

SUSTAINABILITY REPORT 2006

posco



## About the Report

This is the fourth annual sustainability report issued by POSCO. It responds to the concerns and information needs of our stakeholders and explains our activities geared toward sustainable development. We strived to help stakeholders in their decision-making process through balanced and transparent reporting. Our standardized internal procedure has been adopted for content development. The selected content of the report was verified by third party.

This report covers POSCO's activities during the period from January 1 to December 31, 2006. There are no changes in standards for reported data from previous reports unless otherwise specified.

This report contains activities and performances related to sustainability covering Pohang and Gwangyang Works, Pohang Head Office and Seoul Office. Also included are activities of POSCO's major subsidiaries in Korea, India and China. Unlike consolidated financial data, integrating sustainability related data is a difficult task due to different metrics and approaches adopted by each subsidiary. For this reason, subsidiary information covered in this report follows each company's individual standards; therefore discrepancy may exist from the guidelines set forth by POSCO. Moreover, we used POSCO's unconsolidated financial statements in the "Economic Performance" segment. For consolidated financial statements, please refer to our Annual Report 2006.

This report was prepared based on the third version of the Sustainability Reporting Guidelines of Global Reporting Initiative (GRI) released in 2006. For detailed information, please refer to the GRI Content Index in the appendix.

In order to identify our sustainability management activities and issues, we engaged in processes that included internal surveys, external media search and stakeholder opinion collecting based on external trend surveys and internal indicators on sustainability. For greater credibility, the selected content of the report was verified by a third party. The third party recommendation will be reflected in the 2007 report. Regarding the verification, please refer to the Assurance Report in the appendix.

Numerical data and financial information in the report are denominated in Korean Won (KRW). For reference, USD1 was equal to KRW930.0 at the noon buying rate of the U.S. Federal Reserve in New York City on December 29, 2006. The unit "ton" refers to the metric ton.

The 2006 Sustainability Report was published in two editions: Korean and English. To ensure accuracy of report contents, we first completed development of the Korean text before engaging in English translation. Our key governing principle in translation was smooth communication, taking into account possible discrepancies in expressions between Korean and English texts. However, for important information, no discrepancy exists between the two versions.







- 02 Message from the CEO
- 04 POSCO Overview

#### COMPANY-WIDE ISSUES

- 06 POSCO's Sustainability Management
- 08 Sustainability Issue Map
- 10 Stakeholders
- 11 Corporate Governance
- 13 Business Ethics
- 14 Fair Trade

#### ACTIVITIES AND PERFORMANCE

- 16 Economic Performance
- 20 Safety & Health
- 22 Employees
- 28 Environmental Management
- 36 Climate Change and Energy
- 42 FINEX
- 44 Customers and Suppliers
- 48 Win-win Cooperation with SMEs
- 52 Social Contribution

#### ACHIEVEMENTS OF SUBSIDIARIES

- 60 Overview of Subsidiaries
- 62 POSCO Specialty Steel
- 65 POCOS
- 68 POSCO-China
- 69 Zhangjiagang POSCO Stainless Steel
- 71 Qingdao Pohang Stainless Steel
- 73 POSCO-India

#### APPENDIX

- 76 Major Performance Indicators
- 77 Reporting Procedure
- 78 Assurance Report
- 80 GRI Content Index
- 83 Glossary
- 85 Reader Feedback Survey

# Message from the CEO

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As the business landscape undergoes continuous change, greater demands are being placed on the corporate world on multiple fronts. Responding to the diverse needs of stakeholders and finding solutions to their concerns are crucial elements for companies that pursue sustainable growth.

POSCO operates production facilities that turn out large volumes of basic materials across the globe. A vast amount of resources and energy are consumed in the production process, meaning that we have a significant impact on the related industries and local communities. To keep pace with the drastic changes sweeping the steel industry, we are pursuing global growth, a shift toward more high-grade products, cost reduction and innovation. Achieving mutual growth with the local communities where we operate and gaining trust from our stakeholders are critical to realizing our strategic goals.

At POSCO, we are committed to minimizing the negative impact on the environment and society while delivering greater sustainable value to our stakeholders through responsible corporate citizenship. As part of such efforts, we are proactively meeting the environmental and social needs of local communities in China and India where we are expanding our production facilities.

Sustainability involves a wide scope of activities. We have maintained a keen interest on the environment, safety and health, employee welfare and local community initiatives ever since our inception 39 years ago. Recently, we have also placed much emphasis on climate change, win-win partnership with small and medium-sized enterprises (SMEs) and supply chain management.

Climate change poses a serious risk to global economic development. The UN Framework Convention on Climate Change has particular relevance to POSCO as we rely heavily on coal as a source of fuel in iron-making and consume significant amounts of energy for our production process. We have implemented diverse measures to address global warming and conserve resources. In recognition, the



Moving forward, we will expend greater efforts to make a positive impact across a range of pressing needs and to facilitate communication with our stakeholders.

Carbon Disclosure Project (CDP) named us as one of the top 50 global companies with excellent response to the climate change challenge. Considering the seriousness of the issue, we are furthering our efforts to draw up more comprehensive and systematic action plans.

Partnership with SMEs is an important facet of driving industry development. The competitiveness of our supply chain, which is comprised mainly of SMEs, translates directly into our success. That is why we have launched numerous innovative programs aimed at stimulating SME growth. A prime example is our Benefit Sharing program. It teams up POSCO with its suppliers to carry out tasks to improve processes and share corresponding rewards. The initiative, which motivates suppliers to implement change and subsequently strengthens the entire supply chain, has been frequently benchmarked.

