Works. In the past, sintered gas cleaning facilities were provided mainly by foreign firms from Japan and Austria. More recently, POSCO discovered that Korea Cottrell, a small Korean SME, possessed similar technologies and decided to localize the facilities.

Cooperation with SMEs

	Support Policies	Contents
Management Innovation	SME Support Team	<ul style="list-style-type: none"> • A standing organization to support SMEs (June, 2005)
	Win-Win and Cooperation Committee for POSCO and Its Invested Companies	<ul style="list-style-type: none"> • Includes 6 major invested companies (plans to add 3 more in 2006) • Searches for win-win and cooperation activities for invested firms and devises and checks action plans, finds best practices and shares information
	SME Consulting Center	<ul style="list-style-type: none"> • Prevents unfair trade practices (July, 2005) • POSCO home page, exclusive phone line and fax
	Improvement in Working Conditions	<ul style="list-style-type: none"> • Wages of employees at outsourcing service partners: Aims to help wages reach a level of 70% by 2007 compared to those of POSCO (POSCO's assistance of KRW149 billion will be given to outsourcing service partners from 2005 to 2007) • Supports repair of welfare facilities and costs to activate organizations
	Full Cash Settlement	<ul style="list-style-type: none"> • Aims to reduce financial costs of SME partners by KRW7 billion (2004~) • Account settlement at the end of September should be done earlier i.e. before Chuseok holiday
	Assistance Funds for POSCO Partners	<ul style="list-style-type: none"> • Offers financial assistance funds with advantageous interest rates (KRW100 billion at Industrial Bank of Korea) • For inquiries: Industrial Bank of Korea (02-729-6472, 7269) / POSCO's Steel-N.com
	Support of Education	<ul style="list-style-type: none"> • Supports 6-Sigma education to cut production costs and improve quality • Opened POSCO online educational programs
Technological Development	Cooperative Research System with SMEs	<ul style="list-style-type: none"> • Productive cooperation system with technology-intensive SMEs (1999~, conducted 69 tasks of a total 89, total investments reached KRW17.2 billion and assistance was KRW11.9 billion in research funds) • Gives the right to supply developed products to POSCO
	New Product Development Business with Purchases Guaranteed	<ul style="list-style-type: none"> • Agreement with Small and Medium Business Administration (Jun. 2005) • Keytech Engineering was selected
	System to Transfer Technologies and Acquire Patents	<ul style="list-style-type: none"> • Integrates patents of POSCO opened to the public, patent searches and applications for technology transfers (June, 2005) • As of November, 2005, requests for technology transfers stood at 15 (5 patents were transferred and 10 transfers were under review)
Manpower Exchange	SME Job Training Consortium	<ul style="list-style-type: none"> • Received a certificate as an SME education and training organization (March, 2005) • 132 participating firms and 4200 people attended a total of 131 times
	SME Management Consulting Business	<ul style="list-style-type: none"> • Signed agreement to advise SMEs on management practices (Aug. 2005) • Built an advisory pool made up of high-quality management specialists
Cooperation for Purchases and Sales	Benefit Sharing	<ul style="list-style-type: none"> • Conducted cooperative improvement activities with suppliers and shared results (July, 2004) • Plans to extend system to cover outsourcing service partners in 2006 • In the first year, POSCO returned all benefits to SMEs and afterwards, benefit sharing was divided at 50/50
	Cooperation Processes with SMEs	<ul style="list-style-type: none"> • Increased orders from SMEs, instead of large companies and overseas suppliers (Orders from SMEs increased by KRW270 billion, totalling KRW2.9 trillion)
	Support for Small and Medium-Sized Customers	<ul style="list-style-type: none"> • Expanded direct trade supplies (6.90 million tons-7.12 million tons) • Raises advanced payments for settlement and discount rates in cash settlement • Extends credit periods • A system for "one type of help for one company" (Solves problems from the purchase of steel materials to be produced jointly) • Compensation for small claims can be made before investigations are completed • Held an exhibition at the SME Cooperation Hall

BENEFIT SHARING

POSCO has implemented a benefit sharing system to enhance improvements and to share the results in cooperation with suppliers. Benefit sharing is a system designed to elevate the competitiveness of the entire supply chain network as POSCO realizes a cut in original prices and the enhancement of quality over the long term. At the same time, suppliers can solidify the strength of their management through self-examination activities. In carrying out tasks, suppliers not only obtain cost-effective results, but also gain systematic new management skills such as those of the Six Sigma system. Benefit sharing is recognized as an epoch-making measure to solve the contradiction that activities to cut original prices through improvements cut down on the sales of suppliers and outsourcing service partners in the past. Benefit sharing also pursues mutual benefits for POSCO and its suppliers based on long-term partnerships.

Benefit sharing started in the purchasing sector in July of 2005, and 48 companies promoted 95 tasks as of the end of 2005. We compensated 17 companies for KRW9.3 billion for 30 projects in which the outcomes proved positive. 26 tasks in the monitoring process will receive compensation as soon as verification is completed.

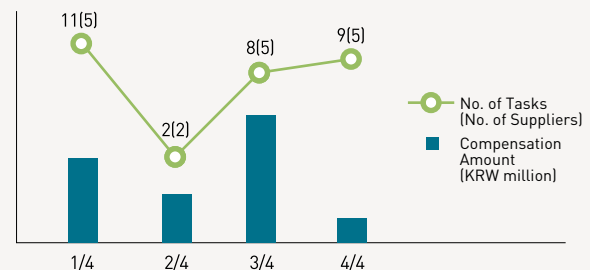
Beginning in November, 2005, POSCO expanded benefit sharing systems to cover 151 outsourcing service partners whose annual contracts with POSCO stood at more than KRW500 million. We will move forward with 60 projects by 55 companies in the purchasing sector and 40 projects by 37 companies in the outside service sector by extending the scope of the program in 2006.

Added to this, POSCO has employed a compensation system for the amounts saved by rationalizations of outsourced work including benefit sharing. We will return 100% of the savings from cost reductions to the outsourcing service partners that create the reductions. POSCO will continue to provide the amount in cost savings for a six-month period to outsourcing service partners. POSCO will strive to make benefit sharing into a more substantial system by actively developing new tasks and by steadily introducing new model cases.

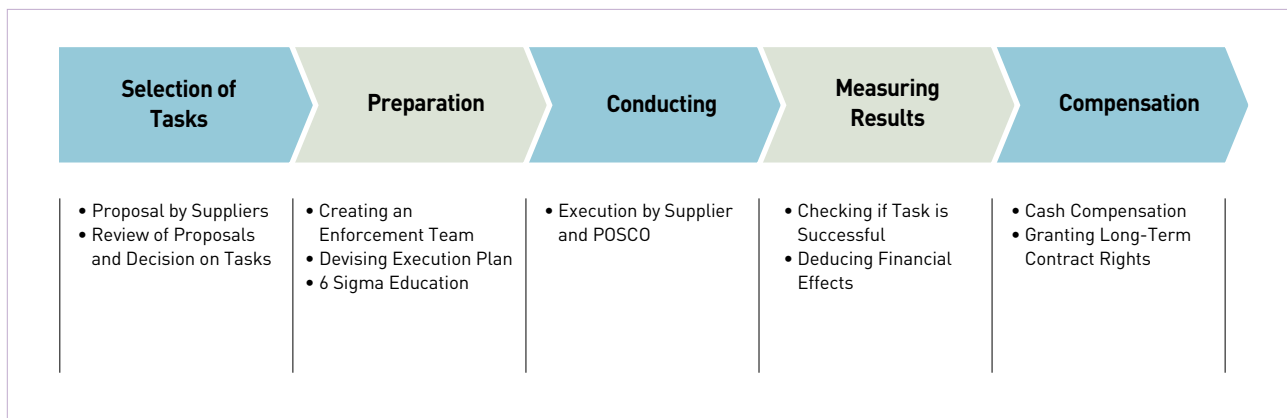
Number of Tasks



Compensation in 2005



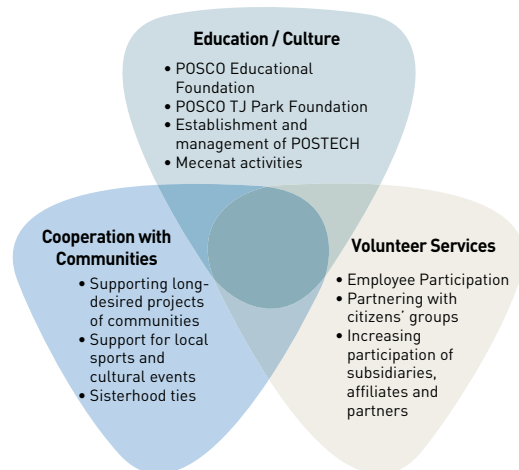
Benefit Sharing Process



SOCIAL CONTRIBUTIONS

Since its foundation, as a company that has played an important role in the foundation of the national economy, POSCO has fulfilled its roles and responsibilities as a corporate citizen based on its management philosophies of contributing to society and growing along with communities. We will contribute to the sustainable development of society by holding to the principles of sharing management in various fields such as education and culture, and in cooperation with communities and volunteer services.

POSCO's Social Contribution Activities



SUPPORT FOR EDUCATION AND CULTURE

POSCO Educational Foundation

Established in 1995 for the cultivation of regional manpower and the education of employees' children, the POSCO Educational Foundation manages 14 elementary, middle and high schools. Each school, run by the foundation, has developed into a competitive educational organization with excellent educational standards. These schools utilize advanced educational models and aim to cultivate creative human resources. Pohang Jecheol Technical High School, another foundation school, won widespread praise and commendation as all 278 graduates in 2005 obtained licenses in three or more fields and landed jobs or advanced to higher learning institutions. Gwangyang Jecheol High School and Pohang Jecheol Seo Elementary School were selected as 2005 Excellent Curriculum Schools and received prizes and certificates from the Ministry of Education & Human Resources Development.

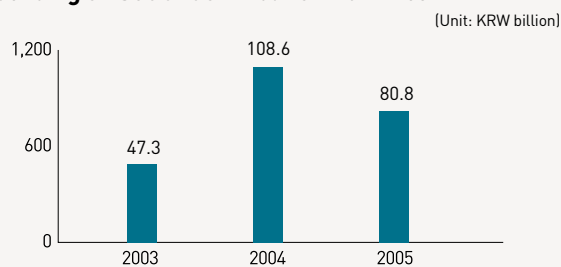
POSTECH

POSTECH, the first research-oriented college in Korea, ranked first among 123 colleges in the nation in a 2005 evaluation of Korea's colleges by The Joong Ang Ilbo, a leading Korean newspaper. POSCO and POSTECH signed a strategic partnership agreement in 2005 and the two are moving forward with a long-term Steel Innovation Program whose main goals are the cultivation of excellent steel manpower and the establishment of a research base for specialized steel research. As part of this plan, the Graduate School of Iron & Steel Technology, the only specialized education and research institution in the world focused on the steel industry, opened in July of 2005, with the official approval of the Korean government. Tuition is free for the graduate school and its students can receive scholarships, opportunities to go on overseas studies, and other special benefits.

POSCO TJ Park Foundation

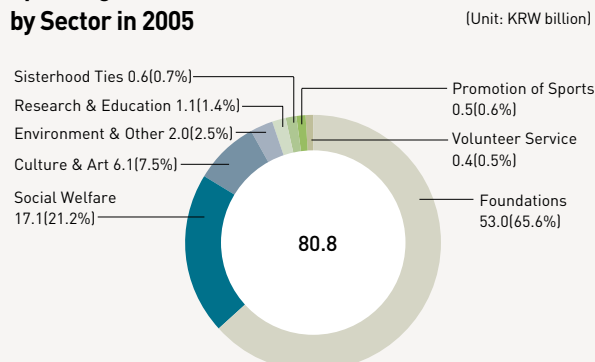
The POSCO TJ Park Foundation was founded in August, 2005 as an extended and reorganized version of the POSCO Scholarship Foundation. Its areas of activity have been expanded to the promotion of learning, scholarship, research, and culture and art, and to the cultivation of talented next-generation thinkers, Asian networking, and the expansion of roles for the benefit of the public.

Spending on Social Contribution Activities



*The data for 2003 and 2004 is different from the Sustainability Report 2004. The amount of donations to professional soccer teams has been eliminated from the social contribution expenses.

Spending on Social Contribution Activities by Sector in 2005



In 2005, the first year of its inauguration, POSCO selected four promising students from China, India and Vietnam, and has supported them while they study for master's degrees at the graduate schools of international studies at Sogang and Korea Universities, respectively. In addition, we have formed cooperative scholarship relationships with eight colleges and universities in China and Vietnam, while providing scholarships to 190 students. In addition, we gave scholarships to 522 students at junior colleges who were teen-aged heads of families, children of handicapped parents and residents of welfare organizations.

INTERVIEW

Choi Gwang-Woong,
Executive Vice President of the POSCO TJ Park Foundation



The Background of the Establishment of the POSCO Cheongam Foundation

People usually say that fish cannot live out of water. Likewise, companies cannot live away from society. This means that companies should grow and develop alongside the members of society, and as the center of economic activities, they should not neglect their responsibilities to lead and take care of social communities. Thus, POSCO established the POSCO TJ Park Foundation to build its stature as a truly global private corporation and to be reborn as a company respected the world over.

The Meaning of the Foundation Name

The predecessor of the POSCO TJ Park Foundation, the POSCO Scholarship Foundation, was established in January, 1971, on the suggestion of Honorary Chairman Park Tae Joon and the foundation conducted and encouraged learning activities for the children of employees and local communities for 34 years. TJ Park Foundation was named after the Honorary Chairman Park Tae Joon, who created the roots and branches of POSCO's social contributions while developing POSCO as a world-class company.

Difficulties During the Establishment Process

We put a great deal of thought into deciding about the directions that POSCO's social contribution activities should take in consideration of our share of the national economy. We solved the difficulties in making decisions by meeting and listening to various company CEOs, those working in social contribution activities and aiding citizens' groups, and benchmarked similar foundations of other companies at home and abroad. We also invited experts with special knowledge and abundant experience in various sectors to act as directors of the foundation.

Major Management Policies of the Foundation

First of all, we will promote our activities by searching for and developing strategic social contribution projects befitting the corporate culture and image of POSCO. We seek to promote fair treatment and transparent procedures at work, to respect customers and to increase the satisfaction and happiness of those in receipt of our social contributions. I believe that in ten years, our foundation will be a role model in the Asian region as we expand the foundation's scope and the size of its activities.

Mecenat Activities

POSCO holds Mecenat activities to support various cultural and artistic activities. We contribute to raising the cultural standards of local communities and harmony among local residents with concerts in the POSCO center, campus concerts, the Pohang Fireworks and Lights Festival and the Gwangyangman (Gwangyang Bay) Bash. POSCO received the 2005 Mecenat Grand Prize (Culture Medal) from the Ministry of Culture and Tourism for its contributions to culture and art.

Established and managed by POSCO, specialized performance halls such as the Hyoja Art Hall in Pohang and the Baekwoon Art Hall in Gwangyang, offer residents the opportunity to experience high-quality culture and art through the holding of such events as concerts, plays, dance, operas and movies. In 2005, the Hyoja Art Hall and Baekwoon Art Hall hosted 21 performances and 23 performances, respectively. Furthermore, the POSCO Center Artrium in Seoul presents free music concerts for Seoul citizens once a month. The POSCO Concerts are becoming established as a top quality cultural event in the downtown area with performances in a wide range of genres such as classical music, Korea's traditional music, musicals, and shows by popular singers. The concerts attracted 12,700 people to its 12 performances in 2005. The POSCO Campus Symphony Festival, which has been favorably commented upon as being a "moving Mecenat activity," was expanded into regions where cultural performances are relatively rare. A total of eight performances were held in 2005. This festival contributes to the turning of colleges into cultural and art spaces for local communities by activating meetings and interactions among companies, colleges and local residents through culture and art.

Gwangyang Works also lends its performance spaces to local artists and art groups free of charge to assist local cultural and art activities and the Works supported 239 events for citizens including culture classes, in 2005. The POSCO Art Museum in Pohang and the POSCO Gallery in Seoul aim to expand the footing of culture and art by inviting famous artists and groups and holding free exhibitions.

In order to preserve our cultural properties, POSCO exerts great efforts to preserve steel cultural assets after having signed an agreement for the "One Keeper for One Cultural Asset" program in September of 2005. As a beginning, we took part in a project to recover and preserve a steam train at Jangdan Station in the DMZ or Demilitarized Zone. This train has been a symbol of the division of the Korean Peninsula since it stopped operating due to the outbreak of the Korean War in 1950.

COOPERATION WITH COMMUNITIES

POSCO manages various programs such as the developing of sisterhood ties for the strengthening of bonds with communities and the support of projects for community development. To ensure

that such activities are of practical assistance and fit needs of communities, we conduct research and surveys and analyze the results of community cooperation projects.

Sisterhood Ties

With the aim of intensifying bonds with communities, POSCO departments make exchanges with towns, schools and groups. These sisterhood ties stood at 228 as of 2005. Our employees carry out a variety of activities such as helping farmers in the busy farming season, repairing village facilities, etc.



Support for Neighbors in Need

The "Support for Neighbors in Need" campaign has given monthly living expenses of KRW300,000 to each of 240 disadvantaged households in Pohang and Gwangyang, since 2004. Local autonomy units select beneficiaries and the Community Chest of Korea manages the fund.



Children's Steel Camp

We have held Children's Steel Camps for elementary, middle and high school students in the Pohang and Gwangyang areas, free of charge during summer vacations, since 1993. Students learn about the value of steel, learn more about POSCO, and discover a sense of awareness of community and environmental protection. In 2005, 787 sixth graders took part in the 13th annual camp.



Professional Football Club

POSCO sponsors two professional football teams, the Pohang Steelers and the Chunnam Dragons. As firsts in Korea, we built football-only stadiums in Pohang and Gwangyang. POSCO is contributing to energizing communities through supports for sports such as the 2002 FIFA World Cup.



Community Events

We sponsor the Pohang Fireworks and Lights Festival and the Gwanayangman (Gwangyang Bay) Bash. 650,000 people visited the second Pohang Fireworks and Lights Festival in 2005 and its economic benefits reached KRW15 billion.



Long-Desired Projects for Communities

Up until now, POSCO has assisted Pohang Techno Park, an advanced venture complex with a base for industry-academy-research cooperation, with the donation of 188,430m² of land, (equivalent to KRW11.2 billion) KRW10 billion in funds, and the acquisition of KRW10 billion in local bonds. We also built "Hwanho Sunrise Park," for Pohang citizens and the Gwangyang Community Center. In 2005 we donated KRW2 billion to Jeonnam Techno Park.



POSCO VOLUNTEERS



VOLUNTEER SERVICE ACTIVITIES

POSCO develops healthy corporate cultures by encouraging employees to take part in volunteer service activities. More than 75% of all employees have taken part in volunteer service activities. With the Office of the POSCO Volunteers at POSCO's Headquarters as a central point, the regional headquarters in Pohang, Gwangyang and Seoul conduct volunteer service activities by making ties with regional social welfare organizations.

Volunteer Service Programs for Employees

POSCO has offered a volunteer service mileage system since October, 2004. Through this system, POSCO gives certificates and badges to those who achieve a set standard number of hours and gives activity fees to their volunteer service group. By the end of 2005, 441 employees and their family members had received certificates for 100 hours and three persons acquired certificates for 1,000 hours of service activities. To aid in the smooth running of

volunteer service activities, we provide volunteers with needed items, such as products to be used in the service activities, lunches and transportation. Through our intranet system, POSCO allows for the registration of, and inquiries regarding volunteer service groups, enables the management of service activity records, and provides information to those requesting service activities. In September of 2005, POSCO made volunteer service e-learning courses in animation formats available to employees. So far, 5,061 employees have availed themselves of the courses.

POSCO designates the third Saturday of every month to give employees and their families the opportunity to take part in volunteer service programs in person. During 2005, regular volunteer service activities were conducted at approximately 70 welfare organizations in Pohang, Gwangyang and Seoul. From 2006, we plan to raise employees' participation and satisfaction by putting more character to the monthly event.

POSCO opened and manages three POSCO Sharing Houses, which provide free meals to elderly people, handicapped people and low-income local residents. A total of 586 employees, family members and local residents took part in the service activities at the centers and 186,631 people (a daily average of 540) had lunch at the centers in 2005.

POSCO also holds mentoring service activities where employees enter into one-on-one connections with teen-aged heads of families and children of handicapped parents and broken homes, and provide advice and counseling, while playing the role of guardian. Currently, 94 employees take part in these activities. For this program, POSCO assists employees by paying for the costs of the service activities and by offering educational programs.