We are inspiring suppliers to hone their competencies by offering diverse initiatives and assessment programs. The Green Purchasing program considers environmental friendliness of materials from the procurement stage. It also incorporates environmental factors in the assessment of our suppliers. POSCO's Green Purchases have steadily increased over the years to reach KRW 124.4 billion in 2006, up more than 50% from the previous year. Moreover, POSCO is an active partner of the government in its Green Purchase movement.

This report is intended to communicate our sustainability activities and achievements. It was prepared based on the Sustainability Reporting Guidelines of Global Reporting Initiative, as well as our internal reporting procedures. For greater credibility, the selected content of this report has been verified by a third party.

Publication of this report does not signal an end to our activities. Rather, feedback from stakeholders regarding the report content and scope will play a vital role in shaping our future activities for sustainability.

Moving forward, we will expend greater efforts to make a positive impact across a range of pressing needs and to facilitate communication with our stakeholders. Your views and suggestions will be an important asset as we set our future action plans. We look forward to your valuable opinion.

Thank you.

May 31, 2007

Lee Ku-Taek  
Chief Executive Officer



# POSCO Overview

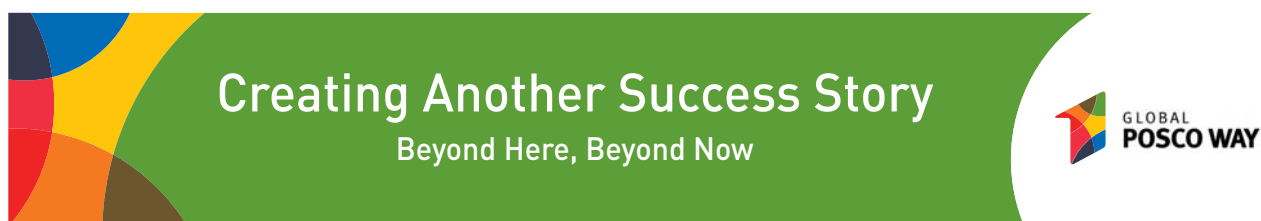
POSCO is the world's fourth largest steel maker, with KRW20.043 trillion in sales (about USD21.552 billion) and 17,523 employees. Through our two main steelworks, Pohang and Gwangyang Works, we produce intermediate materials such as hot and cold-rolled steel, plates, wire rod and stainless steel. Our products are used by various industries including shipbuilding, electronics, automobiles, home appliances, and power generators. In 2006, POSCO produced 30.05 million tons of crude steel and sold 28.54 million tons of products. The domestic market accounted for about three fourths of total sales volume, while exports to regions such as China, Japan, Southeast Asia and the United States made up the remainder. As of the end of 2006, POSCO had 68 subsidiaries operating in 14 countries engaged in the businesses of purchasing raw materials, producing steel, processing, sales, construction, energy, and information technology.

POSCO was established in 1968 under the Korean government's comprehensive general steelworks plan, which called for supporting key industries for the overall development of the local economy. Under Park Tae Jun, then president and current honorary chairman of POSCO, we built our first production line which had the capacity to manufacture 1.03 million tons. Ten years later in 1983, we built a 9.1 million-ton production line to complete Pohang Works. In 1992, we launched the world's biggest single steelworks, Gwangyang Works, which was completed in just seven years. Through continuous advancements in productivity and production efficiency, POSCO emerged as the world's biggest steel maker in terms of annual steel production in 1998. Since privatization in 2000, POSCO has strengthened management efficiency and transparency. In response to the global steel industry's trend of consolidation and large-scale expansion, POSCO has recently been pushing ahead with aggressive investments and marketing activities. Our goal is to become a global steel company with annual domestic and international steel production capacity of 50 million tons.

## Establishing the Platform for Global POSCO Way

POSCO launched the Global POSCO Way to enhance our workers and organization's competencies for successful growth at the global level. To become the best, we believe that we must have the best corporate culture. We aspire to building an organization characterized by efficient work processes and practices where highly skilled workers are driven by a shared vision. By further developing Six Sigma activities, we have created our own version of the Six Sigma movement which allows us to discover problems by mapping business processes. Under "Quick Six Sigma (QSS)," all POSCO employees participate with an innovative mindset to increase productivity and eliminate waste factors, major tasks we have identified as priorities to achieve our strategic goals. Innovations in our organizational behavior include clarification of workers' roles and responsibilities based on the RAI chart, and creating efficiency in support activities such as reporting and meetings. In March 2007, we launched POSCO's new vision and core values charter, incorporating ideas from our workforce, management, and board of directors, to set the direction of our growth and innovation.

## Vision and Core Values



### Core Values



Customer



Challenge




Execution



People



Integrity



POSCO aims to be more than a “strong company.” We aspire to become a “good and strong company” that is trusted and respected. POSCO pursues sustainability management to realize economic profits, foster environmental soundness and fulfill our social responsibility. We will contribute to the development of our communities while pursuing sustainable growth of POSCO.

## Company- wide **Issues**

- 06 POSCO's Sustainability Management
- 08 Sustainability Issue Map
- 10 Stakeholders
- 11 Corporate Governance
- 13 Business Ethics
- 14 Fair Trade

# POSCO's Sustainability Management

**POSCO gives due consideration to the environment in all of our business activities and has a strong commitment to raising value for all of our stakeholders.**

As the influence of business enterprises continues to grow, expectations on the role of business is changing so that corporations take on greater social responsibility. Universal issues such as the growing disparity between the rich and the poor, poverty and diseases in underdeveloped countries, and global warming all require companies to play an active role in tackling these social issues. As a member of society, POSCO believes that the corporate sector should contribute to resolving these problems, manage associated risks, and strive to create new value.

Since our privatization in 2000, we have expanded our business scope beyond steel production to emerge as a world-class enterprise that can contribute to the sustainable development of global society. POSCO is recognized as a company that faithfully carries out its social responsibilities. Befitting that status, we promote environmental management and the development of local communities in all regions in which we invest and operate.

Our steel business has played a vital role in Korea's industrial growth as a backbone industry. At the same time, POSCO has matured into a globally competitive steel company. During this process, we pursued parallel development with our stakeholders

through the POSCO Educational Foundation, scholarships, volunteer activities, safety enforcement activities, and enhanced welfare programs for our employees. Now, society has even higher expectations regarding POSCO's responsibilities to society.

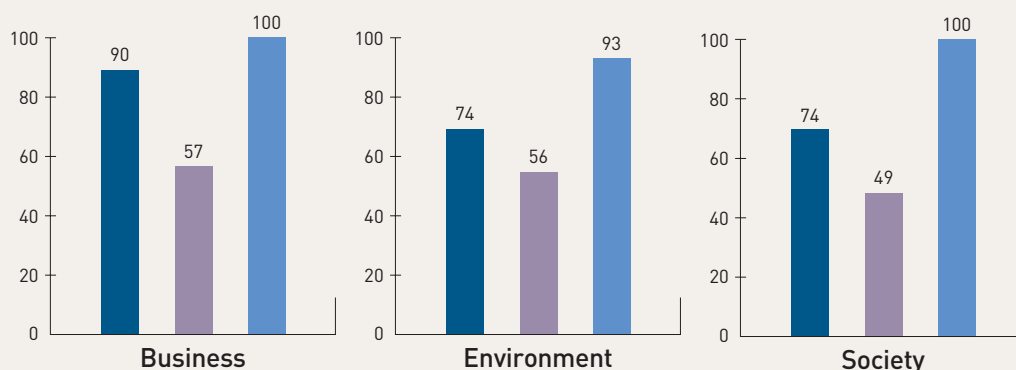
POSCO has placed much emphasis on environmental issues since its foundation, including the application of strict standards on the emission of pollutants. The steel business is a capital-intensive industry that consumes vast amounts of natural resources and energy and generates various pollutants and byproducts including greenhouse gases. Given these features, the steel industry requires environmental facility investments to help prevent the emission of harmful pollutants while maintaining production efficiency. In the long run, greater effort must be made for fundamental improvements such as the construction of new factories and development of more eco-friendly products.

In 2004, POSCO adopted the concept of Corporate Sustainability Management to pursue related activities in a comprehensive and systematic manner, and appropriately respond to changing external trends. We have also been publishing our sustainability report to review our internal actions and system and to maintain a communication channel with our stakeholders. In addition, we have endeavored to establish a management system whereby we can continuously improve our activities for sustainability and expand them throughout all facets of our operation.

Top priority issues that have been identified in the process of producing our sustainability report are climate change, the environment, safety and health, employees, customers, supply chain management, small and medium sized enterprises (SMEs),

## SAM DJSI Assessment Results

■ POSCO  
■ Steel Industry's Average  
■ Versus Steel Industry's Highest Points (%)







and social contribution. We have tried to summarize our activities and performance in each area from a balanced and unbiased point of view. This report places particular emphasis on our response to climate change and cooperation with SMEs, which were the major focus areas for our company in 2006.

In 2006, POSCO had the honor of being a member of the SAM Dow Jones Sustainability Index (DJSI) in the steel category for the second consecutive year. DJSI is a representative index that tracks the value of leading companies in sustainability management. POSCO was also the only steel company to be added to the index in 2006. Among others, selection as an index component implies that the chosen company is an attractive investment for socially responsible investment. POSCO takes this point into consideration to seek ways to improve our performance in sustainability management.

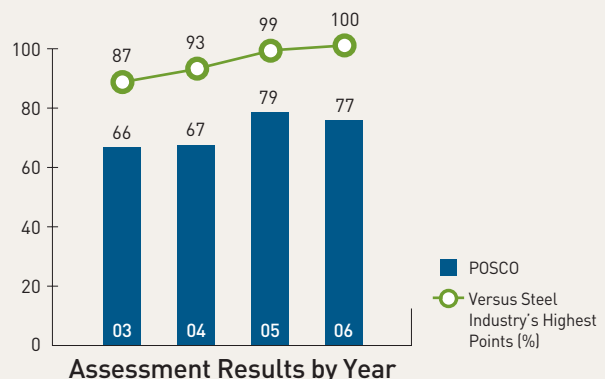
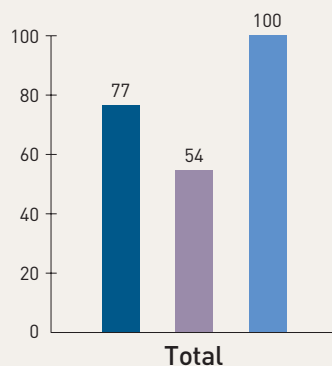
In the 2006 SAM DJSI assessment, POSCO received the highest marks in the economic and social sections in the steel sector. In the economic segment, POSCO received high points all around for corporate governance, corporate ethics, customer relations and

risk management. In the social part, we received positive scores in human capital development, talent attraction & retention, labor practice, corporate citizenship/philanthropy, safety and health. However, the assessment indicated there was room for improvement in stakeholder engagement, enhancement of local communities, social contribution reporting, and supplier management standards. Regarding the environment sector, favorable results were given in environmental policy/management, eco-efficiency, environmental performance, and climate change; but there were indications that improvements were needed in environmental reporting.