Volunteer Activities with Citizens Groups

Along with the Beautiful Store, we held a POSCO Day, which helps less fortunate neighbors with profits from the recycling of items that are sold in the store. By collecting 113,000 articles for recycling and reselling, we earned about KRW92 million and donated the money to restoration efforts in areas of the Jeolla Provinces that were damaged by heavy snowfalls. In this program, around 350 employees took part in the collecting and selling of goods.

POSCO, in partnership with Good Neighbors, an NGO in the social welfare sector, built a rapid support system with the production and distribution of 3,000 sets of emergency relief kits in preparation for disasters. POSCO and Good Neighbors also assisted residents of Ulleung Island after the island in Korea's East Sea was hit by Typhoon Nabi, and helped out in Pakistan, after a large earthquake hit the area. About 180 employees took part in these activities. In addition, 2,339 employees took part in the blood donation drive with the Korea Red Cross. In conducting the Beautiful Office program, which aims to put environmental protection into practice with the collection of used toner and cartridges for recycling, we recycled 2,500 units in 2005 and contributed the profits to needy neighbors.

Together with the Korea University Council for Social Service and the Ministry of Education & Human Resources Development, POSCO supported the Major-Connected Volunteer Service Program for Nationwide College Students with the participation of about 15,200 professors and the students of 97 colleges and universities in 258 programs. In order to spread a culture of volunteering to every corner of our society, POSCO aims to encourage the practice of sharing and serving society through specialized knowledge and technologies.

Spreading Social Service Activities with Participation of Subsidiaries, Affiliates and Partners

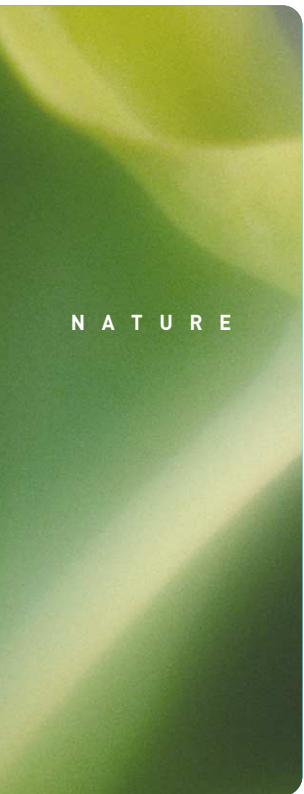
The management of POSCO practices and believes in the value of sharing and has showed its commitment to this ideal with a donation of KRW7 billion together with related companies to the Community Chest of Korea in 2005. Through POSCO's management practice of sharing, we helped with the opening of a self-support workplace, and through social welfare councils and associations for the handicapped, provided necessary facilities, aid, materials and vehicles.

In addition, we run a Matching Grant system, in which POSCO donates an amount of money corresponding to the amount donated by each employee. POSCO donated a total of KRW300 million, where the company gave KRW200 million to match a combined total of employee donations KRW100 million, to help victims of a devastating earthquake and tsunami in Southwest Asia. Employees also take part in the sharing movement by contributing donations such as the giving of KRW25 million to the Beautiful Foundation through a program to help needy neighbors. The funds were raised through the accumulation of lecture and contribution fees received by POSCO employees.

Finally, POSCO Engineering & Construction Co., POSREC, POCOS, Samjung P&A, POSCON, POSMEC, and RIST conduct regular volunteer service activities, having launched their own volunteer service teams, and POSCO, in conjunction with 164 outsourcing service partners and suppliers, took part in POSCO Day.

Participation in Volunteer Service

Category	2004	2005	Difference
Total Volunteer Service Hours	121,493	305,183	183,690(151%)
Average Volunteer Service Hours of All Employees	6.7	12.7	6
No. of Volunteers (including families)	-	15,769	
Ratio of Employees' Volunteer Service Participation	40.9%	75.7%	34.8%
No. of Volunteer Service Groups	249	315	66 (26.5%)
No. of Participants in Sharing Saturday	27,653	45,206	17,553(63.5%)
No. of Average Participants in Sharing Saturday per Month	2,765	3,767	1,002(36.2%)



green movement

POSCO has pursued development in harmony with the environment as a basic value since its foundation. Utilizing its systematic management of the environment, POSCO continues to respond to changes by reducing the use of energy, by developing environment-friendly technologies, by preventing the occurrence of pollution, by making green purchases and by executing activities to protect the environment. POSCO is opening up a beautiful world with a green future; a new world that breathes in harmony with nature.



NATURE

- 40 Climate Change
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CLIMATE CHANGE

Climate change is one of the greatest challenges of the 21st century. It poses a significant challenge to the steel industry because of the industry's high energy needs, currently met by the use of coal, which is hard to replace. Because of this, POSCO considers its response to climate change to be of prime importance to the Company.

RESPONSE TO CLIMATE CHANGE

With the Kyoto Protocol going into effect on February 16, 2005, the efforts to lower greenhouse gas emissions are being stepped up. POSCO secured a footing to take part in the Kyoto mechanism by completing a green house gas management system at the end of December of 2005. What's more, we are intensifying international cooperation to decrease green house gas such as participation in taskforce activities in the steel sector of the Asia-Pacific Partnership. Together with this, we are playing a leading role in the development of new processes to reduce energies and technology to absorb and separate carbon dioxide during integrated steelmaking processes.

On top of these efforts, POSCO strives to supply energy-saving materials. POSCO's light and durable high-tensile steel sheet is able to improve the fuel efficiency of automobiles. We also endeavor to develop such energy saving steel products such as steel core materials for hybrid cars and high-end electrical steel, which is able to save a large amount of electric power from a variety of different motors.

POSCO's Activities for Climate Change

CO₂ Reductions through Energy Saving and Technology Development

- Signed the second round of voluntary agreements for energy reduction targets
- Participation in the task force bracing for the UNFCCC organized by the Ministry of Commerce, Industry, and Energy
- Participation in greenhouse gas registry
- New process development: Strip Casting commercialization technology
- Development of CO₂ absorption and separation technology utilizing unused waste heat in steelmaking processes

Establishment of Carbon Management System

- Established a greenhouse gas management system according to the Greenhouse Gas Protocol by WBCSD & WRI

International Cooperation and Social Contributions for Greenhouse Gas Emission Reductions

- Participation in Steel Taskforce to implement Asia-Pacific Partnership
- Participation in IISI CO₂ Breakthrough Programme
- Participation in IISI Kyoto Protocol and the Steel Industry Project

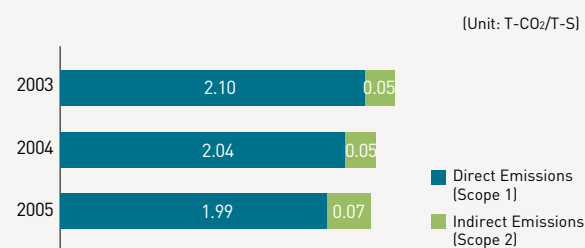
CDM Project Activities

- Overseas forestation and small hydroelectric power generation projects

CO₂ Emissions

The main greenhouse gas generated from an integrated steelmaking process is CO₂ from coal, which is used as a reducing agent in the process. Hence the more steel production, the more CO₂ emissions. Nevertheless, POSCO has reduced CO₂ emissions per ton of crude steel produced by 8.4% in 2005 over the last 15 years.

CO₂ Emissions per Ton of Crude Steel Produced



Calculated according to the WBCSD/WRI Greenhouse Gas Protocol Guidelines ('04)

Calculation Boundary: Pohang and Gwangyang Works

Indirect Emissions (Scope 2): Indirect CO₂ emissions due to use of purchased electricity

Participation in Greenhouse Gas Registry System

POSCO actively participates in the Korean government's efforts to slow climate change. To implement the transparent and objective management of greenhouse gas reduction practices, the government opened and runs the Greenhouse Gas Registry System. We registered our four major units of business projects such as composite power generation using FINEX byproduct gases in the registry.

Meanwhile, POSCO participates in Energy Saving through Partnership (ESP), an energy saving technology cooperation project supervised by the Korea Energy Management Corporation. In doing so, POSCO helps other companies by introducing its proprietary technological expertise and know-how, contributing to the nation's total energy reduction.

Task Force Bracing for UNFCCC

Korea is the world's 9th largest greenhouse gas emitting country, according to the International Energy Agency. As a member of the OECD, Korea is expected to shoulder a greater burden in reducing greenhouse gas emissions during the second commitment period of the Kyoto Protocol, from 2013 to 2017. It is also expected that the effects of the pressure for greenhouse gas emission reductions on the steel industry will be huge since the sector's energy consumption accounts for 10.5% 730.0 million GJ of the country's total. Thus, the necessity has been raised for a gradual switch to systems that use high-efficiency and low-consumption energy facilities such as the development and application of CO₂ reduction technologies and clean energy, and cooperative efforts to address this issue among industries. To better deal with the response to the requirements, the task force bracing for the UNFCCC was organized by the Korea Iron & Steel Association, Ministry of Commerce, Industry and Energy, major steel companies, and research institutes. POSCO is a vigorous participant, as well.

Proactive Activities for CDM

The Clean Development Mechanism (CDM) is a scheme in which companies can garner greenhouse gas emission rights for the amount saved through the improvement of facilities. The CDM project is to be approved by the Secretariat of the United Nations Framework Convention on Climate Change (UNFCCC). Korea has not been designated as one of the Annex I Parties, but POSCO is making thorough preparations for the future by proactively promoting the CDM.

POSCO has completed the propriety review for small hydroelectric power plants as part of the CDM and facility investment is underway. Small-scale hydroelectric power plants generate low power under 300kW, and their advantage is that they are environmentally friendly and cost less for maintenance. Two units of the plants are being built at the Gwangyang Works and they are expected to begin operation as early as February, 2007. Electricity of 4.82 million kWh will be generated annually from the units. POSCO will sell all the power generated through the Electric Power Exchange, and expand generation capacity with more units when the profitability is secured. The Gwangyang Works will apply for the approval of the UNFCCC after verification by the Korea Energy Management Corporation on the small hydroelectric power generation project in 2007.

By engaging in overseas forestation projects, POSCO will secure carbon emission rights and contribute to environmental conservation and community development. To do so, we analyzed the investment environment and reviewed the feasibility of the projects by the work of the Overseas Forestation Project Team mobilized in May 2005. POSCO is committed to devising business plans for the investment target, the selection of species of trees, and pilot planting.

Life Cycle Assessment

POSCO developed a CO₂ Credit calculation system for its steel products by introducing Life Cycle Assessment (LCA) in 2005. During the process, such inputs for steelmaking as energy and raw materials and such outputs as end products and pollutants will be dimensioned and their correlations will be determined. Lastly, the assessment of environmental effects of inputs and production methods will be carried out for each environmental issue such as global warming and air pollution.

POSCO has actively engaged in the Steel Products LCA Project promoted by the International Iron and Steel Institute since 1995. From the year 1999, POSCO has developed LCA software to analyze the environmental effects of overall processes such as material selection, delivery, and production. With the LCA automatic input system established in 2001, the LCA software was connected to ERP automatically. The LCA computing system is used to select materials, resources, and procedures with the least potential for the creation of pollutants.

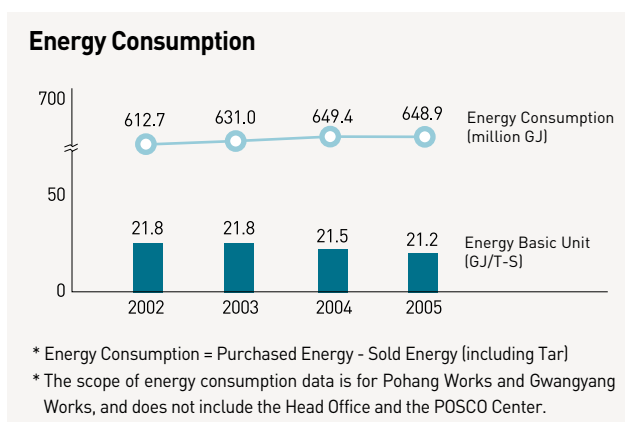
ENERGY MANAGEMENT

POSCO increased its energy saving efforts by reforming its energy management system with the growing importance of energy management due to the UNFCCC and protracted high oil prices. According to the 'Reinforced Energy Saving Plan for the World's Best,' POSCO designated six types and organized 18 subgroups composed of specialists in investment and processes and launched a number of activities at the Pohang and Gwangyang Works. The subgroups have set mid- and long-term goals by type, explored and responded to challenges, and discovered and disseminated best practices. For the purpose of 'improved energy intensity through process optimization,' POSCO has engaged in overall improvement activities. Our energy department is responsible for the analysis and management of monthly results, and the holding of quarterly energy management workshops.

In order to encourage all executives and employees to participate more actively, POSCO introduced an 'Energy Saving Idea Proposition System.' We established a comprehensive energy information system where workers can propose and register ideas more readily and observe the whole process. As a result, a total of 528 ideas were submitted in 2005, and about 10% have been put into practice. The system helps workers to find information on energy saving results, mid- and long-term plans, basic thermal units per tons of crude steel produced, subgroup activities by type, and six sigma processes, facilitating the sharing of energy-saving-related information among departments.

POSCO's total purchased energy was recorded at 686.9 million GJ, a 14.6 million GJ decrease from the year 2004. By energy source, coal takes up about 88%, electric power 7%, and LNG and fuel oil 5%. Energy consumption is high in the steelmaking process especially

where heating and cooling processes are repeated. In order to reduce high energy consumption, POSCO has strived to recover more byproduct gases in the early stages of the production process and to save fuel used in heat furnaces. We have made efforts to apply such technologies, which can shorten the production process.



To reinforce its capabilities to save energy over the mid- to long-term, POSCO plans to increase the energy efficiency of power generation and oxygen making facilities, which account for about 25% of total energy use, and to recover as much waste energy as possible.

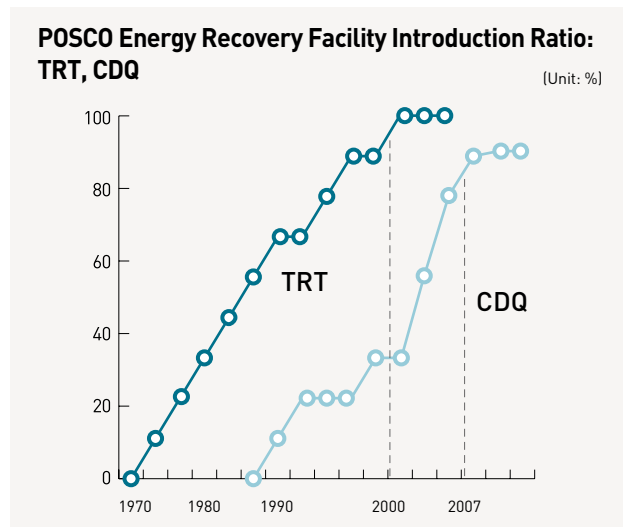
Byproduct Gas Use and In-house Generation

POSCO operates an in-house generation system to make efficient use of byproduct gases and to secure a stable power supply. A total of 19,094GWh was used in the Head office, and the Pohang and Gwangyang Works in 2005. POSCO procured about 78%, or 15,106GWh, of the energy by in-house generation using byproducts from the steelmaking process and by running an LNG composite generation facility and energy recovery facilities such as Coke Dry Quenching (CDQ), and Top Gas Pressure Recovery Turbines (TRT). The remaining 4,213GWh was secured through external supply. POSCO replaced most fuel required to make steel with byproduct gases, including Coke Oven Gas (COG), Blast Furnace Gas (BFG), Linz-Donawitz Converter Gas (LDG), and Finex Off Gas (FOG).

POSCO installed two more CDQ (Coke Dry Quenching) facilities at the Coke Plants 3 and 4 of the Gwangyang Works in 2005, which replaces conventional water quenching where red-hot coke is cooled by water and the sensible heat is not recovered. As a result, we saved 3.5 million GJ energy annually. When the CDQ facility in Coke Plant 2 is completed in December 2006 as scheduled, the Pohang Works will have a total of six CDQ facilities, five at Coke Plant 1 and one at Coke Plant 3. In order to recover waste energy due to the rebuilding of blast furnaces, POSCO expanded its TRT capacity and generates additional power of 5MW per hour at the Pohang and Gwangyang Works.

To recover surplus gases generated during the rebuilding of blast furnaces and the FINEX process, POSCO is in the process of

building a 100MW steam power facility and a 150MW composite power generation facility. When construction is completed, POSCO will be equipped with a total power generation capacity of 2,784MW, 1,500MW of steam power generation, 995MW of composite power generation and 289 MW of CDQ and TRT. POSCO expects fuel savings of 3-5% with the development of technology to preheat BFG by 120°C using exhaust gas (200°C) from power plants, pushing for application of the technology at the Gwangyang works by 2006.



As of January 2006, 10 TRT units and 7 CDQ units were in operation (construction plan for two more units: December 2006, September 2007)
CDQ (Coke Dry Quenching) Facility: It cools the red-hot coke from coke ovens using nitrogen gas and sends it to blast furnaces. During the cooling process, the facility recovers the heat from the coke and makes steam, which is used to run generators, ultimately saving energy. Its strength is in making rigid and uniform size coke.

Second Voluntary Agreement to Reduce Energy Consumption

POSCO made a second voluntary agreement with the government to reduce energy consumption by 6.9% or 43.5 million GJ from 2004 to 2008 on the basis of consumption in 2003. To do so, we plan to invest KRW890 billion in energy facilities. We surpassed the target of the first voluntary agreement by reducing 9.4%, or 52.5 million GJ in energy consumption over five years from 1999 to 2003, using 1997 as a base year. POSCO was designated as one of the best energy saving companies at the 27th Energy Saving Promotion Meeting hosted by the Korea Energy Management Corporation in November 2005.

NEW PROCESS DEVELOPMENT

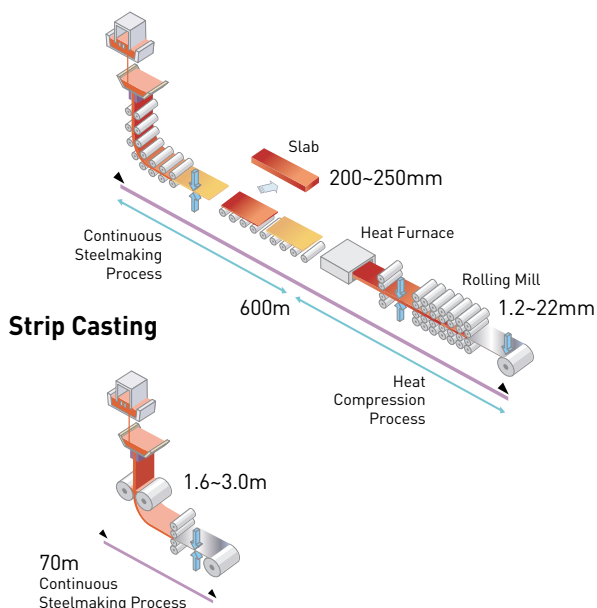
POSCO is developing a Strip Casting Technology where steel sheets from molten iron are produced without hot rolling process. We are also researching a new process that can reduce use of energies and CO₂ emissions greatly by omitting correction and heating processes in continuous casting through rolling process, which is due to be commercialized in late 2007.

poStrip

POSCO is funneling its energy into the development of new technologies and processes to reduce greenhouse gas emissions. Strip Casting is a technological advancement in the steelmaking process, eliminating most of the existing forging and rolling processes to cast strips of 2-4mm in thickness directly from molten iron. Strip Casting simplifies the existing process from continuous casting, heating, roughing mill, to finishing mill into one and produces hot-rolled coils directly from molten iron. Consequently, the new process can save facility investment and reduce manufacturing costs significantly. On top of this, Strip Casting is eco-friendly in that the cooling and heating processes come with less energy consumption, decreasing emissions of such gases as CO₂, NO_x, and SO_x.

POSCO has been developing this technology since 1989 and began to construct a 600,000-ton capacity 'poStrip' demo plant within Pohang Works in June 2004. The construction is slated to be completed by 2006. Meanwhile, POSCO will try to commercialize various steel products at the same time by establishing a casting work environment of high value-added steel through the running of a pilot plant.

Consecutive Casting Process



NEW AND RENEWABLE ENERGIES

New and renewable energies are becoming more attractive despite its higher cost because of high oil prices and climate change due to global warming. They are alternative energies that can replace such fossil fuels as oil and coal. The interest in new and renewable energies has increased as efforts to reduce greenhouse gas emissions have been in full swing with the Kyoto Protocol

according to the UNFCCC. According to the Promotion Act on Development, Use, and Propagation of New and Renewable Energies of the Korean government, there are eight renewable energy sources, including solar power, wind power, and small hydroelectric power, and three new energy sources of hydrogen fuel cells as well as coal liquefaction, among others.

POSCO is pushing ahead with small hydroelectric power generation and hydrogen fuel cell projects. Environment-friendly hydrogen fuel cells can replace the existing thermal and nuclear power generation. In particular, fuel cells for electricity generation can respond to the change in the energy supply structure from a centralized to a decentralized type. In production of a 1MW fuel cell, 20 tons of stainless plates are needed as a material for bipolar plates. Thus, this fuel cell sector is attracting our attention as a new growth engine.

POSCO signed a strategic partnership in September 2004 with Fuel Cell Energy, an American company selling products in the market with the world's best technologies, for co-development of technologies and cooperation in market exploration. We are reviewing the feasibility of fuel cells for our electricity generation business in Korean and Asian markets and are drawing up plans to invest in production infrastructure in the nation according to the review results.

Equipped with the best bipolar plate technology, the RIST is working together with the Korea Electric Power Research Institute to secure core technologies in fuel cells by 2009. POSCO is introducing advanced technology through the practical study of 250KW-level Molten Carbonate Fuel Cell (MCFC) power generation systems. In this way, POSCO successfully installed a fuel cell unit 1 for electricity generation at POSTECH in April 2005, and is now supplying electricity to the RIST experiment building and the accelerator institute. We are currently carrying out tests for operation of units 2 and 3 at the Tanchon wastewater treatment facility in Seoul and Chosun University Hospital in Gwangju in November of this year. In addition, POSCO is playing a leading role in the development of core technologies of solid oxide fuel cells (SOFC).

Fuel Cell: A fuel cell is an electric engine that electrochemically converts the chemical energy of oxygen and hydrogen directly into electrical energy. This power-generating device is environment-friendly with no pollutants and is equipped with high efficiency because it does not go through an energy conversion by the combustion process used in gas engines or gas turbines.

ENVIRONMENTAL MANAGEMENT SYSTEM

POSCO is committed to improving corporate value through environmental management in harmony with nature and society. POSCO maintains systematic environmental management comprising Environmental Vision, Policy, Organization, and Accounting System. POSCO draws up relevant objectives and action plans every year and reviews their effectiveness by way of regular internal and external examinations.

ENVIRONMENTAL POLICY

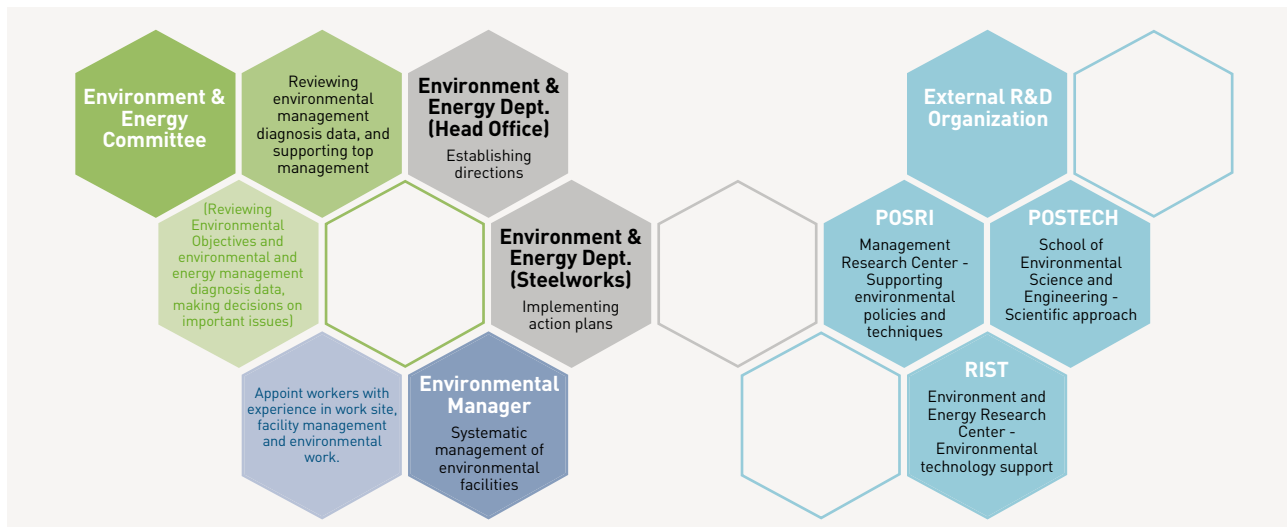
The environment is one of the major factors in POSCO's management strategies. Our vision is to implement environmental management strategies based on the principle of co-prosperity between the environment and society and to improve corporate value. POSCO is committed to not only the prevention of pollutants but also to the design of proactive resolutions, taking a comprehensive approach to the whole steelmaking processes. Therefore, we have designed our Environmental Policy to ensure

that all of POSCO's activities will be in accordance with environmental protection, the efficient use of resources and improved welfare in local communities. Reflecting trends of environmental issues and circumstantial change, and the voices of concerned parties, POSCO establishes goals and action plans annually and works to carry them out successfully. The Pohang and Gwangyang Works are also putting detailed plans into practice after corrections and complementation by department.

Environmental Objectives and Action Plans in 2005

Objective 1 Lay the Groundwork for Response to UNFCCC in Advance	Objective 2 Reduce Environmental Load Continuously	Objective 3 Improve Trust from Concerned Parties
Basic Policy Prepare for expected increased pressure on greenhouse gas emissions due to the Kyoto Protocol going into effect	Basic Policy Strengthen pollutant management activities and proactive activities for environmental regulations at home and abroad	Basic Policy Improvement of the sensible environment of local communities and trust building with concerned parties
Action Plan <ul style="list-style-type: none"> • Establishment of a greenhouse gas management system according to international standards • Strengthening cooperation on policies on climate changes and cooperation with the steel industry • Steady execution of energy saving activities 	Action Plan <ul style="list-style-type: none"> • Preparing the regulations on new pollutants in advance • Reduction in total volume of pollutants and improvement in environmental efficiency • Establishment of an economical and stable management system of byproducts in preparation for increased crude steel production 	Action Plan <ul style="list-style-type: none"> • Improvement of the sensible environment of local communities • Intensification of transparent communication with environmental stakeholders

Environmental Organization



Environmental Management Audits

POSCO makes regular checks as to the appropriateness of its environmental management system according to ISO14001 requirements through internal and external reviews. Capable workers are designated as internal reviewers according to the in-house qualification provision.

External reviews are conducted by external specialty certification organizations. POSCO gained re-certification for the ISO14001 from LRQA KOREA in 2005. A conversion review according to the standard ISO14001 for 2004 was included in the review.



ISO14001
(Re-certification
in 2005)

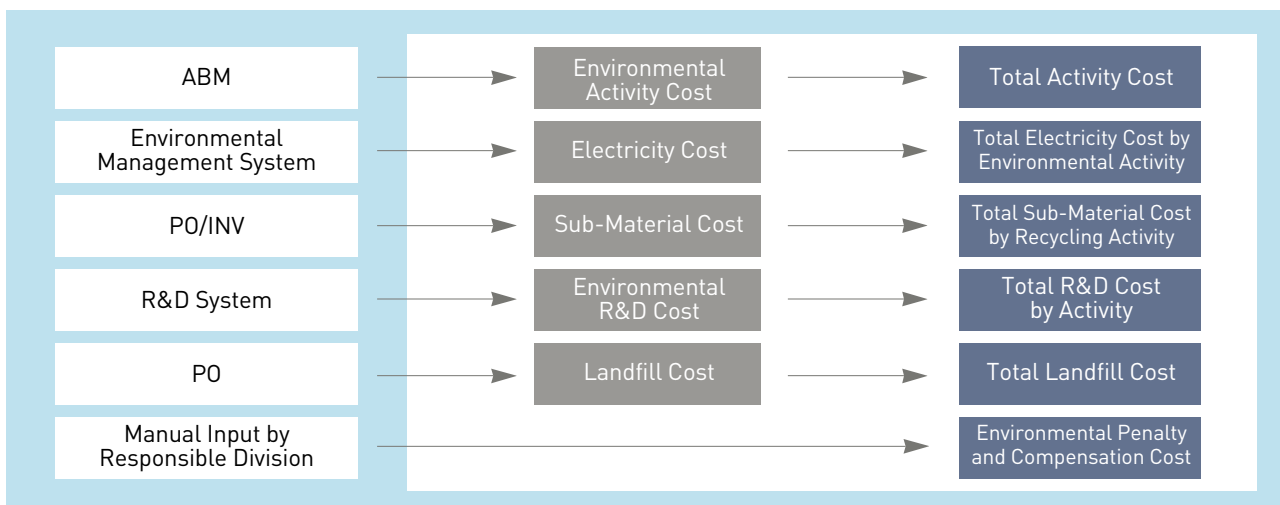
ENVIRONMENTAL ACCOUNTING SYSTEM

POSCO began in January 2005, to operate an environmental activity cost calculation system based on an Activity Based Management (ABM) system. The ABM system automatically measures environmental costs in detail. POSCO completed the system design at the end of 2003, after a test-run in July 2001. The ABM system categorizes POSCO's environmental management activities into 757 standard activities, and classifies early prevention and management activities into 53 categories. The system allows our environmental accounting system to aggregate environmental costs by activities and categories. In addition, in 2005, with the six-sigma technology introduced to the system, we developed an environmental effect analysis model for the recycling of byproducts and began to analyze environmental achievements, costs, efficiency, and effects in a more systematic way.

ISO14001 Audit Results in 2005

		Pohang Works	Gwangyang Works
External Review	Audited Depts.	18 departments, including Iron-making Dept.	13 departments, including Iron-making Dept.
	Certification Organization	LRQA KOREA (Lloyds's Register Quality Assurance Korea)	
	Dates	5. 23 ~ 27	10. 24 ~ 27
	Audit Results	<ul style="list-style-type: none"> • Environmental information delivery to outsourcing partners and proper environmental management and practice (Coke Making Dept.) • Recommendation on systematic environmental training for workers 	
Internal Review	Dates	5. 9 ~ 13	8. 10 ~ 12
	Audit Results	<ul style="list-style-type: none"> • Monthly environmental management meetings in Steelmaking Dept. and sharing of major management issues (excellent) • Weak relationship between contingency plan and environmental effect analysis 	

POSCO Environmental Accounting System



ENVIRONMENTAL ACTIVITIES

POSCO's environmental commitment can be represented by the percentage of green area at the works, which is 25% of the total area. POSCO is making such diverse efforts as the development of green technology and green products, an environment-friendly supply chain, training programs, assessments of environmental effects, and disclosures of results.

ENVIRONMENTAL EFFECT ASSESSMENT

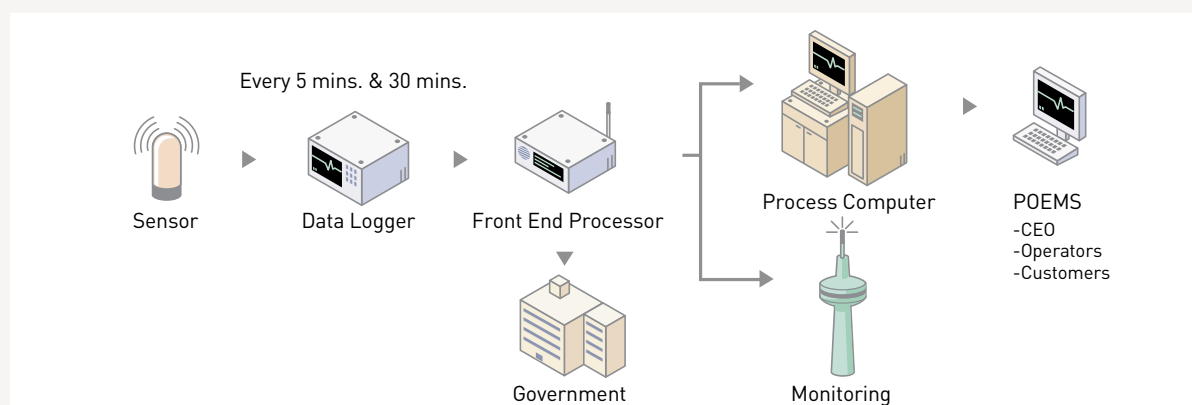
In order to conserve the ambient environment, POSCO implements regular environmental research activities to assess air and water quality and to monitor the ecosystems of surrounding soil and coastal areas as well as pollutants in the surrounding areas of the Pohang and Gwangyang Works. We also have external specialty organizations do research on water quality of the surrounding sea around landfills of the two works, ecosystems, and changes of the

topography in soil, and we report the environmental effect assessment to the government.

On top of this, POSCO frequently tests for air pollution around the two works with environmental measurement vehicles. We are improving public awareness by performing measurements and reporting the results promptly when there is a request from the local communities.

ENVIRONMENTAL DATA DISCLOSURE

Telemetering System Management



Automatic Monitoring Facilities and Items

	Stack Emissions	Atmospheric Concentration	Open-Path Method	Wastewater Effluent
Pohang Works	41 sites	2 sites	7 paths	3
Gwangyang Works	56 sites	3 sites	9 paths	-
Items	9, including Dust, SO ₂ , and NO ₂ .	9, including PM ₁₀ , SO ₂ , NO ₂ , and O ₃ .	7, including SO ₂ , NO ₂ , and O ₃ .	4, including COD, and SS.

SO₂: sulfur dioxide, NO₂: nitrogen dioxide, PM₁₀: particulate matter smaller than about 10 micrometers, O₃: ozone, COD: chemical oxygen demand, SS: suspended solid

ENVIRONMENT AND ENERGY TECHNOLOGY DEVELOPMENT

POSCO studies trends in environment and energy at home and abroad, collects communication results with concerned parties and reflects these in its technology development strategies. The technology development plan rolled in 2005 includes the development of greenhouse gas reductions and management

technology bracing for the Post-Kyoto mechanism, pollutant reduction technology, value-added technology to use more byproducts, and new technology to use waste heat. To implement the plan, POSCO works together with many institutes, including the POSCO Research Institute (POSRI), the Pohang University of Science and Technology (POSTECH), and the Research Institute of Industrial Science & Technology (RIST).

ENVIRONMENT-FRIENDLY PRODUCTS

POSCO is doing its best to develop new technologies and processes based on the principles of minimizing pollutants and energy use in production processes, decreasing the effect of processes on humans and the environment, and recycling. We developed 14 environment-friendly products in 2004 and a total of 119 in the fields of environmental preservation, energy saving, and recycling improvement in 2005. The share of environment-friendly products developed was up 81% in 2005 year-on-year and the sales volume was 263,000 tons.

Environment and Energy R&D Investment

Category	2003	2004	2005
Environment and Energy Ratio against Total R&D	KRW11.1 billion 8.8%	KRW12.4 billion 7.9%	KRW14.5 billion 8.6%

R&D investment in technology items of which development began during the year

Types of Environment-Friendly Products

Categories	Functions	Number of Products in 2000-2005
Environmental Preservation	Non-containment of environmental hazardous substances, isolation of substances harmful to the body, reduction of noise and quakes, improvement of exhaust gas purification performances, improvement of collision and safety properties	12
Energy Saving	Light-weight automobiles, omission of a process or heat treatment, improvement of energy efficiency, and improvement of processibility	87
Recycling Improvement	Improvement of corrosion resistance and life span, and improvement of durability	20

Environment-Friendly Products Development Status

	2000	2001	2002	2003	2004	2005
Environment-Friendly Products Development Ratio (%)	56	59	65	74	74	81
Number of Environment-Friendly Product Types	14	13	20	25	25	22
Orders (tons)	4,684	29,106	68,871	130,830	418,007	263,124

Environment-Friendly Products Development Ratio (%): The share of newly developed environment-friendly products out of the total new developments.

Beginning with development of Cr-free Continuous Galvanized Iron (CGI) and Electrolytic Galvanized Iron (EGI) in 2004, POSCO successfully developed Cr-free Hot-rolled Galvanized Iron (HGI) and Tin Plate (TP) in 2005. We also developed multi-functional products such as antibiotic steel sheets, which are expected to be applied widely to home appliances with the function of preventing propagation of colon bacilli and staphylococci by 99%.

POSCO contributes to the energy and cost savings of customer companies by developing environmentally friendly production technologies without heat treatment. New developments range from PFS-700, where preheating is not needed before welding; POSA1021B, a wire rod where Spheroidized Annealing can be omitted at the will of customer companies; and STS 410L, which converts BAF processes to continuous ones. In particular, POSA1021B lead to customers' cost savings because no heat treatment process is needed.

The corrugated multi-plate that POSCO and Pyungsan SI co-developed, gained the top prize in the civil resources division from the Korean Society of Civil Engineers based on the recognition of the sheets as an excellent new resource. The corrugated multi-plate is made from 3.2~7.0mm hot rolled sheet of which intensity is boosted with the wave shape and of which the surface is galvanized for higher decay-proof. The sheets are becoming more attractive as an eco-friendly structural material containing the least amount of natural aggregates and sands and is used in bridges, tunnels for roads and in expressways.

Recyclable Steel Cans

POSCO has made various efforts to expand demand for tin plates, which have many merits such as a reasonable production cost, for one. Workers in tin plate plants, quality departments, sales departments and the Technical Research Laboratories work together to provide products and services that meet the expectations of customers. As a result, POSCO expects Kimchi-cans to be commercialized in 2006 and is speeding up development of various new types of steel cans such as bottle-cans with a cap.

The main components of the steel used in steel cans are the same as that in the carbon steel used in automobiles, home appliances, and construction resources. Steel cans have greater value as recyclable resources because they contain fewer impurities. They are also environment-friendly in that cans can be repeatedly re-used in a wide range of steel products. The use of recycled steel scrap saves as much as 75% of the energy cost needed to produce steel from iron ore.

Modular Construction Method

The 'Modular Construction Method' enables the prompt, on-site assembly of steel material, minimizing waste during the construction process. Customized production is another potential of the new Method. POSCO anticipates a surge in demand for highly weatherproof hot-rolled iron.

POSCO has developed the Modular Construction Method since 2002 and is now in a position to commercialize it. We laid the institutional groundwork for the Method to be applied to governmental construction projects first, since the Method was designated as a new construction technology by the Ministry of Construction and Transportation in late 2004. POSCO plans to gain more ground in private construction markets by increasing the numbers of builders and producers who utilize the Method. POSCO applied the Method to the construction of six classrooms at the Shingi Elementary School in Seoul in 2003. In 2005, POSCO built barracks and extended eight classrooms of the Daejo Elementary School in Seoul using the Method.

SUPPLY CHAIN ENVIRONMENTAL MANAGEMENT

Highlighting environmental points in new supplier registrations and existing supplier assessments, POSCO is doing its best to establish an environment-friendly management system not only for POSCO, but for our entire supply chain.

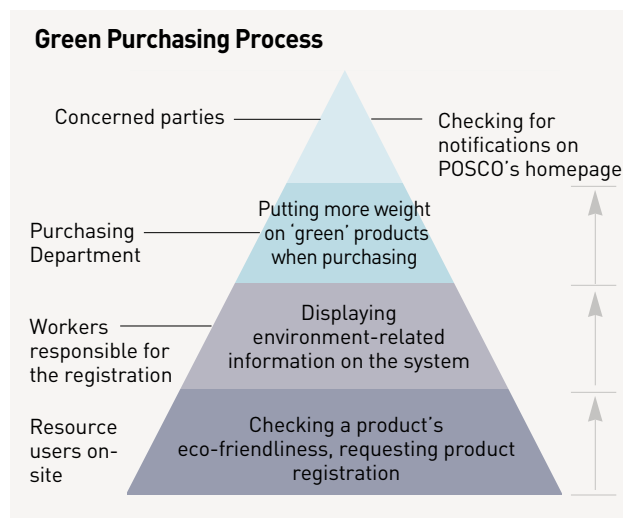
Green Purchasing

'Green Purchasing' is a system of purchasing products that save resources and create less pollution. POSCO signed a 'Green Purchasing Voluntary Agreement,' promoted by the Ministry of Environment. Under the Agreement, signatories are required to implement a process for the preferential purchasing of environment-friendly products and the transparent disclosure of these practices to a third party.

As part of these efforts, POSCO reformulated the item registration system for more systematic management of Green Purchasing and the specified the process. When new products are bought, the eco-friendliness of the contents is to be registered at the initial stage of registration, so that users and buyers can access the information. There are three types of environment-friendly products: Eco-Label Products, Products with Good Recycled (GR) labels, and Energy Efficiency Label Products, which are designated by the government. POSCO designated three other products itself: Restricted Substance Reduced Products, Disposal Substance Reduced Products, and others such as anti-fire products or products with foreign environmental labels. We purchased a total KRW81.7 billion worth of green products and expect to purchase KRW95.6 billion worth in 2006.