### Awards and Recognitions

- © Transparent Management Grand Prize  
by five economic organizations including the Korea Employers Federation (Feb. 2006)
- © Grand Prize as The Most Respected Company in 2006  
by the Korea Federation of Industries and the Seoul Economic Daily (Feb. 2006)
- © Best Company of Corporate Governance Award  
by Korea Corporate Governance Service (Jun. 2006)
- © fn Coexistence Management Award  
by the Financial News (Mar. 2006)
- © One of 50 Companies in the '2006 Climate Leadership Index'  
by CDP Committee (Sep. 2006)
- © 1st Edison Innovation Award  
by Edison Preservation Foundation (Jan. 2006)
- © Asian MAKE(Most Admired Knowledge Enterprise)  
by Telos in U.K. (Oct. 2006)

■ POSCO  
■ Steel Industry's Average  
■ Versus Steel Industry's Highest Points (%)



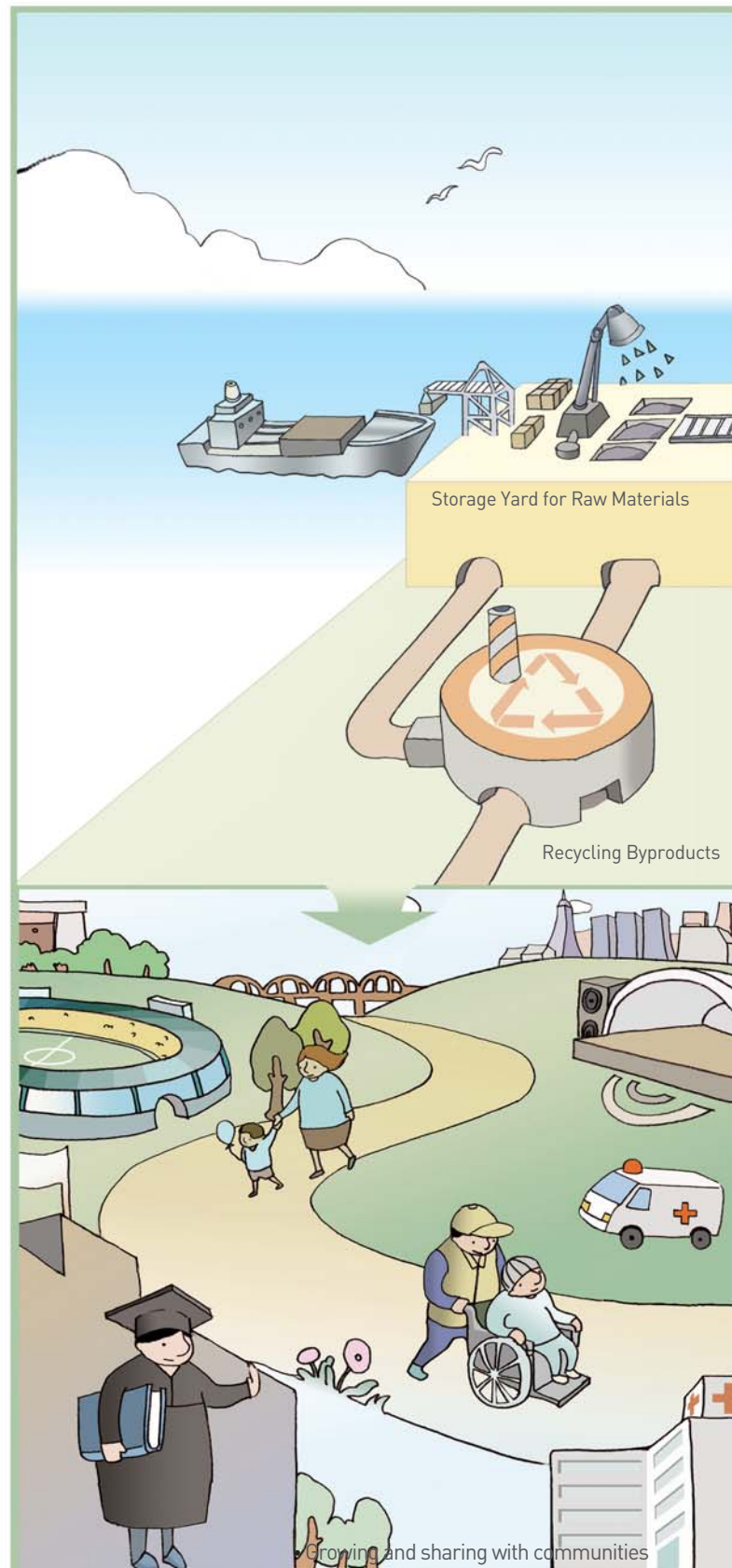
# Sustainability Issue Map

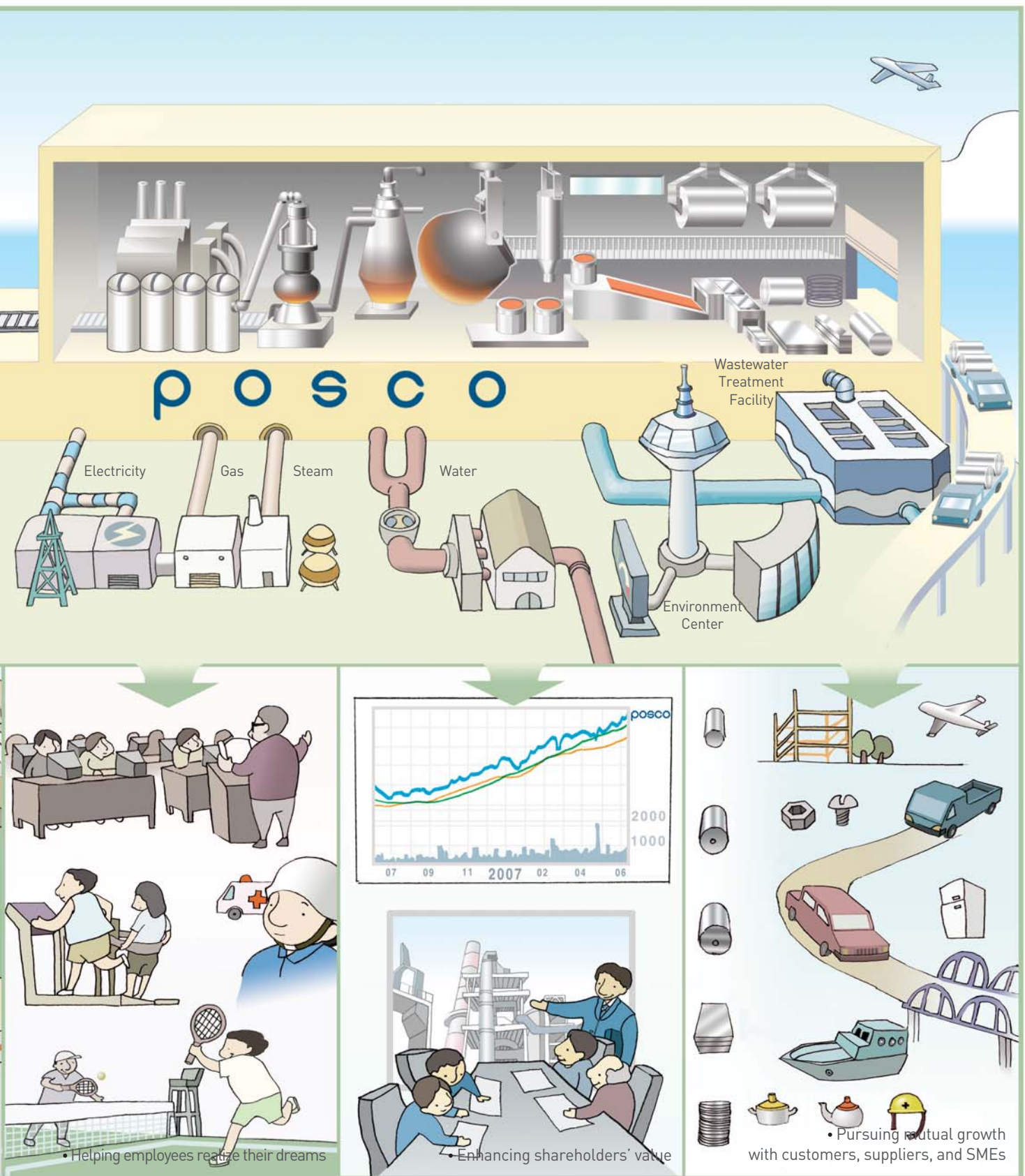
POSCO assesses the environmental and social impact of our manufacturing process to increase the positives and minimize the negatives. The following chart and diagram was developed to evaluate and manage the environmental and social impact of our business activities. They also highlight the relationship between our top priority issues and business activities.



**Sustainability Issue Map**

Category	Workplace	Supplier, Customer (Value Chain)	Community	Global
Purchasing (raw materials/ equipment/ other materials/ outsourcing)		-Cooperation with SMEs (benefit sharing, etc.) -Green Purchasing		-
Production	-Safety & health -Environmental management -Energy management		Environmental management	Response to climate change
Sales		-Environmentally friendly products -Cooperation with SMEs		
Planning/ Audit	-CDM business -Energy business -Risk management system			
Finance	Internal controls	SME financing support		
Human Resources	Employee welfare, education and career development			
Public Relations			Mecenat activities -POSCO Educational Foundation -POSCO TJ Park Foundation -POSCO Volunteers -Cooperation with local communities	
Other	-Corporate governance -Corporate ethics			







# Stakeholders

POSCO has forged relationships with many different stakeholders. This means that the communication channels to maintain trust with our stakeholders is an essential asset, along with prudent management, to boosting our business performance. Communication with stakeholders is also important considering that a corporation, by nature, has to create value while adjusting to its surroundings.

Communication with stakeholders takes place in various ways in each business division. By revealing our existing communication channels, we hope this will serve as an opportunity for us to sustain and further enhance this important activity.



## POSCO's Communication Channels

Stakeholder	Activity	Description
Shareholders/ Investors	CEO Forum	CEO forum for domestic and international investors held annually
	Investor conference	Quarterly conference for investors
	Disclosure	Disclosures through our website, etc.
	Face-to-face meeting	Individual meetings with investors
	Visits for reviews by credit rating agencies	
Employees	Employee engagement survey	Survey links employee compensation, welfare, etc. to corporate performance. The annual survey is conducted by an outside company.
	Labor-Management Council	Regular meetings and meetings when deemed necessary
	Young Board	Communication channel between middle and upper management
	POS-B	Intranet electronic bulletin board
	Company Operating Meeting	Convenes monthly; televised live to all employees
Customers	Customer Relations Management	
	Customer satisfaction survey	Conducted annually by an outside company
	Joint research	
	Early Vendor Involvement	Communicate with customers from the stage of product development
Suppliers	Supplier Relations Management	
	Supplier Forum	
	Benefit Sharing Steering Committee	Discuss benefit sharing based on performance, such as deciding compensation levels
Outside Service Partners	Meetings by division	
	Information Sharing Sessions	
Government/Civic Groups	Cooperation with local communities	Sisterhood relationship, etc.
	Environmental Improvement Council	Discuss main issues with Korean Federation for Environmental Movement (Gwangyang area)
Other	Website	In Korean, English, Chinese and Japanese
	POSCO Weekly	Published weekly; distributed to employees and to outside parties

# Corporate Governance

POSCO is run under a professional management system and an independent Board of Directors to create value for our shareholders and protect their rights.

POSCO was initially established as a government-invested company in 1968, but the ownership of POSCO shares have greatly diversified since its privatization in October 2000. Since then, POSCO has been operating under a professional management system, with professional managers fully accountable for their actions under the watchful eyes of our board of directors, who represent the majority of our shareholders. POSCO has strengthened shareholders' rights and our board of directors' independence to enhance their role of monitoring management activities. In addition, we have been working in various ways to create greater value for our shareholders. In 2004, we announced our Corporate Governance Charter that sets forth transparent standards for our governance structure and future direction.

## Ownership Structure

POSCO has a total of 87,186,835 issued shares and is listed on the Korea Exchange. Out of our 108,000,000 ADRs, 27,000,000 are listed and traded on the New York, London, and Tokyo stock exchanges. As of the end of December 2006, our ten biggest shareholders collectively hold 34.30% of issued shares.



## Protection of Shareholders' Rights

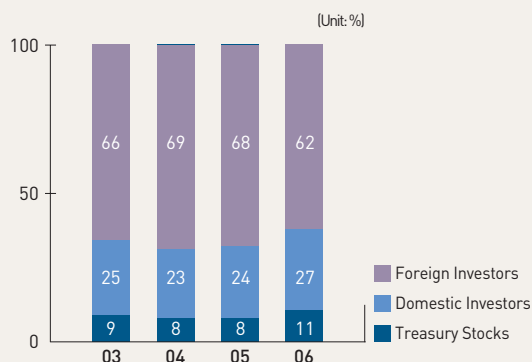
To protect minority shareholders' rights, we have adopted a written and a cumulative voting system. We have also eliminated a provision in the company charter that allowed the issuance of convertible preferred shares out of concern that it could be misconstrued as an excessive means of defending managerial control.

## Board of Directors (BOD)

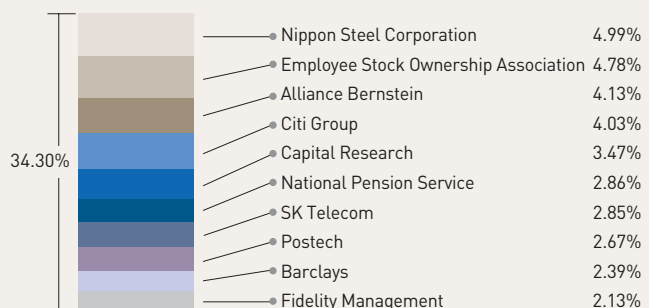
POSCO's BOD consists of 15 members, of whom nine are outside directors. The outside directors are appointed through a careful selection process. Candidates are first chosen by the Outside Director Selection Consulting Group, which consists of five experts from various fields. The candidate list is then narrowed down by the Director Candidate Recommendation Committee and appointments are made at the general shareholders' meeting.

At the February 2006 general shareholders' meeting, POSCO decided to separate the CEO position from the chairmanship of the BOD and also established the foundation for the operation of the CEO Candidate Recommendation Committee. The BOD

Shareholders Composition



Ten Biggest Shareholders



oversees six special committees which are chaired by an outside director with the exception of the Executive Management Committee. The Audit Committee, the Evaluation and Compensation Committee, and the Insider Trading Committee consist of outside directors only.

### Compensation for Directors and Executives

Compensation for outside and standing directors is set within the limit approved at the general shareholders' meeting. At the 2006 general shareholders' meeting, the maximum compensation amount was increased to KRW6 billion from KRW4.5 billion. The actual compensation disbursement was KRW4.7 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 accordingly when performances exceed targets and standards set by the BOD.

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 performance in terms of Economic Value Added (EVA), Earnings before Interest, Tax, Depreciation and Amortization (EBITDA), sales revenue and the share price. 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 evaluation by the CEO. All details regarding remuneration including retirement allowances are determined by the BOD after examination by the Evaluation and Compensation Committee.

### Awards and Recognitions

In 2006, POSCO was named the best Korean company for corporate governance in a survey conducted by "Finance Asia," a financial magazine published in Hong Kong. Past recognitions include being selected as the best governance company in 2004 and a good governance company in 2005 by Korea Corporate Governance Service. In addition, POSCO received the best governance award in Korea's Securities Market division in 2006.