The existing Green Purchasing guidelines are a simplified version of the ones enacted in 2002 in order to be easier to follow. The guidelines include a Price Preference Rate, which provides systematic assistance to green product suppliers. Green Purchasing is included in the Enterprise Resource Planning (ERP) system to facilitate the Green Purchasing process.

As a result, POSCO earned a commendation from the Korean government in December 2005, for the best practice of Green Purchasing in the industry. We run a Green Purchasing Department, launched in January 2006, to systematically manage Green Purchasing.



Green Partnership Project

POSCO is participating in the 'Green Partnership Between Large and Small and Medium-Sized Companies Project' promoted by the Ministry of Commerce, Industry, and Energy and sponsored by the Korea Institute of Industrial Technology (KITECH) in order to implement environmental management systems in tandem with suppliers. During the project's first phase, from July 2003 to June 2004, we pushed ahead with a pilot project to solve on-site environmental problems in conjunction with 11 small- and medium-sized companies in the nation. During the second phase, from July 2004 to June 2005, we engaged in the development of clean production technology and supported the establishment of systematic environmental management strategies along with 13 local companies. Since September 2005, the start of the third phase, POSCO has been implementing many programs for clean technology transfers, ISO14001 certification, environmental reporting, and various support programs for acquisition of environmental labels.

ENVIRONMENTAL TRAINING PROGRAM

POSCO runs diverse environmental training programs for relevant workers. The workers exchange opinions on recent environmental issues, management activities, and technology trends through quarterly environment and energy technology sessions. They can also learn basic knowledge of environmental protection by an e-learning program. Since the program was launched in 2001, some 8,000 workers have finished the course, 1,115 in 2005 alone. We will expand the environmental training programs further, for example, by holding workshops for core engineers in 2006.

ECO-INDUSTRIAL PARK IN POHANG INDUSTRIAL COMPLEX

POSCO actively participates in the project in which the RIST is pressing ahead with construction of an eco-industrial park at the Pohang Industrial Complex supported by the Ministry of Commerce, Industry, and Energy. This scheme is to apply the workings of eco-systems in nature to industrial complexes. This eco-friendly scheme reduces pollutants by maximizing the recycling of byproducts through an exchange network. We will draw up measures for usage for the Pohang Works and re-use such byproducts as surplus steam and treated rainwater from the Works. POSCO is committed to minimizing the pollutants at the Pohang Industrial Complex by maintaining an efficient supply chain relationship for the securing of resources through the byproduct exchange system.

REGULATION COMPLIANCE

POSCO has set standards for pollutants and wastes that are more stringent than legal regulations, so as to boost the eco-friendliness of its products and to establish a complete and clean production system. We maintain thoroughness through regular measurements. Problems were noted in seven cases, such as a delay in reporting

the installation of emission facilities, out of a total of 64 inspections by relevant authorities, but we promptly undertook and completed appropriate corrective measures.

ENVIRONMENTAL PRESERVATION ACTIVITIES WITH ENVIRONMENT GROUPS

Gwangyang Works formed the Environmental Improvement Council with the Korean Federation for Environmental Protection, a citizens' environmental movement group, in May 2005. The council hosted explanatory meetings for local residents about environmental management of Gwangyang Works, helping them understand more. Of late, the council has been holding discussions to conduct activities to check the state of the environment in the Gwangyang area. In addition, the council has been conducting environmental protection activities in the Sueo Brook, a water source for Gwangyang citizens, in cooperation with local residents and citizens groups. At the same time, we have been holding underwater cleaning activities and projects to stock the sea with fingerlings in efforts to protect Gwangyang Bay, a fishing area for local fishermen.



* Cleaning Sueo Brook together with citizen groups.

ENVIRONMENTAL PERFORMANCE

POSCO has continued to invest in the reduction in pollutants and the development of green facilities in order to prevent pollution in the air, water, and soil. POSCO saves resources and energy through the recycling of byproducts from steelmaking and reduces the emission of pollutants. POSEPI discloses POSCO's environmental management performance in a transparent manner.

POSEPI

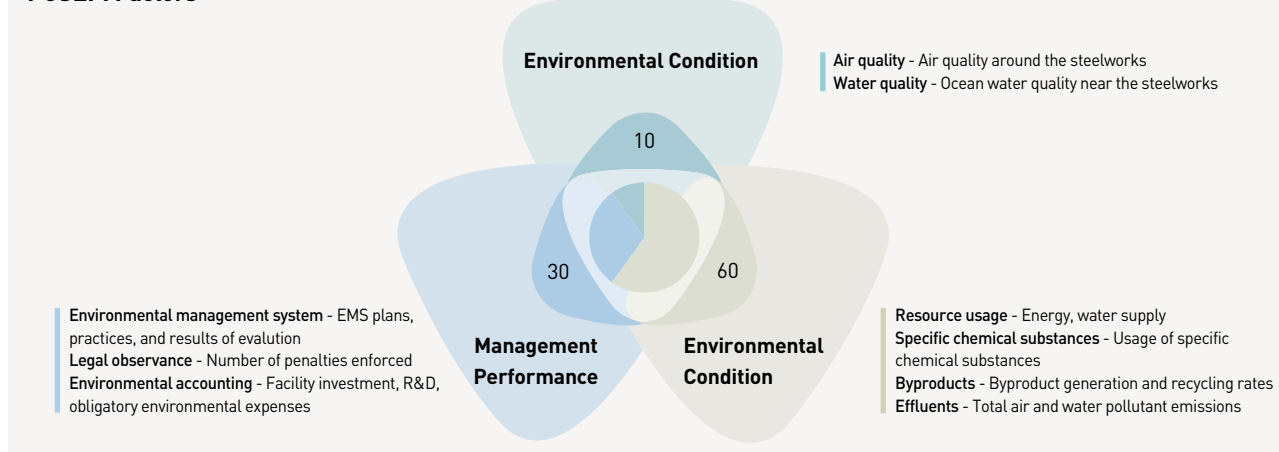
POSCO devised the POSCO Environmental Performance Index (POSEPI) in 2001 in order to assess and manage its comprehensive environmental management and to support reasonable decision-making of the management. POSEPI averaged achievements from 1997 to 1999 and made a basis point of 100. The index is used to

judge how much improvement was made compared to the basis point. Registered as the Balanced Score Card (BSC) of the Pohang and Gwangyang Works, the Index is used as data to appraise the management achievements of the two Works and the performances of workers.

POSEPI

Category	Reference year	2001	2002	2003	2004	2005
Operational performance	60	81	85	84	83	83
Management performance	30	30	35	38	39	41
Environmental conditions	10	10	8	8	9	11
Total	100	121	128	130	131	135

POSEPI Factors



AIR

Major air pollutants generated from steelmaking processes include dust, sulfur oxide (SOx), and nitrogen oxide (NOx). POSCO has continued to invest in technology development to reduce the amount and density of air pollutants.

The Amount of Air Pollutants

		[Unit: Kg/T-S]					
	Iron Works	2000	2001	2002	2003	2004	2005
Dust	Pohang	0.23	0.23	0.21	0.23	0.22	0.24
	Gwangyang	0.32	0.30	0.23	0.23	0.26	0.25
SOx	Pohang	1.40	1.29	1.17	1.16	1.07	0.52
	Gwangyang	0.89	0.74	0.71	0.71	0.79	0.61
NOx	Pohang	1.62	1.66	1.60	1.42	1.29	1.21
	Gwangyang	1.52	1.46	1.40	1.42	1.51	1.51

DIOXIN

The Stockholm Agreement regulating the volume of Persistent Organic Pollutants (POPs) such as dioxin went into effect in May 2004 after more than 50 countries ratified the Agreement. Since then, interest in dioxin has been increasing. Korea, as a signatory of the Agreement, plans to implement it in 2007 through the establishment of legal institutions and the ratification of the agreements after emission standards for related industries are set in 2006.

Along with environmental groups, POSCO signed a 'Voluntary Agreement for Reduction of the Emissions of Persistent Organic Pollutants (POPs)' led by the Ministry of Environment in July 2005. According to the Agreement, POSCO is expected to devise appropriate measures to reduce dioxin emissions and report its accomplishments to the Ministry. In this manner, POSCO continues to introduce state-of-the-art facilities, while decreasing dioxin emissions by improving the performance of the sintering dust collector and reducing the amount of chlorine in recycled water.

POSCO decided in 2002 to introduce the Activated Carbon Adsorption System, which is the Best Available Technology (BAT) facility to treat absorbed pollutants on activated carbon. The system is very advanced in that only some ten facilities are installed in sinter plants around the world. Investing KRW74.4 billion in installing the facilities in Sinter Plants Units 3 and 4 in Pohang, we have operated them since July 2004. As a result of pilot operations, POSCO witnessed reductions of 90% in SO_x and 40% in NO_x and less than 0.1ng-TEQ/Nm³ emissions of dioxin. In Gwangyang works, Selective Catalytic Reduction (SCR) type waste gas treatment facilities are being installed in all sinter plants and expected to be completed by 2007.

In 2004, POSCO developed technology to greatly reduce emissions of dioxin and SO_x by putting in NaHCO₃. This technology has been applied to all sinter plants of the Gwangyang works since December 2004, and was expanded to sinter plants units 1 and 2 of the Pohang Works in January 2005. Also, we have cooperated with the RIST since 2000 to develop factor input technology and activated carbon injection technology to reduce dioxins.

Ozone Layer Pollutants

POSCO has stopped using materials that damage the ozone layer, according to the Montreal Protocol, and now utilizes alternative materials. TCE, used for cleaning parts, and CFCs, refrigerant for air conditioning systems, have been completely replaced. POSCO plans to change halon for extinguishing facilities with alternative materials in the future.

TCE: Trichloroethylene

CFCs: Chlorofluorocarbons

FINEX was designated as one of top ten new technologies in 2004. (January 20, 2005)



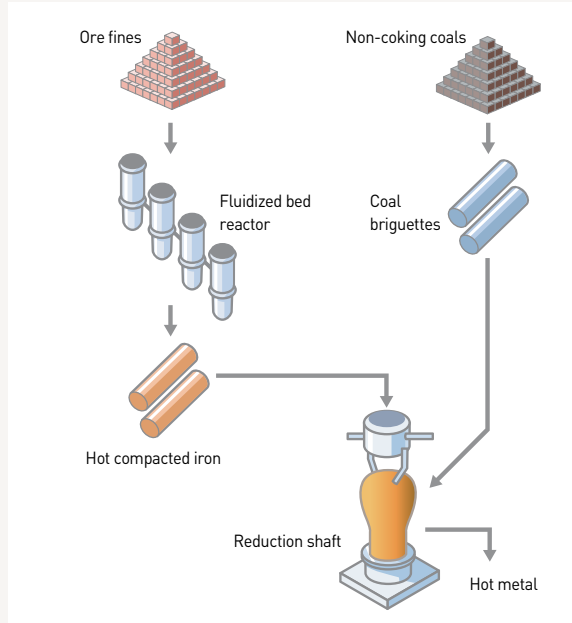
As existing processes cost more for additional facilities to manage pollutant emissions, and as quality iron ore and coal are being gradually depleted, the necessity for new steelmaking processes has heightened since the 1980s.

POSCO has engaged in the development of FINEX, a new iron-making technology, in tandem with RIST and Voest-Alpine Industrieanlagenbau (VAI), an Austrian steel facility producer. In some ten years of R&D, a 600,000 tons-per-year level demo plant was completed in June 2003, and now produces 850,000 to 900,000 tons of steel annually. We began to construct a 1.5 million tons-per-year level plant in 2004 and expect completion in late 2006.

The blast furnace process includes sintering and coke-making where air pollutants such as SO_x and NO_x are created, and consequently, this process requires many technologies and high costs for prevention of air pollution. On the other hand, the FINEX method permits the production of hot metals using cheap and abundant ore fines and steaming coals without pre-treatment, as required in sintering and coke-making. Therefore, the FINEX method can considerably reduce processing costs and pollutants compared with the traditional blast furnace method. As the global prices of quality raw materials for steelmaking surged in 2005, the FINEX method gained more attention from the world steel industry because of its use of cheap ore fines and low-level non-coking coals.

POSCO garnered the first Edison Award for Innovation for the FINEX co-sponsored by the U.S. Edison Foundation and Future Partner Foundation of AMCHAM in January 2006.

FINEX



The FINEX process discharges 6% of SO_x, 4% of NO_x, and 85% of CO₂ compared to the blast furnace process (explained in the picture)

Preservation of Youngil Bay and Gwangyang Bay

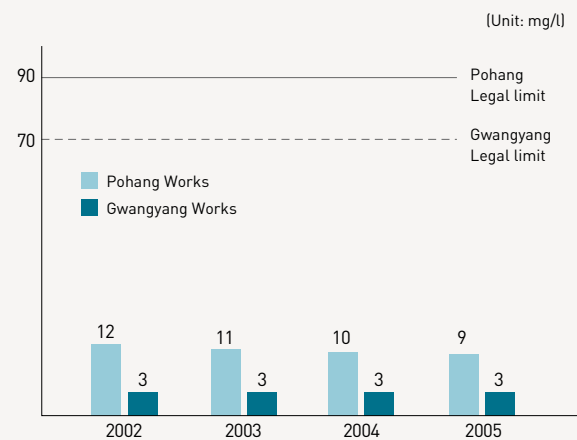
At POSCO, water used at each stage of the steelmaking process is initially treated in the wastewater treatment facility at each plant. More than 98% of the treated wastewater is reused in the operational processes of each plant and the rest is sent to the final wastewater treatment plant. Most of the secondarily treated wastewater is used within the complex for road cleaning and in raw material storage yards to prevent dust, and the remainder is discharged into the nearby sea.

In the coke-making plant at the Pohang Works and the final wastewater treatment plant of the Gwangyang Works, high-performance activated coal adsorption facilities are installed to minimize water pollutants. Pohang Works established a rainwater collection tank and changed the wastewater treatment facility in the iron and steel making area to a rainwater treatment facility for the purpose of preventing effluence of dirty water from the raw material yards. In 2005, POSCO invested in the building of wastewater treatment facilities for blast furnaces and secondary treatment processes, which handle wastewater from the first process at the iron and steelmaking plant. Gwangyang Works finished construction of the blast furnace wastewater treatment facility, a state-of-the-art biological treatment facility, on March 20, 2006. The works plans to install the recycling facility for discharge from wastewater facilities and improve wastewater treatment processes, aiming at a 30%

WATER

According to the European Integrated Pollution Prevention and Control Bureau, it generally takes 5 to 100 tons of water to produce one ton of crude steel using iron ore. The volume of water used in POSCO was 4.01 tons/T-S for the Pohang Works and 3.57 tons/T-S for the Gwangyang Works, which are much lower than the average. This feat is attributed to wastewater recycling and scientific water management. In 2005, POSCO was supplied with a daily average of 130,000 tons and 170,000 tons of water from the Youngcheon Dam and the Sueo Dam, respectively. The combined volume of water accounts for only about 2% of the steelworks' required needs. The remaining 98% of needed water supplies was supplemented by recycling. We are also doing our best to minimize the external water supply by developing underground water, recycling discharged water, and utilizing rainwater. We received a plaque of appreciation from the governor of Gyeongsangbuk-do Province for our contributions to water management and the local environment on the occasion of the 13th World Water Day, in March 2005.

Chemical Oxygen Demands (COD) Concentration in Effluents

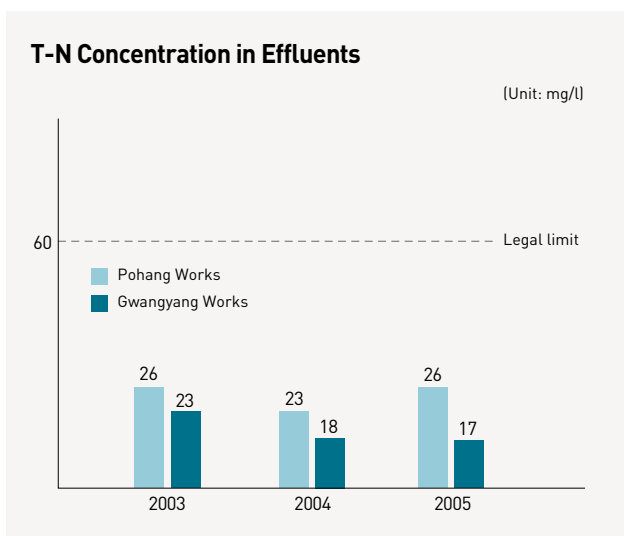


Water Use and Discharge

Category		2000	2001	2002	2003	2004	2005
Pohang	Water Use	3.36	3.52	3.74	3.85	3.96	4.01
	Discharge	1.75	1.53	1.53	1.67	1.76	2.00
Gwangyang	Water Use	3.49	3.43	3.36	3.49	3.64	3.57
	Discharge	1.16	1.05	1.14	1.31	1.31	1.30

Water Use: External supply + underground water and aboveground water

decrease of water discharge, thus decreasing effluents of COD, T-N, and heavy metals such as copper and zinc.



SOIL

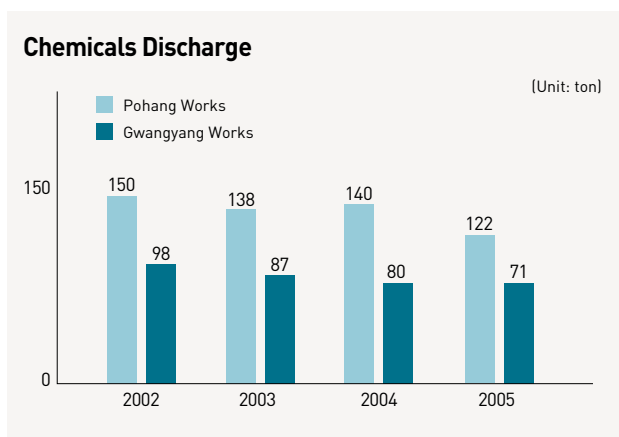
POSCO has enacted 'Management Standards for Soil Pollution at the Pohang and Gwangyang Works' and has implemented thorough management in order to prevent soil pollution accidents in advance and minimize damage for people and the environment in case of accidents. There are a total 1,320 sites of oil and hazardous materials facilities, facilities with the potential for soil pollution, according to the Soil Environment Conservation Act. We also carry out regular assessments on the sites. As a result of inspections of the works by Korea Environment & Water Works Institute, the results showed that there is no soil pollution attributable to steelmaking.

CHEMICALS

POSCO made a voluntary agreement to reduce the emission of chemicals with the government and civic groups in December 2004. This agreement in which 19 local companies are participating was dubbed the 'Chemicals Discharge Reduction 30/50' since it has goals of making 30% reductions in three years (by 2007) and 50% reductions in three years (by 2009).

POSCO introduced the Leak Detection and Repair (LDAR) system to reduce emissions of BTX and Ammonia from Coke plants. We are expanding the use of odor neutralizers in furnaces and will adopt a non-steam granulated slag production system to eliminate odor from the blast furnace area.

BTX: induced chemicals of Benzene, Toluene, and Xylene



Chemicals Discharge Reduction Activities

Category	Activities
Chemicals Generation	• Study on chemicals discharged from steel-making
Mechanism Research	• Study on odorous materials generation mechanism
Chemicals Discharge Reduction	• Replace non-leakage type pump in the coke-making plant
Facility Investment	• Install VOC collection pipelines in the coke-making plant
	• Install BET sealing facility and catalytic oxidation treatment units in the coke-making plant
Chemicals Management	• Install LDAR
System Introduction	• Operate portable VOC monitoring facility

VOC: Volatile Organic Compounds

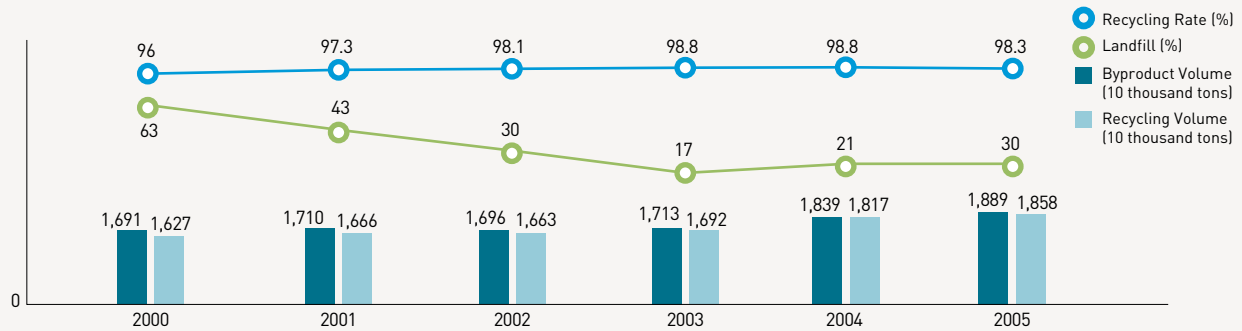
BET: Biological Effluent Treatment

BYPRODUCTS

The total volume of byproducts created during steelmaking at the Pohang and Gwangyang Works in 2005, reached 18.89 million tons,

74% of which was slag, with 45% blast furnace slag and 29% steelmaking slag, 16% dust and sludge, and the remaining 10% was other slag materials.