## Special Committees' Major Roles and Composition

	Role	Composition
<b>Director Candidate Recommendation Committee</b>	<ul style="list-style-type: none"> <li>• Evaluation of the qualification of director candidates and recommendation of outside director candidates</li> <li>• Preliminary deliberation on nomination of the Representative Director &amp; Assignment of responsibilities of office to Standing Directors</li> <li>• Preliminary deliberation on the election of special committee members</li> </ul>	Outside Directors: 3 Standing Directors: 1
<b>Evaluation and Compensation Committee</b>	<ul style="list-style-type: none"> <li>• Preliminary deliberation on the evaluation and compensation for management</li> <li>• Evaluation of business performance</li> </ul>	Outside Directors: 4
<b>Finance and Operation Committee</b>	<ul style="list-style-type: none"> <li>• Preliminary deliberation on major external investment plans and amendment of operation regulations for BOD</li> <li>• Deliberation and resolution on donations between KRW 100 million to KRW 1 billion</li> <li>• Preliminary deliberation or resolution on raising funds such as bond issuance</li> </ul>	Outside Directors: 3 Standing Directors: 2
<b>Executive Management Committee</b>	<ul style="list-style-type: none"> <li>• Preliminary deliberation or resolution on major internal investment plans</li> <li>• Deliberation and resolution on major issues related to job ranking system, human resource management, work system and welfare</li> </ul>	Standing Directors: 6
<b>Audit Committee</b>	<ul style="list-style-type: none"> <li>• Execution of legal rights such as auditing the performance of directors' duties and appointment of outside auditors</li> <li>• Consent on the appointment and dismissal of manager in auditor's office</li> <li>• Execution of agenda entrusted by the board of directors</li> </ul>	Outside Directors: 4
<b>Insider Trading Committee</b>	<ul style="list-style-type: none"> <li>• Preliminary deliberation or resolution on internal transactions in accordance with monopoly regulations and Fair Trade Act</li> </ul>	Outside Directors: 4



# Business Ethics

**Business ethics serve as an important value governing our employees' conduct. We have adopted various mechanisms to embed business ethics in our corporate culture.**

POSCO's business ethics are based on the company's tradition of placing emphasis on basic standards and principles. Our code of conduct, first adopted in 2003, guides our responsibility to our stakeholders and governs our employees' conduct. To ensure that the code of conduct is properly executed, we have introduced more detailed implementation guidelines. Our Corporate Ethics Department works to integrate business ethics into our corporate culture and carries out various activities related to the education, systems, and preventive measures related to possible violations.

## Education

All employees go through a mandatory e-learning program once a year consisting of about 20 hours. Managers, who must act as a role model in terms of practicing business ethics, participate in an education program every year. In March 2006, we launched our 'On-site Ethics Class,' whereby employees can discuss dilemmas that can arise while performing their duties, and tailored classes based on each division's needs and demands. Our Corporate Ethics Department also visits 18 subsidiaries and educates their managers to help expand the practice of business ethics throughout the POSCO Group.

## Internal Promotion

Various events are organized to spread the code of conduct among our employees. When logging onto our Intranet, pop-ups with specific ethics-related information show up on designated days. The best ethical mottos and quotes generated through a contest for employees are publicized on our internal bulletin board. Additionally, we have created a business ethics screen saver and installed it on office computers. In July 2006, we started the bi-weekly publication of "Ethics Digest," an online newsletter, to provide business ethics leaders with related information, issues, trends, and education materials.

## Institution of Code of Ethics

POSCO considers corporate ethics as part of our workers' performance evaluation, thus placing our code of conduct as an important standard in our employees' behavior. In addition, we have implemented various programs for the establishment of an ethical business culture.

Employees can access our Ethics Counsel Center by phone, e-mail or the website. Reports of unethical behavior can also be made anonymously. They can be made not only by our employees, but also by various stakeholders and the general public. To encourage the reporting of unethical actions, we introduced a reward system. A report of an illegal monetary transaction will result in a reward of ten times the reported amount (reward up to KRW50 million); in the case of a voluntary confession of being a party to an illegal monetary transaction, the person will receive a reward of five times the reported value. Under our special provision for ethical practice, we may break our contract with a business partner if it is found guilty of conducting an illegal monetary transaction. All new domestic business partners in Korea are required to participate in our business ethics introduction class, a key condition stated in our contracts.

In 2005, we initiated the Ethical Practice Program, under which each department chief is responsible for instituting ethical practices within his/her department. Utilizing the Six Sigma method, each department conducts workshops to unveil ethical risks within the department and seeks ways to address the identified risks.

In 2006, we established an ethics committee consisting of department heads. The business ethics director serves as the committee chair, and members include 12 managers who are in charge of company relations with the five major stakeholder groups: customers, suppliers, investors, employees, and the wider community. This committee's role is to discuss various issues and review proposals/issues that can help establish ethical decisions and behavior as part of POSCO's corporate culture. Specifically, the committee's role is to: 1) create an honest and moral corporate culture, 2) strengthen customers and suppliers' trust in our company as a business partner, and 3) make strategic recommendations and carry out PR for our environmental and social contribution activities. The committee meets once every quarter. All decisions have to be approved by the majority of attending committee members with more than half of the members present.

## External Activities

POSCO actively exchanges views on ethics-related activities with other companies. To help spread the culture of ethical management on a national level, we willingly accommodate any requests for benchmarking POSCO's ethical management. POSCO also attends corporate ethics management related events and conferences sponsored by academia and outside organizations to expand our network. In 2006, POSCO won the transparency management award (sponsored by Korea Employers Federation) and the Transparent Society Award (organized by Transparency International Korea and sponsored by Korea Independent Commission against Corruption).