Byproduct Recycling Rate and Landfill

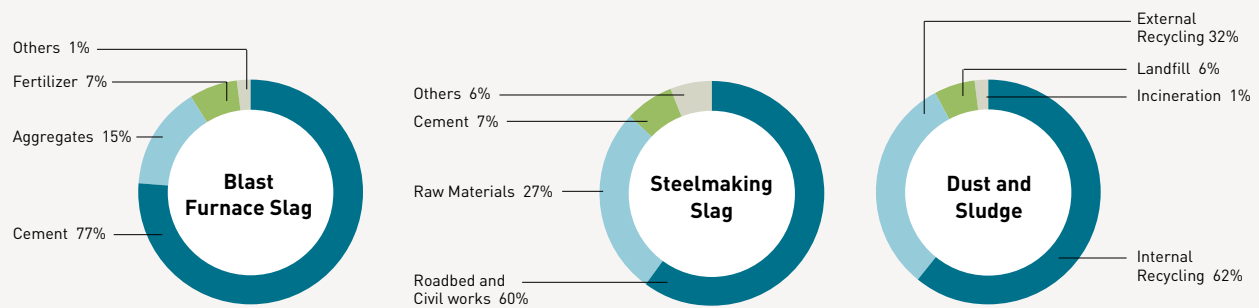


The landfill was calculated with the reference figure of 100 for the year 1999.

Blast furnace slag is used as a raw material for cement and fertilizers and is used to lay the ground for a site. Dust, sludge, and others are either recycled as main/sub raw materials or as raw materials for cement and fertilizers. About 98.8% of the total byproducts or 18.58 million tons are recycled as raw materials and the remainder is incinerated or solidified for landfill.

We also use stainless steel smelting furnace slag generated from increased stainless steel production by developing new uses for slag as fertilizers and cement admixture. POSCO endeavors to minimize landfill by expanding the external and internal use of dust and sludge. Bracing for more steelmaking, we plan to add more value by establishing a stable recycling system of byproducts and developing functional materials that reflect the traits of each byproduct.

Recycling Rate of Byproducts in 2005



ENVIRONMENTAL INVESTMENT AND COST

POSCO's environmental investment is focused on fundamental reductions rather than the treatment of pollutants. Our environmental investment accounted for 4.2% of our total corporate investment, or KRW127 billion. Since its establishment in 1968 until late 2005, POSCO has invested KRW2.7588 trillion in environmental improvement activities. This amount is equivalent to 8.7% of all investments made in facilities.

To maintain and manage environmental facilities, a total of KRW565 billion was expensed as environmental costs in 2005. The total is to be KRW627 billion with energy recovery cost and environmental R&D cost. By use, waste treatment accounts for 36%, air facility management cost 35%, water pollution prevention cost 19%, and others such as environmental R&D cost and energy recovery cost equaled 10%.

Environmental Investment at Pohang and Gwangyang Works in 2005

[Unit: KRW billion]

Category	Investment Activities	Amount
Air	<ul style="list-style-type: none"> • Installations of sintering dust collectors units 3 and 4 • Prevention of dust in raw material tanks of blast furnace units 2~5 • Revamping of incineration facilities 	70.0
Water	<ul style="list-style-type: none"> • Improvement of wastewater discharge system in iron & steel making areas and water discharge system in rolling areas • Installation of final wastewater treatment plant 3 	51.6
Recycling & Others	<ul style="list-style-type: none"> • Replacing STS byproduct treatment facility • Landscaping 	5.4
Total		127.0

Environmental Cost

[Unit: KRW billion]

Category	Items	2001	2002	2003	2004	2005
Environmental Facility Management	Electricity cost, maintenance cost, labor cost, etc.	247.4	258.3	296.6	264.9	225.1
Recycling	Byproduct processing cost, delivery cost, incineration/landfill cost, outsourced treatment cost, etc.	135.7	133.6	134.2	146.4	199.4
Depreciation	Environmental facility depreciation cost	123.0	114.3	119.9	126.3	115.0
General Management	Environment related department labor cost, water usage dues, etc.	6.5	11.9	20.5	21.0	25.5
Environmental R&D *	Environmental R&D cost					10.3
Energy Recovery *	Byproduct gas recovery cost, Recovery cost of hot water, steam, and power					51.7
Total		512.6	518.1	571.2	558.6	627.0

* Added in 2005 (ABM system used)



value movement

As a leading steel company in the world, POSCO continues to grow every year. POSCO's outstanding performances offer all stakeholders practical value and these achievements play a strong role in solidifying a foundation for future development. POSCO will secure its outstanding capabilities so as to achieve stable growth in rapidly-changing environments.



BUSINESS

58 Economic Performance

ECONOMIC PERFORMANCE

In 2005, POSCO posted 30.5 million tons and 28.7 million tons of crude steel, in terms of production and sales, respectively, in 2005. Sales of strategic products recorded 12.5 million tons, accounting for 44% of total sales. In addition, sales rose 9.6% to KRW21,695 billion while net income increased by 4.9% to KRW4,013 billion, showing a solid growth trend.

POSCO established and applies the Corporate Disclosure Guidelines to abide by disclosure items and procedures stipulated by related laws and regulations. Through the Disclosure Committee we strive to provide shareholders with substantial and accurate data. We also seek to increase the transparency of our accounting by allowing internal and outside lawyers and outside financial auditors to join in the deliberations of the Disclosure Committee. Disclosure is subject to internal controls through a set of disclosure controls while we share disclosure information with subsidiaries and affiliates.

Various financial indicators are included in POSCO's income statements, balance sheets and cash flow statements and these demonstrate our economic performances in terms of profitability, growth potential and stability. These financial indicators can be utilized to judge not only our current competitiveness, but also POSCO's future growth potential. The indicators are taken from the general results of various management activities such as production, sales, technological development, cost-saving and investment. Besides this, it is possible to understand POSCO's economic effects on stakeholders through financial indicators.

Economic Performance and Distribution



BUSINESS PERFORMANCE

POSCO's crude steel production in 2005 stood at 30.50 million tons, while sales dropped to 28.70 million tons from 2004. Among the sales, POSCO posted 12.50 million tons in sales volume of strategic products, a jump of 16% from 2004. Therefore, sales of strategic products rose to KRW21,695 billion, a rise of 9.6% from 2004 while the operating income was KRW5,912 billion, a jump of 17% from 2004. Despite the costs involved in restructuring our human resources and losses from a sell-off of investment in securities, we achieved sound performance of KRW4,013 billion in net income.

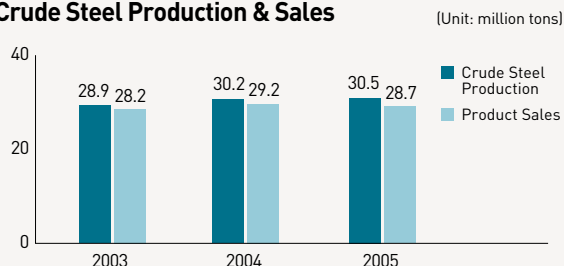
POSCO's earnings before interest, tax, depreciation and amortization (EBITDA) reached KRW7,393 billion and its EBITDA margin rate improved to 34.1% from 32.8% in 2004. The EBITDA judges the ability of companies to generate cash. With an increase

in the volume of equity, POSCO's return on equity (ROE) dropped to 22.5%, a small drop from 2004.

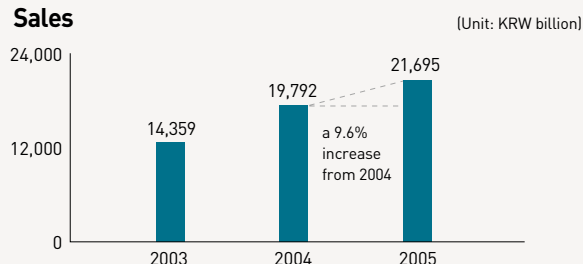
These strong business performances were achieved due to booming demand for steel in world markets until the first half of 2005 and due to POSCO's strategy to increase sales of high value-added products. In particular, POSCO's operating income-to-sales margin rate rose to 27.2% from 25.5% in 2004 and 21.3% in 2003, while remaining above 20% for three straight years. In 2005, Moody's raised its credit rating on POSCO to 'A2,' and Standard & Poor's raised its rating to 'A-.' These ratings are the highest in the world amongst integrated iron and steel companies and are an indication of POSCO's sound financial health. Such high ratings will enable POSCO to invest for growth without additional borrowing.

2005 Business Performances

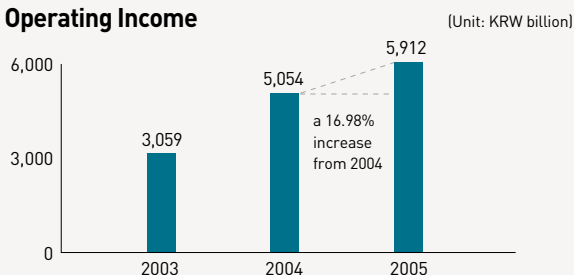
Crude Steel Production & Sales



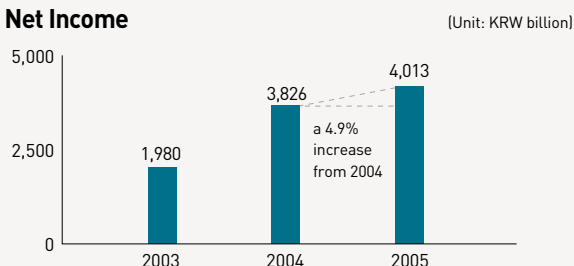
Sales



Operating Income



Net Income



Financial Highlights

(Unit: KRW billion)

Year	2003	2004	2005
Sales	14,359	19,792	21,695
Operating income	3,059	5,054	5,912
Net income	1,980	3,826	4,013
Operating margin	21.3%	25.5%	27.2%
ROE	16.2%	26.3%	22.5%
EBITDA	4,519	6,500	7,393
EBITDA Margin	31.5%	32.8%	34.1%
Interest-bearing liabilities	3,580	2,498	1,416
Shareholders' equity	12,958	16,110	19,522
Debt-to-equity ratio	42.1%	32.6%	24.0%

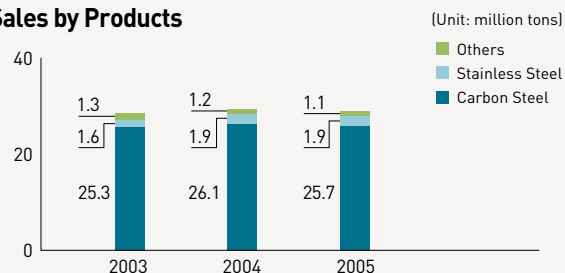
*EBITDA = Operating Income + Depreciation

SALES AND EXPORTS OF PRODUCTS

Constitution of Sales

According to strategies to develop, produce and sell strategic products, changes in the constitution of sales show a trend of declining sales of hot-rolled steel products and a rise in sales of cold-rolled and electrical steel products. In particular, sales of strategic products such as automotive steel and high-quality API steel increased 16% to 12.5 million tons from the previous year.

Sales by Products



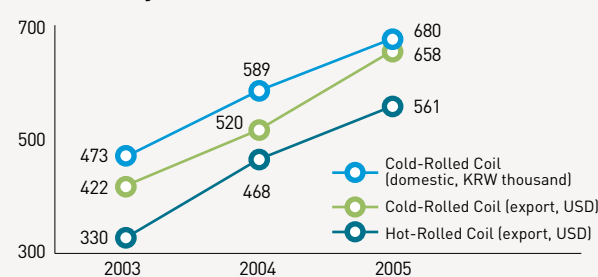
Proportion of Strategic Products



Product Prices

In 2005, POSCO adjusted product prices to reflect rises in the prices of materials such as imported coal and iron ore. We also sought to normalize the market distortion caused by gaps in prices of products in domestic and international markets. We tried to minimize rises in the prices of our products in consideration of the difficult business environments of our customers due to a slump in the construction market and the continuation of high oil prices. POSCO lowered prices of 11 products in September, 2005, and for 13 additional products in January, 2006, through the utilization of a flexible price system, which is operated for maintaining win-win relationships with valued customers in a long-term view.

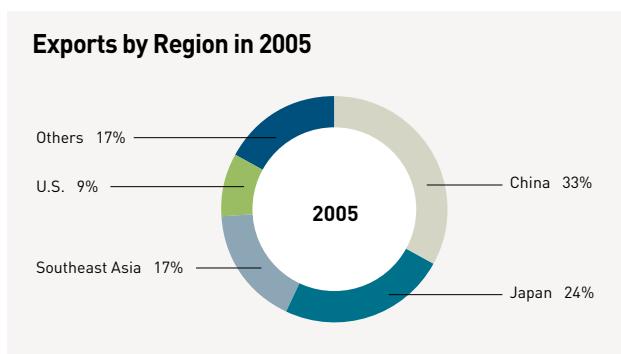
Prices of Major Products



Prices of Premier Products, FOB

Exports by Region

In 2005, exports reached 7.51 million tons while their portion of total sales increased 26.2%. Exports were shipped to about 60 countries around the world and the Asian region occupied a 73.4% share of the pie of the entire export region. Within Asia, China's share of total POSCO exports dropped slightly from 2004. POSCO seeks to develop export markets centered on regular customers, and in addition to major export markets such as China, Japan, and Southeast Asia, POSCO is steadily exerting itself to develop remote markets such as Europe, Central and South America and Africa.

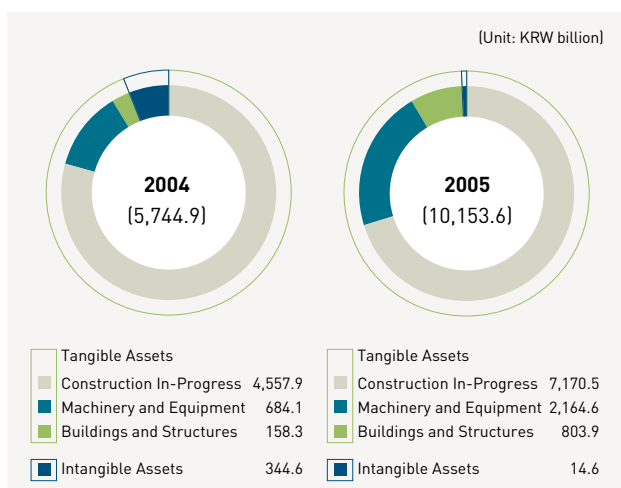


COSTS FOR MATERIALS AND OUTSOURCING SERVICES

Expenses to buy materials and outsourcing services in 2005 stood at KRW11,505.9 billion and took up 53% of total sales. Among these costs, raw material costs added up to KRW8,930.5 billion and other material costs came to KRW1,429.0 billion. By continuing a policy of raising costs paid to outside service partners so that their employees get paid more, POSCO's costs for outsourcing services amounted to KRW1,146.4 billion, an increase of KRW74.7 billion from 2004.

CHANGES IN ASSETS

Acquisition prices of such tangible and intangible assets as buildings, structures and fixtures stood at KRW10,518.2 billion, a 83% increase from 2004.



DIVIDENDS

The intention of POSCO's dividend policy is to maintain a stable dividend level on a long-term basis. At the general shareholders' meeting in February of 2006, it was agreed upon that KRW6,000, or 120% of the face value of a share would be the amount of the year-end dividend per share. If an interim dividend is included, the dividend per share is KRW8,000, or 160% of the face value. This amount was the same as that of 2004. In addition, we reserved KRW193.3 billion in 2004 and KRW191.5 billion in 2005 in appropriated retained earnings to ensure the stable payment of dividends in the future.

Dividend Payments

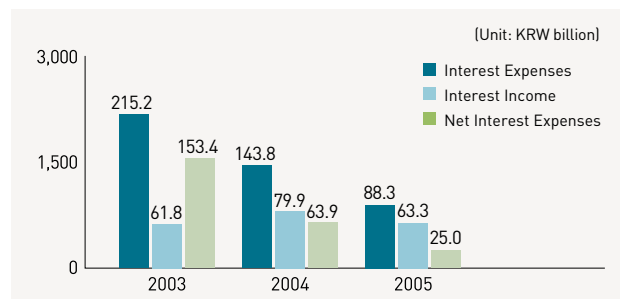
Year	2003	2004	2005
Dividend Ratio (%)	120	160	160
Dividend Per Share (KRW)	6,000	8,000	8,000
Interim Dividend Per Share (KRW)	1,000	1,500	2,000
Total Dividends (KRW billion)	485.1	644.4	638.4
Year-end Stock Prices (KRW)	163,000	187,000	202,000
Earnings Per Share (KRW)	24,306	47,331	50,670

TREASURY STOCK

POSCO sold off 1,325,800 treasury stocks to the Employee Share Ownership Association according to the Framework Act on Employee Welfare with a resolution of the Board of Directors. As of the end of 2005, the number of treasury stocks held by POSCO stood at 7,032,554 and voting rights are limited by the regulations of the Commercial Code. Accordingly, the number of shares eligible for dividends is 80,154,281.

INTEREST EXPENSES

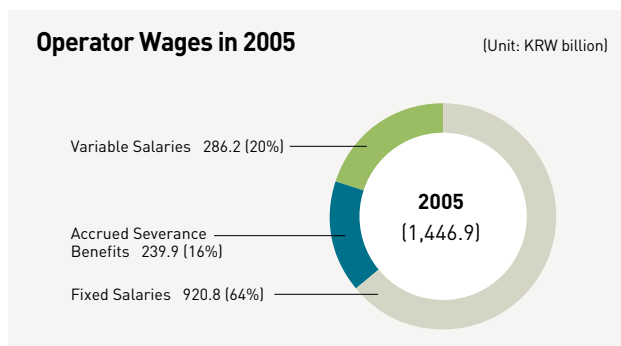
Interest expenses for debts stood at KRW88.3 billion, a drop of KRW55.5 billion from KRW143.8 billion in 2004. Considering the interest income of KRW63.3 billion, the net interest expenses were KRW25 billion, a drop of KRW38.9 billion from 2004.



WAGES

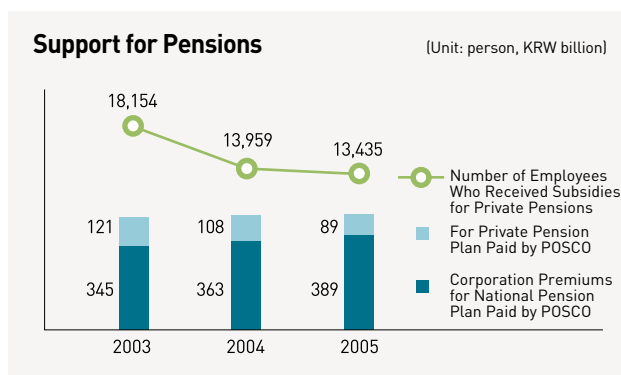
Economic benefits for employees are divided into two categories - wages and welfare. Total labor cost for 2005 added up to KRW1,446.9 billion and out of this, the cost of labor related to salaries was KRW1,207.0 billion except for accrued severance benefits. In recognition of the necessity facing large companies in

stabilizing wages and narrowing the gap between wages paid by large companies and those of small and medium sized enterprises, POSCO's labor and management agreed to increase the stability of employee wages by turning incentives into fixed salaries rather than raising wages. Thereafter, an increase in fixed salaries raised total wages by KRW87.7 billion from 2004.



PENSIONS

The pension system is divided into obligatory national pensions stipulated by law and private pensions invested in according to the choice of individual employees with assistance from POSCO. National pension premiums are determined by the average monthly wage, calculated based on the previous year's wages, and subtracted from the wages. In addition, POSCO assists employees in paying into the national pension system by providing an amount of money equal to that paid by each employee. We then send this combined amount as a premium to the National Pension Corporation on behalf of the employee. Premiums paid by POSCO in 2005 rose to KRW38.9 billion, an increase of KRW2.6 billion from 2004.



In the case of private pension plans, POSCO pays KRW55,000 in subsidies for employees who belong to such private pension plans. Such subsidies are available to employees who have belonged to private pension plans for periods upwards of ten years and whose monthly premiums are KRW110,000 or more. As of the end of December, 2005, the number of employees who received subsidies for private pension plans numbered 13,435 with the recipient ratio

at 70%. Subsidies provided for private pension plans in 2005 decreased by KRW3.2 billion from 2003, and by KRW1.9 billion from 2004. This decrease occurred because most of the 10-year support periods for employees who entered POSCO before 1980 expired in 2004 or earlier. Therefore, the total number of employees eligible for subsidies for private pension plans dropped.

TAXES

POSCO's contribution to the society is also made through taxes. In 2005, POSCO did not receive any grants from the central or local governments in relation to transactions of products and services. We did not receive any financial assistance such as special tax cuts exclusively for POSCO, except for deductions stipulated in tax laws. In March, 2005, POSCO received a prize in recognition of its total National Tax payments of KRW500 billion. The National Tax Service held a ceremony to celebrate the third Taxpayers Day in which POSCO was honored for its payments of KRW640 billion in Corporation Tax and a Special Tax for Agricultural and Fishery Regions in 2003.

Total taxes paid by POSCO in 2005 were national taxes of KRW1,370.3 billion, local taxes of KRW149.3 billion, and customs taxes of KRW49 billion for a total of KRW1,568.6 billion. Out of local taxes paid by POSCO, the amount paid to Pohang City equaled KRW74.2 billion, an increase of 46.9% from 2004. POSCO also paid Gwangyang City taxes of KRW66.7 billion, an increase of 53.3% from 2004. The income tax expense on the income statement dropped 4.7% to KRW1,341.3 billion from 2004.

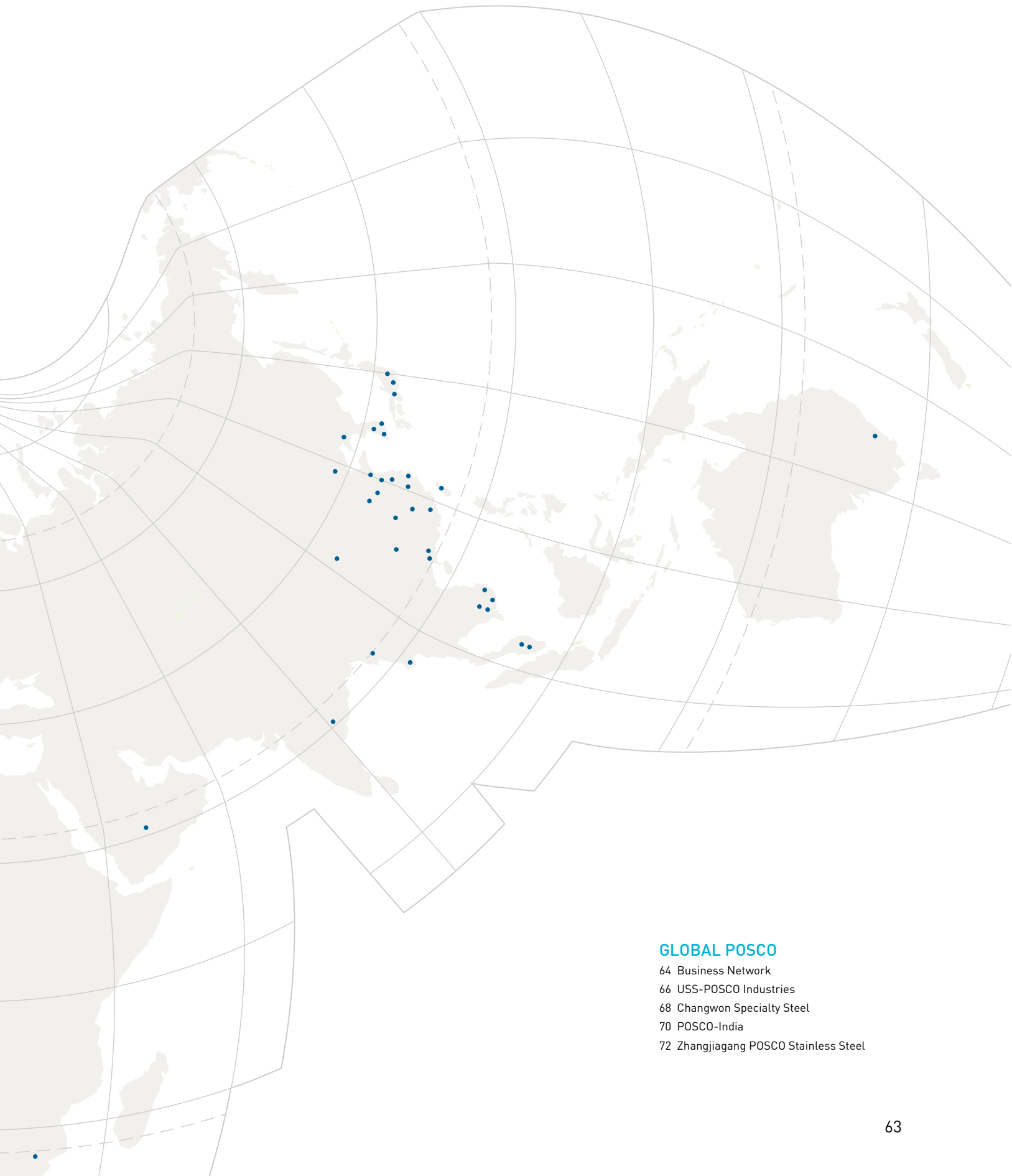
CONTRIBUTIONS

POSCO manages the giving of donations in accordance with the Regulations on Organization, Responsibilities and Authorities and the Operation Rules of the Board of Directors (BOD). The BOD makes decisions regarding donations of more than KRW1 billion and the Finance and Operation Committee examines and decides whether or not to support donations of between KRW100 million and KRW1 billion. The Committee also deliberates on the giving of donations of more than KRW1 billion. Support and donations equal to or over KRW10 million and less than KRW100 million are subject to the responsibility and authority of the Chief Executive Officer. Our donations to education and scholarships, the Labor Welfare Fund, and communities and citizens groups were KRW139.0 billion in 2005.



global movement

POSCO's management operates on a global scale, from making material purchases, to overseeing production and sales, to directing research and development. With the aim of securing POSCO's global competitiveness, we will raise production capabilities, improve technologies, and set prices in line with global trends. POSCO's new challenges begin with its big dreams - to be a leader in the world's steel industry and a global POSCO.



GLOBAL POSCO

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- 68 Changwon Specialty Steel
- 70 POSCO-India
- 72 Zhangjiagang POSCO Stainless Steel

BUSINESS NETWORK

POSCO has steadily promoted overseas investment since the 1980s. As of February 2006, the number of POSCO subsidiaries in foreign countries stood at 59 including 26 in China, and total overseas investment reached USD1.48 billion. POSCO's basic policy on the management of subsidiaries and affiliates, is to maximize corporate value by making such companies into partners of POSCO. Such moves help us to intensify POSCO competitiveness in steelmaking and solidify engines for growth in new industries.

POSCO is taking the lead in practicing sustainability management with its subsidiaries, at home and abroad. While recognizing corporate ethics as a vital part of POSCO, in order to establish corporate ethics in our corporate culture and as a footing for all management activities, we ceaselessly cooperate with and exercise managerial rights in 14 firms we hold a stake in. With the aim of boosting communications with such companies, so as to support their growth and enhance synergies between POSCO and its subsidiaries, we introduced an information sharing system for subsidiaries and affiliates in December, 2005.

In addition, in partnership with subsidiaries and affiliates, POSCO is actively involved in win-win and cooperative activities with small and medium sized enterprises (SMEs). After holding the first meeting of the SME Cooperation Committee between POSCO and its subsidiaries, we resolved to contribute to the raising of the competitiveness of SMEs and to develop mutual growth through support for SMEs. POSCO and its subsidiaries will continue to play a leading role in solving the problems of polarization between large companies and SMEs, which has become a serious social issue in Korea in recent times.

POSCO Subsidiaries

This list presents a summary of POSCO subsidiaries as compiled by the Fair Trade Commission, in terms of domestic and overseas sales and importance to POSCO and the economy.

As of December 31, 2005

Company	Summary of Business	Location
POSCO E&C	<ul style="list-style-type: none"> A general engineering and construction company Steel plants, roads, harbors, and railroads Songdo International City 	Korea
CS Steel	<ul style="list-style-type: none"> Industrial specialty steel such as stainless steel wire rods, tool steel and carbon and alloy steel 	Korea
POCOS	<ul style="list-style-type: none"> Aluminum/zinc plated steel sheets and color steel plates 	Korea
POSDATA	<ul style="list-style-type: none"> Development, maintenance and repair of POSCO's information and telecommunication systems Wired and wireless telecommunication equipments such as WiBro Computer hardware and software 	Korea
POSTEEL	<ul style="list-style-type: none"> Domestic sales of steel products and import/export agency business 	Korea
POSCON	<ul style="list-style-type: none"> Industrial electric control equipment A maintenance service of electric control facilities at Pohang and Gwangyang Works 	Korea
POSREC	<ul style="list-style-type: none"> Produces refractories and builds and maintains the stem and stern of a ship 	Korea
POSMEC	<ul style="list-style-type: none"> Maintains machinery facilities at Pohang Works Produces and installs steel production facilities 	Korea
POS-M	<ul style="list-style-type: none"> Maintains machinery facilities at Gwangyang Works Produces and installs steel production facilities 	Korea
POS-A.C.	<ul style="list-style-type: none"> Designing, supervising and offering of construction management (CM) services for steelmaking plants and general structures 	Korea

Company	Summary of Business	Location
SeungJu C.C.	• Manages sports facilities (membership golf courses) and tourist facilities	Korea
POSRI	• Research of corporate management and the steel industry	Korea
POSTECH VC	• Invests in and giving loans to business people or venture start-ups with promising new technologies	Korea
POSCO Terminal	• Manages the central terminal system (CTS) as a distribution center for coals and materials	Korea
Samjung P&A	• Provides wrapping services for POSCO products • Processes and sells aluminum	Korea
Dongwoosa	• Property rentals, maintenance and security at facilities, management of vehicles and insurance agencies	Korea
POSCO-China	• Invests in steel production and related businesses • Support sales of products of subsidiaries in China	China
POA	• Sells steel products in China, based in Hong Kong	Hong Kong
ZPSS	• Cold-rolled stainless steel and galvanized steel sheet	China
Qingdao Pohang Stainless Steel	• Cold-rolled stainless steel	China
Dalian POSCO-CFM Steel	• Galvanized color steel sheet	China
Shunde POSCO Coated Steel	• Galvanized, electrical, and color steel sheet	China
POS-SPC	• Processes and sells automotive steel • Supplies materials to carmakers near Shanghai	China
POSVINA	• Galvanized and color steel sheets	Vietnam
VPS	• Reinforcing rods, steel pipes and wire rods	Vietnam
Myanmar POSCO	• Galvanized steel sheet	Myanmar
POSCO-Japan	• Supports sales of steel products of POSCO and subsidiaries in Japan as a holding company	Japan
POS-TPC	• Cold-rolled products • Supplies materials to Thai automakers and auto parts companies	Thailand
POS-IPC	• Electrical steel sheets • Supplies materials to current transformer manufacturers near Mumbai	India
POSAM	• Sells steel products to the U.S. • Manages the UPI in the U.S. • Collects steel trade information	US
POSA	• Conducts joint-investment projects to develop mines in Australia • Trades metal materials and steel products	Australia
KOBRASCO	• Produces and sells pellets, a material for steel	Brazil
POSINVEST	• Financing, financial management, investments • Financial advice and collecting international financial information	Hong Kong
POSCO-India	• Is building an integrated steelworks and developing a mine for steel ore in India	India

USS-POSCO INDUSTRIES

UPI, a joint venture between POSCO and US Steel, produces 1.2 million tons of hot-rolled steel plates annually, which is supplied to the western U.S. To become the most competitive steel company, UPI pursues such values as safety, customer satisfaction, outstanding performances, high quality and respect for individuals.

USS-POSCO INDUSTRIES (UPI) is a 50/50 joint venture between US Steel and POSCO, established in April, 1986. Based in Pittsburg, California. UPI supplies cold-rolled steel, galvanized steel sheets and tin plates to more than 100 companies in 13 western states in the U.S. In providing maximum benefits to stakeholders, 800 employees produce 1.2 million tons of rolled steel annually.

Shipments and EBITDA (2003-2005), and Plan for 2006

Year	2003	2004	2005	2006(p)
Shipments (thousand tons)	1,236.5	1,386.8	1,153.1	1,286.5
EBITDA (USD million)	2.7	58.3	12.3	38.7

BUSINESS ETHICS

USS-POSCO sets high ethical standards, reinforcing for its employees the principles of respect, fairness, honesty, and trust. For the past three years, UPI has distributed handbooks and its Code of Business Conduct to all employees and conducted education against discrimination and harassment. We also offer education in legal responsibilities to new entrants and education in business ethics to all managers. In addition, all corporate policies, including those concerning conflicts of interest, harassment and discrimination, the use of the Internet and email, information security, the use of corporate assets, and financial responsibilities are available online.

ENVIRONMENT

The environmental policies of UPI can be summarized as 'continuous improvement of the Environment (CITE).' To realize this goal, we train employees to work in an environmentally sensitive manner. Moreover, we strive to minimize harmful wastes and risks related to environmental health and safety so as to reduce any impact on employees and the local community.

As early as 2003, USS-POSCO completed a full-fledged improvement project for eliminating polluted soil in a 150-acre site. In 2005, we had no recorded violations of the laws on hazardous materials and complied with 99.9% of the National Pollutant Discharge Elimination System Permit and 99.95% of the Title V Air Permit. We also earned environmental management system certification by achieving ISO14001.

HEALTH AND SAFETY

USS-POSCO's top priority is to protect the health and safety of its employees. Thus, we have implemented various projects to raise safety awareness over a three-year period. Employees regularly receive safety education, and to maintain our safety standards, we carry out audits including a USS audit of programs that have the potential for life threatening accidents. As a result, our Lost-time Injury Frequency Rate and OSHA recordable frequency rate are below the industry average of North America's steel industry.

Safety Statistics

Classification	2003	2004	2005	Average
Lost-time Injury Frequency Rate	1.09	0.83	1.1	2.2
OSHA	3.26	2.9	3.81	5.4

EMPLOYEES

Among employees, 76% or 622 workers are members of the United Steelworkers (USW). Members of this union are protected by a four-year labor agreement, which defines employment conditions. The current agreement expires on August 1st, 2008. Under the agreement, employees in the manufacturing sector receive hourly payments, incentive payments, and quarterly incentive payments. They are also given comprehensive health insurance, pension benefits, and paid leaves and can use a 401(k) retirement plan. 24% of managers and non-union members also receive similar benefits. The employees in the manufacturing sector can obtain additional pension coverage through a plan that accumulates 1% of their wages and UPI supports these plans by adding up to 6% of an employee's annual wages to a 401(k) plan.

UPI's policies including the labor agreement prohibit discrimination on the basis of race, color, faith, gender, religion, national origin, disability, pregnancy, military service, marriage, sexual orientation, and immigrant status, except for cases allowed by law.

Under the agreement between UPI and the USW, a Partnership Committee was established with three executives and three to six labor leaders. The Committee meets once a month to discuss matters of mutual interest, including safety, operating conditions, profitability, working environment, team activities, and joint events. In addition, the Committee selects five wage facilitators, four wage safety representatives, and three ISO coordinators and decides on their overseas activities. Those selected act to relay information to employees, executives and union members.

Furthermore, the labor agreement offers a Grievance Procedure in four steps. Unresolved issues between concerned parties should receive mandatory arbitration.

Other communication channels include the President's weekly update, weekly crew meetings, monthly business update meetings, a quarterly company newsletter mailed to the home, a quarterly business review meeting, and an annual meeting of all employees.

USS-POSCO encourages its employees to participate in 'continuous improvement team processes.' The team processes are conducted by five wage facilitators, who conduct most team processes, select participants and the best ideas, and hold meetings. In this process, employees and the six sigma support teams resolve all problems related to safety, quality, output, production procedure, inventories, and treatments of raw materials.

LOCAL COMMUNITIES

USS-POSCO actively seeks to improve the quality of life in local communities, based on a belief in corporate citizenship and responsibility. UPI is a sponsor of the Juvenile Diabetes Research Foundation (JDRF), and has collected USD100,000 for the Foundation to date. In addition, we participate in educational programs at local schools and participate in 'Habitat for Humanity,' a charity that seeks to improve housing conditions for low-income people.

USS-POSCO employees are members of the American Iron and Steel Institute (AISI) and the Workforce Development Board. Moreover, UPI is a member of the Pittsburgh Chamber of Commerce, the Contra Costa Council, and the East County Business-Education Alliance.

INTERVIEW

Robert R. Smith,
President, USS-POSCO Industries



Q: How did you overcome the challenges of working with people from a different country and culture?

There are many cultural differences between Korea and America, but in the case of UPI these differences were overshadowed by a strong desire to modernize the mill and build a successful business. Early on the Korean Cultural Center located in San Francisco did an excellent job introducing UPI's American work force to Korean culture and we utilized our world class Learning Center to conduct many cross-cultural training sessions.

Q: Who are the main stakeholders and what is UPI's policy for engaging and communicating with them?

UPI's mission is to conduct business in a manner that provides maximum value to our customers, owners and employees. UPI's commercial organization is in contact with our customers every day to discuss their steel requirements, bring them up to date on new developments at UPI and to determine the overall state of the western steel market. Our outstanding customer service organization makes sure that when a customer places an order they get their steel on time and that we remain flexible in meeting their changing needs. Together we try to find opportunities to improve the way we manufacture and deliver our products, and to improve our customers' manufacturing processes. We also invite our customers and their equipment operators to our plant to view every aspect of our operations and to talk with UPI employees about their requirements. I am proud to say that our excellent relationship with our customers has earned us their #1 ranking in customer satisfaction for many years according to the Jacobson & Associates Steel Customer Satisfaction Report.

My goal is to insure the safety of all of the men and women working at UPI and to make sure they remain fully informed about the condition of their company. Everyone is brought up-to-date on our safety performance, commercial position, the state of our operations, financial position and other items of interest. UPI employees come from several local communities, and we take pride in being good citizens locally and globally.

Q: What are the significant environmental and social issues with which UPI is faced?

At UPI we are proud of our ongoing program to restore, protect and monitor our environment. Our environmental management system has been recognized through several national and international awards, including the National Environmental Development Association for Outstanding Corporate Environmental Achievement. We are ISO 9001 and 14001 Certified and are proud of our excellent environmental record in a very stringent California regulatory environment.

CHANGWON SPECIALTY STEEL

Changwon Specialty Steel has three basic principles, these being quality, health and safety, and the environment. Based on these principles, we have set a management policy of maintaining mutually profitable win-win relationships with customers and stakeholders. To realize this systematically, we operate a comprehensive management system for quality, safety, and the environment.

Changwon Specialty Steel (CS Steel) was established in February, 1997, with the takeover of the steel bar and seamless pipe segment of SAMMI Steel. With a yearly production capacity of 800,000 tons of crude steel as of 2005, we produce stainless steel, and tool steels such as wire rods, flat bars, round bars and seamless steel tubes. CS Steel concluded several contracts for stainless steel production as well as quality improvement projects in 2005. In addition, we will have a capacity to produce one million tons of steel by 2008 through massive investment in facility revamping. Building on this strength, CS Steel holds to a vision of becoming the most competitive company in a value-added specialty steel industry.

Management Performances

Classification	(Unit: KRW billion)		
	2003	2004	2005
Sales	729.6	1,006.4	1,142.1
Operating Profit	10.0	57.5	56.3
Net Income	0.3	33.5	37.2
Assets	658.6	741.3	815.7
Liabilities	303.3	352.4	426.8
Capital	150.0	150.0	130.0

CUSTOMERS & STAKEHOLDERS

Business Ethics

In accordance with the management policy of its parent company, POSCO, CS Steel enacted a Code of Conduct in 2003. To ensure that the Code of Conduct effectively takes root in CS Steel's corporate culture, we have carried out a variety of programs such as employee training and activities for stakeholders to raise awareness of business ethics.

Customers

As specialty steels are core components for many industries, CS Steel makes all-out efforts to meet customer requirements for quality through the utilization of high-quality test devices and systematic testing procedures. We continually keep apprised of our customers' requirements through direct visits and customer satisfaction surveys. Moreover, we provide a real-time order tracking service from order to production to shipment through the eCS-net.

Employees

The representative organization that reflects the opinions of employees is the labor-management council. The council holds

weekly practical meetings as well as regular and extraordinary meetings, and convenes drafting councils by division. In addition, CS Steel collects employees' opinions through diverse channels such as workshops for labor leaders and department meetings with executives. We convene leaders' meetings with the labor union on a monthly basis, and strive to strengthen cooperation by encouraging union leaders to participate in the labor-management council. To deal with the complaints of employees, we run a Grievance Committee, and offer voice mail, direct mail, and email services. Complaints, requests and proposals go through a review process and are sent to the relevant departments. Employees then receive feedback and follow-up measures within two days.

Mutual Cooperation with Small & Medium-Sized Enterprises

CS Steel convenes a 'SME cooperation committee' on a quarterly basis with an executive in charge of planning and finance as the head of the committee. We have also prepared communication channels by employing a proposal system for outside service operators. CS Steel lowered its cash settlement standards to less than KRW10 million for suppliers, benefiting 208 companies. Moreover, we run a network loan system that provides loans for payment based on supply contracts. We support SMEs with the collection of a KRW15 billion fund.

Contributions to Local Communities

For building trust and maintaining cooperative relationships with local communities, CS Steel launched a volunteer group, which contributes to the development of local communities through the services and donations of employees. In 2005, 1,914 employees participated in a volunteer day on every third Saturday. Volunteers provided services at social welfare facilities and sisterhood villages and cleaned up beaches. Furthermore, CS Steel and its employees contributed KRW250 million to a campaign to help needy neighbors at the end of the year, and took part in the activities of the Beautiful Store, while collecting 1,975 items. We also provide scholarships to job training centers for industry-academia cooperation.

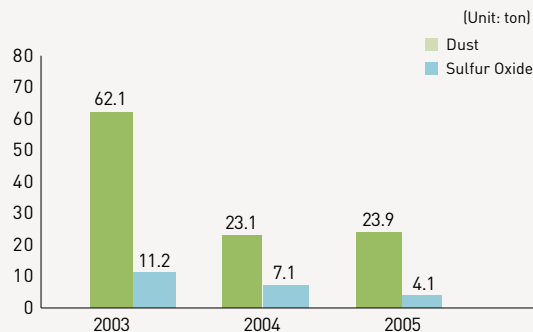
SAFETY & HEALTH

CS Steel established a Safety and Health System to effectively apply its Safety and Health policies and achieved KOSHA18001 certification from the Korea Occupational Safety and Health Agency. The Industrial Safety and Health Committee meets quarterly to discuss relevant issues in safety and health such as improving working environments and workers' health. The Committee consists of seven members from labor and management and the chairman of CS Steel and a representative of the employees are co-chairs. CS Steel conducts safety and health improvement activities through the six sigma management innovation system and comprehensively evaluates safety and health activities every quarter. Three risk management steps for securing safety are: systematic training for locating potential risks, the evaluation of risks, and the following of work standards. On the other hand, POSCO checks harmful elements in working environments and programs to take care of those in poor health and supports outside service partners such as offering information on, evaluation of and improving guides for safety and health activities according to agreements to assist safety and health management systems.

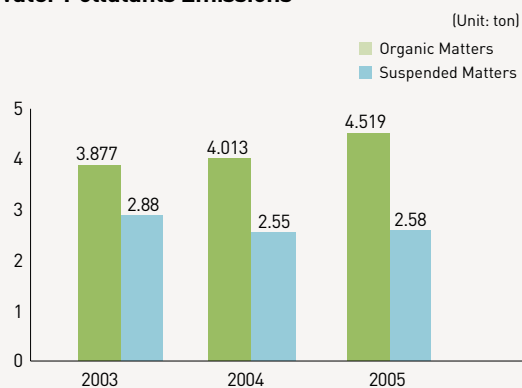
ENVIRONMENT

CS Steel devised an environmental policy and sets goals every three years for improving the environment. In addition every year we establish and put action plans into practice. In January, 2005, we unveiled the Environmental Objective Compliance Rate for company-wide use as our index for rating CS Steel's environmental protection activities and this will allow us to resolve problems noted through the evaluation system. The Environmental Objective Compliance Rate is stricter than current laws on pollutant emissions and is a combination of our own compliance rate, the real-time results of the Tele-Metering System (TMS), and the results garnered in evaluations by outside organizations. The average rate for the year 2005 was 98.3 to 100. The results of the TMS are disclosed to local agencies and the Environmental Management Corporation as well as on CS Steel's inside information network. After considering current trends in the environmental field and all requirements of stakeholders, CS Steel established a 5-year plan for developing green energy technologies. Thus, we are making every effort to commercialize green production technologies such as nitrogen-free pickling technology and salt bath treatments that avoid hexavalent-chrome wastewater. CS Steel obtained ISO14001 certification in 1996, and converted this into the newly revised ISO14001 certification in 2004.

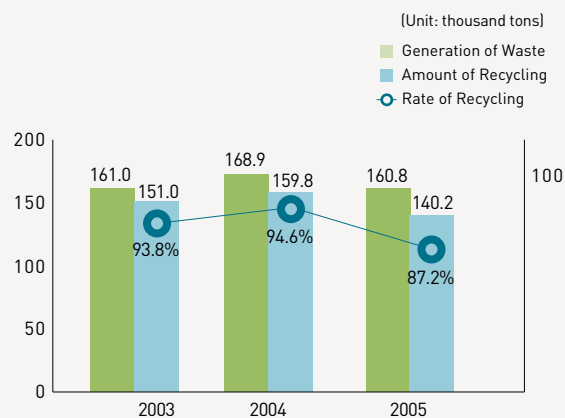
Air Pollutants Emissions



Water Pollutants Emissions



Recycling Rate of Waste Disposals



POSCO-INDIA

POSCO's construction of a steelworks in India is unprecedented in the history of the steel industry and has caught the attention of the world's steel industry. When the first phase of construction of POSCO India is finished in 2010, the steelworks will be able to produce four million tons of slabs and hot-rolled coils annually. Later, the production facilities will be expanded to produce 12 million tons.

Along with a paradigm shift in terms of competition in the steel industry, POSCO has utilized a global growth strategy in focusing on India. India is expected to maintain an annual economic growth rate of 5.5% by 2020 (according to Deutsche Bank, Mar. 2005). For steel consumption per capita, India is only at 31kg in 2005, well below the level of China's 207kg, and the United State's 409kg. Thus, its steel industry will grow dramatically in the near future. On top of this, POSCO's entry into India is a good investment opportunity for the securing of iron ore sources at a time when the securing of raw materials is an important factor that will determine the competitiveness of steel companies.

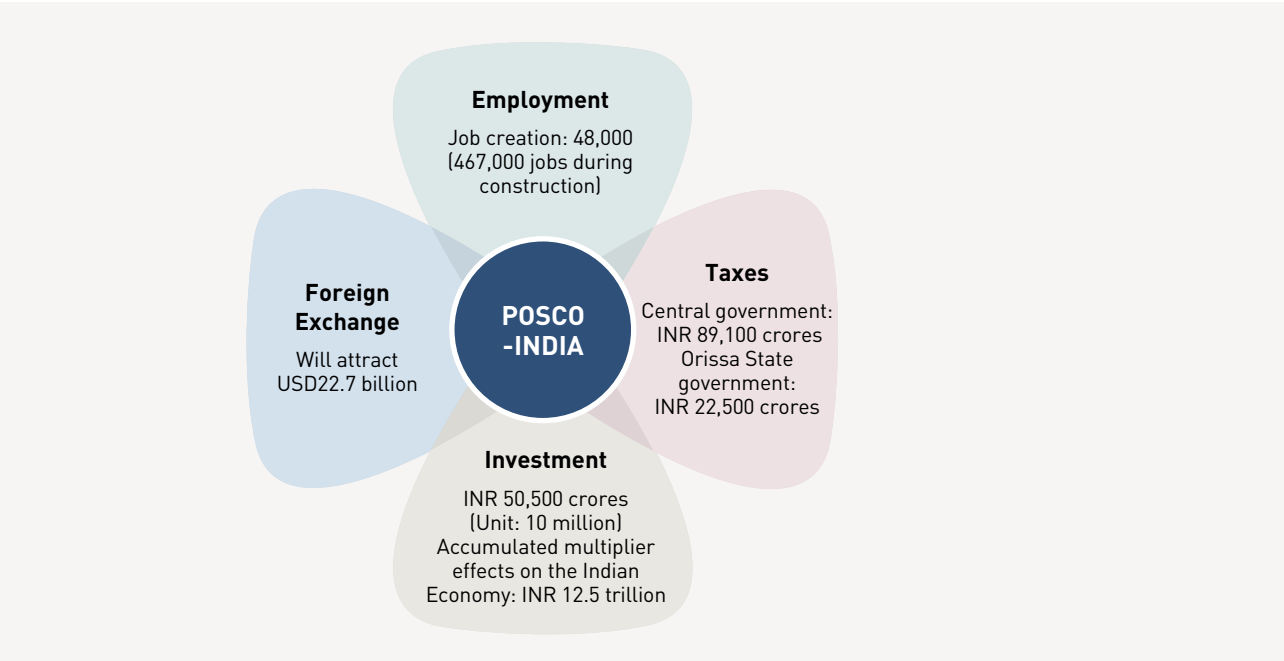
PROGRESS OF THE PROJECT

POSCO proposed the investment in India in August 2004. In June 2005, POSCO signed an MOU with the government of Orissa of India for construction of a steelworks and the development of a mine. We will first construct the steelworks at Paradip in Orissa, located in the northeastern part of India, and have production capability of four million tons of slab and hot-rolled coil by 2010. Production capacity will ultimately be expanded to 12 million tons. The first stage of construction will require USD3 billion in investment, and is

Aug. 2004	Proposed investment in India
Sep. 2004	Established JWG
Jun. 2005	Signed an MOU
Aug. 2005	Founded POSCO-India Private Limited
Sep. 2005	Applied for mining and exploration rights
Nov. 2005	Land purchase approved by the Orissa State
Dec. 2005	Project approved by the board of directors
Jan. 2006	Opened construction office in Paradip, Orissa
	Secure mining and exploration rights and purchase land.
Dec. 2010	Complete the construction

expected to reach USD12 billion overall. This will include costs for constructing such infrastructure as dedicated port and welfare facilities for employees as well as residential complexes. The government of Orissa promised to provide the mining right of 0.6 billion tons of iron ore, which could be used by POSCO over the next 30 years. The main project for 2006 is to secure mine exploration rights and purchase land.

EXPECTED BENEFITS



PROJECT IN INDIA & SUSTAINABILITY MANAGEMENT

The utilizing of sustainability management in India will be one of the most important factors in successfully completing POSCO's project. To this end, POSCO is actively meeting with many stakeholders in India. In particular, we have held on-going dialogues with the Indian government and the Orissa state government to enable the purchase of land, to aid in moving residents to other areas, to receive timely approvals for mining and exploration rights, and to construct infrastructure such as railroads and roads. Furthermore, in responding to groups in India that oppose the project, POSCO has participated in dialogues and described the benefits of attracting foreign direct investment in strengthening the competitiveness of local industry through the introduction of new technologies such as the FINEX process and mini-flat mills.

Environmental Factors

POSCO will strive to preserve the environment in India as it does in other workplaces. In particular, we will introduce the FINEX

process, which drastically reduces pollution emissions in comparison to a furnace process. The FINEX process is POSCO's innovative steel-making technology that dramatically reduces production costs as well as pollution emissions.

Social Factors

POSCO will contribute to the development of the Indian economy through the construction of an integrated steelworks. However, we expect that many environmental and social issues will be raised in relation to the moving of residents, and in handing out rewards for land at the early stages of construction. We will conduct socio-economic surveys and research best practices, and based on the results, will provide a most reasonable 'Resettlement and Rehabilitation Package.' POSCO will also take responsibility for the health, safety, and welfare of local employees and will enhance cooperation with local governments through various social contribution programs.

Social Cooperation Programs in India

Field	Action Plans
Educational Support	<ul style="list-style-type: none"> • POSCO Fellowship India (TJ Park Foundation) • Research support for humanity and social sciences and international forums (TJ Park Foundation) • POSCO Quiz Program (USD150,000 per year) • Support for books and teachers in areas near mines and steelworks (USD140,000 per year) • [long-term plan] Establishment of Technical Education Center (USD8 million)
Health Support	<ul style="list-style-type: none"> • Management of itinerate hospital (2 doctors, 2 nurses) • Supply of water services to areas with no access to water • Support for World Food Program (USD500,000 per year) • [long-term plan] Establishment of general hospital, voluntary medical service of Seoul National University
Social Infrastructure	<ul style="list-style-type: none"> • Establishment of street lamps on coastal road between steelworks and Paradip (6km) • Support for events at Hindu temples (USD10,000 per year) • [long-term plan] Partial participation in constructing direct road between Buba and Paradip, Support for welfare facilities

ZHANGJIAGANG POSCO STAINLESS STEEL

POSCO has been scaling up its investments in China since the middle of the 1990s in a bid to keep pace with the country's strong growth. Established in 1997, Zhangjiagang POSCO Stainless Steel (ZPSS), with an annual production capacity of 400,000 tons of stainless steel and zinc-coated steel plates, has grown steadily due to its comprehensive localization policy.

With drastic growth, China's steel market has been a driving force in the expansion of the world's crude steel production to more than 1 billion tons. In 2005, China became a net steel exporter despite ever-increasing demand, because of its aggressive expansion of domestic production facilities. Excess supply caused fierce competition, which caused a lowering of steel prices. This was one of the main reasons for the sluggishness of the steel industry in the second half of 2005.

POSCO has expanded its entry into China through vigorous investments since 1995 to respond to rapid growth in the Chinese market. With direct responsibilities for local communities, we established POSCO China, a holding company, in 2004, to more efficiently manage POSCO's investments. This means we are meeting new challenges in the Chinese market, which accounts for a quarter of the world's steel consumption. To date, we have four subsidiaries in China, including the Dalian POSCO-CFM Coated Steel Company.

Zhangjiagang POSCO Stainless Steel (ZPSS) was established with a capital investment of USD296 million in 1997, and POSCO and the Shagang Group invested 82.5% and 17.5% respectively. The Company has an annual production capacity of 400,000 tons, including 280,000 tons of stainless cold-rolled steel and 120,000 tons of zinc-coated steel plates.

Operational Performances

(Unit: thousand tons, USD million)				
Year	2002	2003	2004	2005
Selling	348	410	462	500
Sales	405	538	865	936
After-tax net profit	30	16	18	-44

INTEGRATED STAINLESS STEEL WORKS

To prepare for an increase in demand for stainless steel products in China, POSCO launched the construction of a plant for steelmaking, continuous casting, hot-rolled steel, and annealing and pickling. This plant is scheduled for completion in July, 2006. The project will establish an integrated production process for stainless steel for the direct manufacture of hot-rolled steel. Currently, stainless steel processes are completely dependent on imports due to a lack of an electric furnace. This project is in line with POSCO's policy of contributing to the development of local economies through the reinvesting of investment profits by expanding facilities. However, a cut in the price of cold-rolled steel and excessive facility investment by stainless steel suppliers are risk factors. Against this

background, we are preparing measures to manufacture differentiated products and to improve product quality.

HUMAN RESOURCES POLICIES

ZPSS focuses on securing and nurturing human resources for further growth. We recruit local residents through exchanges with schools so as to secure the needed labor force for plant expansions. At the same time, we run diverse educational programs for the benefit of existing and newly-recruited workers. The educational programs aim at offering the practical techniques needed for working effectively and efficiently in real operational situations. We also run visiting training programs to the Magang and Shagang Groups, and Pohang Works.

ZPSS actively seeks the localization of its labor forces in China. We search for and hire the most talented people available in China while presenting our vision of growth to local employees. We appointed a Chinese employee as a manager of the galvanizing plant in 2005. In the near future, we will set lower promotional limitations on local employees and appoint a local employee as a manager of the cold rolling mill.

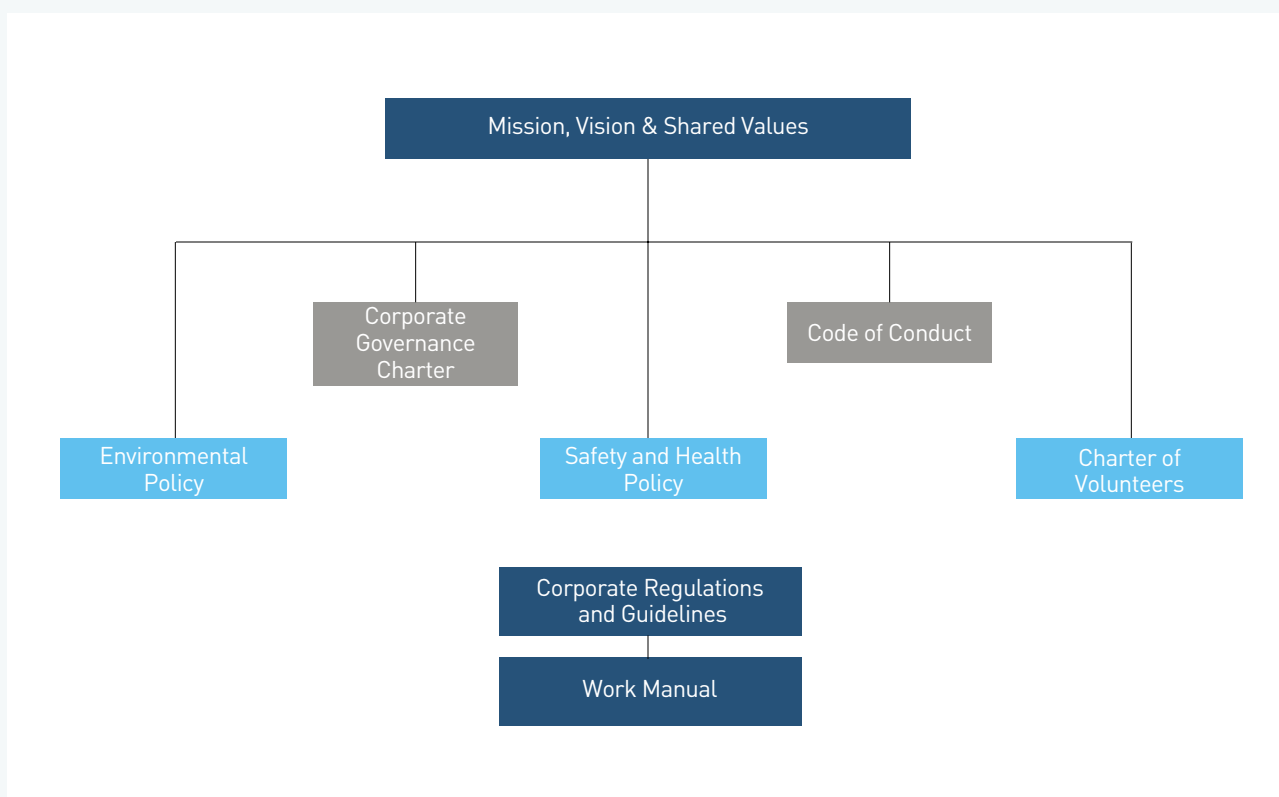
ENVIRONMENT AND SOCIAL CONTRIBUTIONS

ZPSS aims to realize the full localization of its operations through contributions to local communities while preserving the environment in China. Since the beginning of construction, POSCO has provided scholarships to people in local communities and conducts regional cooperative projects, which donate devices and resources such as computers to local schools and government agencies. In October 2005, Jiangsu Province selected 21 foreigners as 'Friends of Jiangsu Province,' including President Chung Keel-Sou, and offered each person a memorial tablet in a special ceremony.

ZPSS invests more than 4% of its total investments into the environment every year, leading to its appointment as an exemplary company for conserving the environment. We improved the efficient use of energy and product quality by taking energy tests at stainless annealing and pickling plants in 2005. Such efforts demonstrate our continual striving to improve the environment and to reduce the use of energy.

CHARTERS/CODES/POLICIES

We have various policies to cope with various issues evolving within and outside POSCO and to reflect POSCO's values in its work. These policies are distributed to employees in various forms and available on POSCO's website as well. Appropriate internal organizations and systems accompany the policies so as to be effectively incorporated into POSCO's operations, of which relevant activities and performances are delivered to stakeholders through the sustainability report.



	Contents	Web Site
Corporate Governance Charter	Raising shareholder value, roles of the BOD and management, timely disclosure of accurate information, and the composition and roles of the auditing body	Company → Corporate Overview → Corporate Governance
Code of Conduct	POSCO's responsibilities to stakeholders and ethical standards for employees	Company → Business Ethics
Environmental Policy	Emphasis on compliance with laws and regulations, minimization of environmental impact, the environmental management system and related activities	Sustainability → Environment and Energy → Environmental Management
Safety and Health Policy	POSCO's and employee responsibilities concerning safety and health at work sites	Sustainability → Safety and Health → Policies
Charter of Volunteers	POSCO's basic spirit and the code of conduct	Sustainability → POSCO Volunteers

REPORTING PROCEDURE

A sustainability report allows a company to communicate directly with various stakeholders, as such a report deals mainly with a company's economic, environmental, and social activities and performances. A sustainability report also acts to complement general financial reports in presenting a picture of a company's long-term value.

Of late, as companies face an increasing variety of management risks, often related to the companies' stakeholders, responsible management becomes a necessity. At the same time, as part of corporate social responsibilities, corporations are expected to address international issues such as climate change, poverty and disease, which may or may not be directly related to a company's business. Along with the change of perception, perspectives on corporate evaluation are changing as well. The sustainability report meets the need for disclosure of a company's related activities.

GUIDELINES

No mandatory guidelines exist for sustainability reporting, although POSCO has adopted guidelines from authoritative sources and uses examples to reference its performances. In preparing a sustainability report, a company needs to properly tackle the reporting standards, while allowing guidelines to evolve through communications with various stakeholders. We judged that it was necessary to establish solid internal guidelines in order to cope effectively with external changes.

Furthermore, during the assurance procedures for the 2004 Sustainability Report, KPMG suggested that POSCO devise reporting procedures and standards. This helps to improve the internal activities conducted by the company, and raises the credibility of the report's content.

REPORTING PROCEDURES

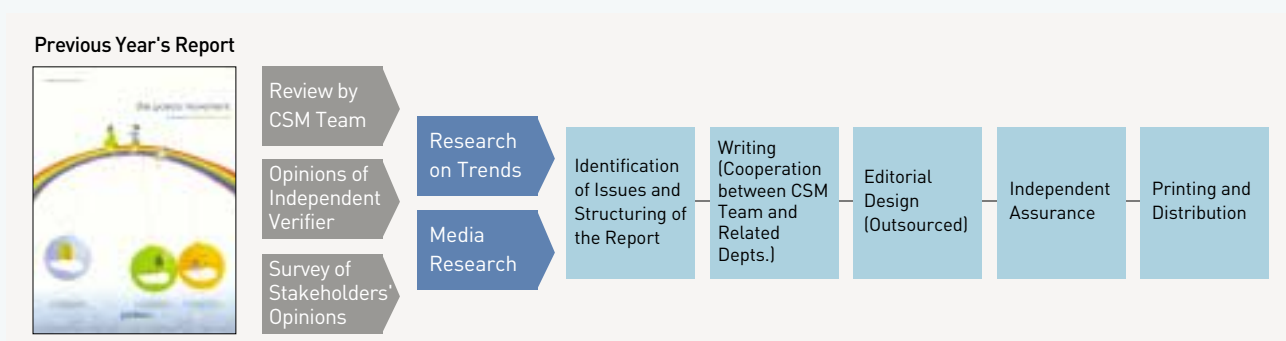
The CSM (Corporate Sustainability Management) Team of the Innovation Strategy Planning Group is responsible for planning the sustainability reporting and the team cooperates with other departments in the collection of data and the writing of manuscripts. POSCO published its first sustainability report in 2004 by combining its Environmental Report and Social Contributions

Report. In earlier sustainability reports, POSCO referred to external guidelines such as the GRI Guidelines and the assessment criteria of the SAM DJSI to select suitable content. Recommendations made by the independent verifier, stakeholder survey results and feedback on the website are used to determine the content for the next report.

After publication of the previous sustainability report, we surveyed 14 major stakeholders such as civil organizations, financial institutions, research institutes, representatives of employees, outsourcing service partners and sustainability management specialists. The survey provided POSCO with a wealth of information related to overall sustainability management and reporting. To choose issues to be included in the report, the CSM Team also conducted surveys, which included the reviewing of external trends and the media, as well as internal sources. With the information gleaned from these surveys, we chose the most appropriate items to be included in the report.

For instance, verification procedures and research on trends revealed increasing concern with climate change, and health and safety. Due to this, POSCO supplemented the material in the present sustainability report with extra material related to the aforementioned issues. During 2005, POSCO also determined that economic polarization and support for SMEs were important issues in society. This led POSCO to reinforce activities, approaches and policies regarding these issues, which were then highlighted in the current sustainability report.

A major concern of stakeholders was POSCO's subsidiaries, in particular, its businesses in China and India. Accordingly, the 2005 Sustainability Report includes material regarding POSCO's subsidiaries and provides information on steel industry subsidiaries by region such as Korea, the U.S., China and India. After receiving data and partial manuscripts prepared with an item-by-item guide from individual departments, the CSM Team then edited the report. POSCO entrusted an outsourcing service partner with the Korean-English translation and book design. Throughout these processes, the CSM Team worked in close cooperation with the outsourcing service partner.



INDEPENDENT ASSURANCE

POSCO has selected specific performance data and text to be subject to third party assurance. As last year KPMG was selected to perform the necessary assurance procedures. The section 'Request for Assurance' below provides more detailed information about the scope of the information selected for assurance and the reasons behind that specific selection.

Professionals from KPMG Netherlands and KPMG Korea visited the Pohang Works, Gwangyang Works and the Seoul office and carried out assurance procedures such as process reviews, interviews with employees and the collection of evidence. We also discussed KPMG's comments on the draft report text and made changes in the content. As a conclusion of the assurance process KPMG provides POSCO with a so called management letter, which includes key findings and recommendations for improvement in relation to POSCO's sustainability report, reporting process and sustainability management.

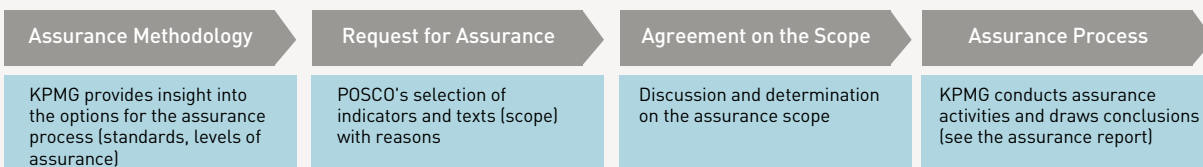
For a full understanding of the work undertaken by KPMG and their conclusions refer to the assurance report on page 76.

DISTRIBUTION

After completion of the assurance procedures, we put the report into print. Published reports are delivered to addresses on POSCO's distribution list. After a first mass distribution, reports are sent to those requesting them via telephone or the Internet. Through these processes, the sustainability report is distributed to financial institutions, civil organizations, governments and sustainability experts. In addition, copies of the report are sent to customers, suppliers and other related organizations through various departments.

When the report is published, website content is revised and updated to be in line with the new report. Readers can inquire about or request copies of the report through the website. Readers can also fill in feedback forms regarding the report on the website.

ASSURANCE PROCEDURE



REQUEST FOR ASSURANCE

POSCO published the 2005 Sustainability Report to provide stakeholders with transparent information on POSCO's activities and performance and to demonstrate its strong commitment to sustainability. In order to raise the credibility of our report we decided to obtain independent assurance from an experienced assurance provider, working in accordance with the ISAE3000 international standard. To this end, POSCO engaged KPMG, a company with extensive experience and specialized knowledge in sustainability report assurance.

We decided to ask KPMG to provide a combination of limited and reasonable assurance for selected text and performance data in the sustainability report. We have asked KPMG to provide us with reasonable assurance on the proper derivation of selected financial data from our financial statements. Furthermore, the list below provides an overview of the information selected for limited assurance and the reasons for selecting this information for assurance:

- **The total energy consumption data for the year 2005 and the text of the section Climate Change**
[Emphasis on climate change and energy management is a growing international trend and POSCO conducted a large number of activities related to these areas, which were then expanded upon in the report.]
- **SOx emission data of Pohang and Gwangyang works for the year 2005 and the text of the section Environmental Performances**
[Emissions of pollutants are a major concern for local residents. As communications with stakeholders increase, local residents and citizen groups have begun to request more information on the effects of POSCO's operations on the local environment.]
- **The text of the sections Safety and Health and Customers and Suppliers**
[Safety and Health have been identified as significant issues related to sustainable development. Cooperation with SMEs was also recognized as an issue of great importance, especially in Korea in 2005. Because of the rising importance of these issues, POSCO put more emphases on them in the report.]

ASSURANCE REPORT

To the readers of the POSCO Sustainability Report 2005

INTRODUCTION

We have been engaged by POSCO to review specified information in the POSCO Sustainability Report 2005 (further referred to as The Report). The Report, including the identification of material issues, is the responsibility of the company's management. Our responsibility is to issue an 'Assurance Report' in relation to the scope described below.

CONTEXT AND SCOPE

In The Report POSCO describes its efforts and progress in relation to sustainability and reporting. Our engagement was designed to provide the readers of The Report with:

- reasonable assurance on whether the data on financial performance, as specified in the section 'Work undertaken and conclusions' are properly derived from the 2005 Non-Consolidated Financial Statements of POSCO;
- limited assurance on whether:
 - the data on the total energy consumption and SOx emissions for Pohang and Gwangyang works for the year 2005 are reliable;
 - the information in the following sections of The Report is fairly stated:
 - Climate change (pages 40 to 43);
 - Environmental performance (pages 50 to 55);
 - Safety & Health (pages 22 to 23);
 - Customers and suppliers (pages 29 to 32).

'Fairly stated' means that the report properly reflects the information contained in the underlying sources such that it is consistent with the source information.

Reasonable assurance is a higher level of assurance than limited assurance, which is reflected in the nature and depth of the work performed.

To obtain a thorough understanding of the financial results and financial position of POSCO, the reader should consult the POSCO audited Non-Consolidated Financial Statements for the year ended 31 December 2005.

STANDARDS AND CRITERIA

We conducted our engagement in accordance with the International Standard on Assurance Engagements (ISAE 3000): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board. Amongst others this standard requires that:

- the assurance team members possess the specific knowledge, skills and professional competencies needed to understand and review the information in The Report, and that they comply with the requirements of the IFAC Code of Ethics for Professional Accountants to ensure their independence;
- when providing limited assurance, which is a lower level than reasonable assurance, a negative form of conclusion is used.

There are no generally accepted standards for reporting sustainability performance. POSCO applies its own internal sustainability performance reporting criteria, in addition to using the 2002 Sustainability Reporting Guidelines of the Global Reporting Initiative.

CONSIDERATIONS AND LIMITATIONS

Environmental, health, safety and social performance data are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

WORK UNDERTAKEN AND CONCLUSIONS

Financial Data

We have reconciled the data on financial performance for the year 2005 listed below, with the audited 2005 Non-Consolidated Financial Statements of POSCO.

- Sales, Operating income and Net income on page 58 and 59;
- Shareholders' equity on page 59;
- Interest expense, Interest income and Net interest expenses on page 60;
- Income tax expense on page 61.

Based on the above, the data on financial performance, as specified above are properly derived from the 2005 Non-Consolidated Financial Statements of POSCO, for which the independent auditors issued an unqualified audit opinion dated January 26, 2006.

Total energy consumption and Gwangyang and Pohang SOx emission

For the reliability of the data on the total energy consumption and SOx emissions for Pohang and Gwangyang works for the year 2005 we conducted:

- visits to Pohang Works, Gwangyang Works and POSCO Center;
- reviews of:
 - the data reported by the sites;
 - the systems used to generate, aggregate and report these data;
 - the internal controls at site level;
 - the calculations made at corporate level.

Based on the above, the data on the total energy consumption and SOx emissions for Pohang and Gwangyang works for the year 2005 do not appear to be unreliable.

Specific Sections

For the information in the sections of The Report, as specified above under 'Context and scope' we conducted:

- a media and internet search in relation to POSCO to obtain insight into the relevant sustainability aspects in the reporting period;
- a review of the systems and processes used to generate this information;
- a review of internal documentation and intranet sources;
- interviews with staff in order to assess the information included in the specific sections.

Following our review we discussed changes to the specific sections with POSCO, and reviewed the final version of The Report to ensure that it reflected our findings.

Based on the above, the information in the sections 'Climate change', 'Environmental performance', 'Safety & Health' and 'Customers and suppliers' does not appear to be unfairly stated.

COMMENTARY

Without affecting the conclusions presented above, we would like to draw readers' attention to the following:

Compared to the Sustainability Report 2004, POSCO has expanded the content of the report with sustainability information about selected subsidiaries. We recommend POSCO to extend the scope of its reporting on sustainability performance indicators to the subsidiaries where it exercises managerial rights and develop reporting criteria to support the reporting process. Furthermore we recommend POSCO to include information in its sustainability report about the management of sustainability issues in its supply chains for raw materials.

We have discussed our observations regarding the reporting process and report outside the scope of our assignment with POSCO management. We found them receptive to our comments.

Seoul, 10 June 2006



KPMG Samjong Accounting Corporation
Lee, Chang-Soo, CPA



KPMG Sustainability B.V.
Prof. Dr. George C. Molenkamp

GRI CONTENT INDEX

● Reported ● Partly Reported ○ Not Reported

GRI	Content	Page
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1.2	Statement from the CEO	● 4
2.1	Name of the reporting organization	● 0
2.2	Major products and/or services	● 6
2.3	Operational structure of the organization	● 6
2.4	Major divisions, operating companies, subsidiaries and joint ventures	● 6, 64-65
2.5	Countries in which the organization's operations are located	● 6, 64-65
2.6	Nature of ownership; legal form	● 12-13
2.7	Nature of markets served	● 4, 6, 60
2.8	Scale of the reporting organization	● 6, 24, 59
2.9	List of stakeholders	● 10-11
2.10	Contact person(s) for the report	● 83
2.11	Reporting period for information provided	● 0
2.12	Date of most recent previous report	● 0
2.13	Boundaries of report	● 0
2.14	Significant changes that have occurred since the previous report	○
2.15	Basis for reporting on joint ventures, subsidiaries, etc., that can affect comparability	● 0
2.16	Explanation of any restatements of information provided in earlier reports	● 22
2.17	Decisions not to apply GRI principles or protocols	● 0
2.18	Criteria/definitions used in economic/environmental/social accounting	● 0, 55
2.19	Significant changes from previous years in the measurement methods	● 33
2.20	Policies and internal practices for assurance about accuracy, completeness and reliability	● 74-75
2.21	Policy and current practice with regard to independent assurance	● 75
2.22	Means by which report users can obtain additional information	● 83
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3.3	Process for determining the expertise that board members need to guide the strategic direction	● 12-13
3.4	Board-level process for overseeing the organization's identification and management of risks and opportunities	○
3.5	Linkage between executive compensation and achievement of the organization's goals	● 12-13
3.6	Organizational structure and key individuals responsible for sustainability related policies	● 18
3.7	Mission and values, codes or principles, policies and status of implementation	● 6, 73
3.8	Mechanisms for shareholders to provide recommendations to board of directors	● 12
3.9	Basis for identification and selection of major stakeholders	● 10
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3.12	Use of information resulting from stakeholder engagements	● 10-11
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3.14	Subscription to externally developed, voluntary charters, sets of principles, or other initiatives	○
3.15	Principal memberships in industry/business associations, and/or national/international advocacy organizations	● 18
3.16	Policies and/or systems for managing upstream and downstream impacts	● 14, 29-30, 47-49
3.17	Approach to managing indirect impacts	● 58-61
3.18	Major decisions regarding the location of, or changes in, operations	● 4, 70
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4.1	GRI content index	● 78-79
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EC1	Net sales	● 59
EC2	Geographic breakdown of markets	● 60

*2.14: No serious change
 *3.4: Considered with general matters and has no additional processes
 *3.14: Not available
 *EC4: Not aggregated
 *EN1: Refer to POSCO Fact Book
 *EN2: Not aggregated

*EN4: Not aggregated
 *EN6, EN7: Not available
 *EN15: All steel products are recyclable. Data on the ratio of recycling is not aggregated.
 *LA8: It is a main medical checkup, but there is no precautionary policy or program.

*HR2, HR3: Indirectly handled in the Code of Conduct. No special procedure to consider human rights only.
 *HR5: Guaranteed by law. No internal policies
 *PR1, PR3: As products are capital goods, no pertinent data is available.
 *PR2: Not reflected in the current report.

GRI	Content	Page
EC3	Cost of all goods, materials, and services purchased	● 60
EC4	Percentage of contracts that were paid in accordance with agreed terms	○
EC5	Total payroll and benefits broken down by country or region	● 60-61
EC6	Distributions to providers of capital broken down by interest/dividends	● 60
EC7	Increase/decrease in retained earnings at end of period	● 60
EC8	Total sum of taxes of all types paid broken down by country	● 61
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EC10	Donations to community, civil society, and other groups	● 61
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EN4	Indirect energy use	○
EN5	Total water use	● 52
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EN16	Incidents of and fines for non-compliance associated with environmental issues	● 49
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LA2	Net employment creation and average turnover segmented by region/country	● 24
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LA4	Policy and procedures involving information, consultation, and negotiation with employees	● 25-26
LA5	Practices on recording and notification of occupational accidents and diseases, and their relation to ILO Code	● 22
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READER FEEDBACK SURVEY

POSCO sincerely cares about the opinions of its readers and we request that you fill out this questionnaire regarding this sustainability report. Please complete this short survey regarding the report and send by mail or fax, so that we can improve POSCO's future sustainability reports. The fax number and address follow the survey. If you prefer, the questionnaire is also available at POSCO's website (www.posco.com).

1. Which of the following applies to you?

- | | | |
|--|--|---|
| <input type="checkbox"/> POSCO Employee | <input type="checkbox"/> POSCO Shareholder | <input type="checkbox"/> POSCO Customer |
| <input type="checkbox"/> POSCO Supplier | <input type="checkbox"/> Citizen's Group | <input type="checkbox"/> Local Resident |
| <input type="checkbox"/> Investment Expert | <input type="checkbox"/> Student or Academic | <input type="checkbox"/> Other: _____ |

2. What are your major areas of interest?

- | | | |
|--|--|--|
| <input type="checkbox"/> POSCO | <input type="checkbox"/> Environmental Sector | <input type="checkbox"/> POSCO's Social Sector |
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3. How useful was this report to you? Please indicate on a scale of 1 to 5.

Sustainability	(Unsatisfactory)	1	2	3	4	5	(Satisfactory)
Humanity	(Unsatisfactory)	1	2	3	4	5	(Satisfactory)
Nature	(Unsatisfactory)	1	2	3	4	5	(Satisfactory)
Business	(Unsatisfactory)	1	2	3	4	5	(Satisfactory)
Global POSCO	(Unsatisfactory)	1	2	3	4	5	(Satisfactory)
Editing and Design	(Unsatisfactory)	1	2	3	4	5	(Satisfactory)

4. Is there anything that you would like to see included or changed in future editions of this yearly report?

5. How well does POSCO's 2005 Sustainability Report compare to other sustainability reports that you have read?

(Poor) 1 2 3 4 5 6 7 8 9 10 (Excellent)

7. If you have further comments, please feel free to add them here.

Please include the following contact info. Thank you.

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POSCO'S PREVIOUS REPORTS ON SUSTAINABILITY MANAGEMENT

Reports on Activities and Performances of POSCO's Sustainable Management

POSCO wants to make efforts together for the sustainable development of humankind by offering information transparently and conducting active communication for all stakeholders.



Environmental Report 1995~2003

POSCO published Environmental Reports from 1995 to 2003, describing the activities and performances of its environmental management, which was put into place since its foundation. Through these reports, environmental information of POSCO's head office, Pohang and Gwangyang Works was provided to the stakeholders, and their feedback was reflected in our environmental management.

Social Contributions Report 2003

In 2003, we published a Social Contribution Report, which was a compilation of social contribution activities conducted since the time of POSCO's founding. It contained our efforts for mutual growth with the society through activities in the fields of education, athletics, culture, social welfare and volunteering.

Sustainability Report 2003~2004

Since 2004, POSCO has published a Sustainability Report, which includes content from the Environmental Report and the Social Contribution Report. The Sustainability Report, which describes the activities and performances of POSCO's efforts for sustainability management over the period of a year, is subject to international guidelines and verification by an independent organization.

Our 2004 Sustainability Report, published in 2005, received the Best Environmental Report Award from the Korea Green Foundation and the Best Green Report Award of the Korea Green Management Excellence Awards from Korea Management Association Registration & Assessments Inc.

FORWARD-LOOKING STATEMENTS

The POSCO Sustainability Report 2005 contains forward-looking statements to provide a value-added account of our sustainability activities. These forward-looking statements reflect our current views with respect to future events and performances, and are generally identified by the use of forward-looking terminology such as 'anticipate,' 'believe,' 'assume,' 'will,' 'plan,' and other similar expressions. Such statements are included in the discussion of our business strategies and operations, performance goals and targets, and business plans, including research & development and investments, among other things. In addition to the foregoing factors, detailed descriptions of certain risks and uncertainties, which may cause actual results to differ materially from those forecasted, can be found in the section captioned 'Risk Factors' in our annual Form 20-F deposited with the U.S. Securities and Exchange Commission. You are cautioned not to place undue reliance on these forward-looking statements, which reflect management's current analysis of future events. We undertake no obligation to publicly update or revise any forward-looking statements to reflect subsequent events after the publication of this report.

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