# Fair Trade

**POSCO was among the early adopters of a voluntary compliance program to promote fair trade. The Board of Directors is briefed on the program on a regular basis.**

POSCO respects the goals and purposes of the Fair Trade Act. We have also put into practice the Fair Trade Corporate Compliance Program to encourage the establishment of a business culture of internal fair trade compliance. The CEO's support for voluntary compliance and principles are described in POSCO's Code of Conduct. Since 2005, all employees make a pledge to honor the Code of Conduct at the beginning of every year.

Based on our board of directors' decision made in April 2004, we selected our management-planning executive to run the Fair Trade Practice Program as the compliance officer. The audit executive has been serving in that role since April 2006. This officer reports the operational status of the Fair Trade Compliance Program to the board of directors every year. In March 2004, POSCO established the Insider Trading Committee under the board to ensure transparent transactions with our subsidiaries. The committee deliberated and reported on six cases in 2004, seven cases in 2005, and seven cases in 2006. In April 2004, we established a Fair Trade Support Team, a department that oversees, plans, and modifies fair trade related operations as part of our goal to foster a culture of compliance with fair trade regulations.

## Voluntary Advisory Committee

This committee consists of managers who run departments that are highly related to fair trade practices, such as sales, purchasing and outsourcing. Departments represented in the committee each appoint a "fair trade compliance leader" to oversee fair trade related affairs, playing a supporting role to the committee members. The leaders also supervise each department's voluntary inspection and consulting.

## Publication of Case Studies

In 2004 and 2005, POSCO published a revised edition of the Fair Trade Compliance Handbook, which includes amendments made to the related law, to heighten employees' understanding of the Fair Trade Act. In 2006, we published case studies on purchasing, sales and company partnerships which were distributed to the related business departments and subsidiaries.

## Fair Trade Related Publications

Publication Name	Date	No. of Copies
Subcontracting	August, 2004	1,800
Unfair Trade and Provisions	November, 2004	2,000
Large Business Groups	May, 2005	1,100
Purchasing Case Studies	June, 2006	1,000
Corporate Consolidations and Group Case Studies	September, 2006	500
Sales Case Studies	November, 2006	1,500

## Education Programs

Since the October 2002 launch of our e-learning program on fair trade, a total of 12,131 employees have completed the course; 2,529 in 2004, 2,783 in 2005, and 1,745 in 2006. We also operate off-line classes taught by experts such as those from the Fair Trade Commission.

## Self-inspection by Business Department

Our system of self-inspection by each business department and consulting is a mechanism for monitoring unfair or illegal activities. Workers in fair trade related departments go through a checklist to review their work duties and consult with the appropriate department. In 2004, POSCO opened a fair trade website, allowing online inspection and consulting. In 2005, we drew up a detailed checklist to enhance the effectiveness of the inspection system. Seven core departments are required to conduct mandatory inspections. In July 2005, we created and published our fair trade inspection handbook that explains the system, method, and fair trade checklists.

## 2006 Performance

In 2006, we conducted a survey of employees working in departments related to fair trade to evaluate awareness of the compliance program and incorporate suggestions for improvement. We strengthened our internal monitoring system to get a better grasp of the compliance status in the related departments. Through our "Fair Trade News" and Intranet pop-up windows, we have raised our employees' attention to the importance of fair trade. In addition, we supported our subsidiaries' implementation of the fair trade compliance program; as of 2006, a total of seven subsidiaries have adopted the program.

At the Fair Trade Commission's first assessment of fair trade compliance programs in 2006, POSCO received the 'AA' rating, the highest among participating companies. POSCO also received the highest award in the Korea Fair Competition Federation's fair trade compliance program evaluation.

## Activities and Performance

POSCO's economic performance has been favorably received in the market, as attested to by the large increase in market capitalization. We are also committed to preserving our natural surroundings. We strictly adhere to environmental standards, develop eco-friendly products, and carry out Green Purchasing activities. Moreover, we are working in various ways to raise value for our customers, communities and other stakeholders.

16	Economic Performance
20	Safety & Health
22	Employees
28	Environmental Management

36	Climate Change and Energy
42	FINEX
44	Customers and Suppliers
48	Win-win Cooperation with SMEs
52	Social Contribution



# Economic Performance

POSCO is shifting towards high-valued added products to increase economic value and pursue mutual gains with the providers of capital and other stakeholders.

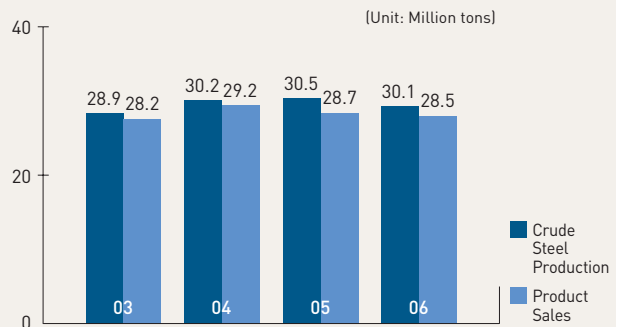
In terms of economic performance, our responsibility is to conduct business activities to generate mutual benefits with our stakeholders. We create value for our stakeholders through basic activities such as purchasing, production and distribution. We also deliver value through taxes paid to the government, dividends and interest distributed to the providers of capital, and contributions to promote development of our communities.

## Business Performance

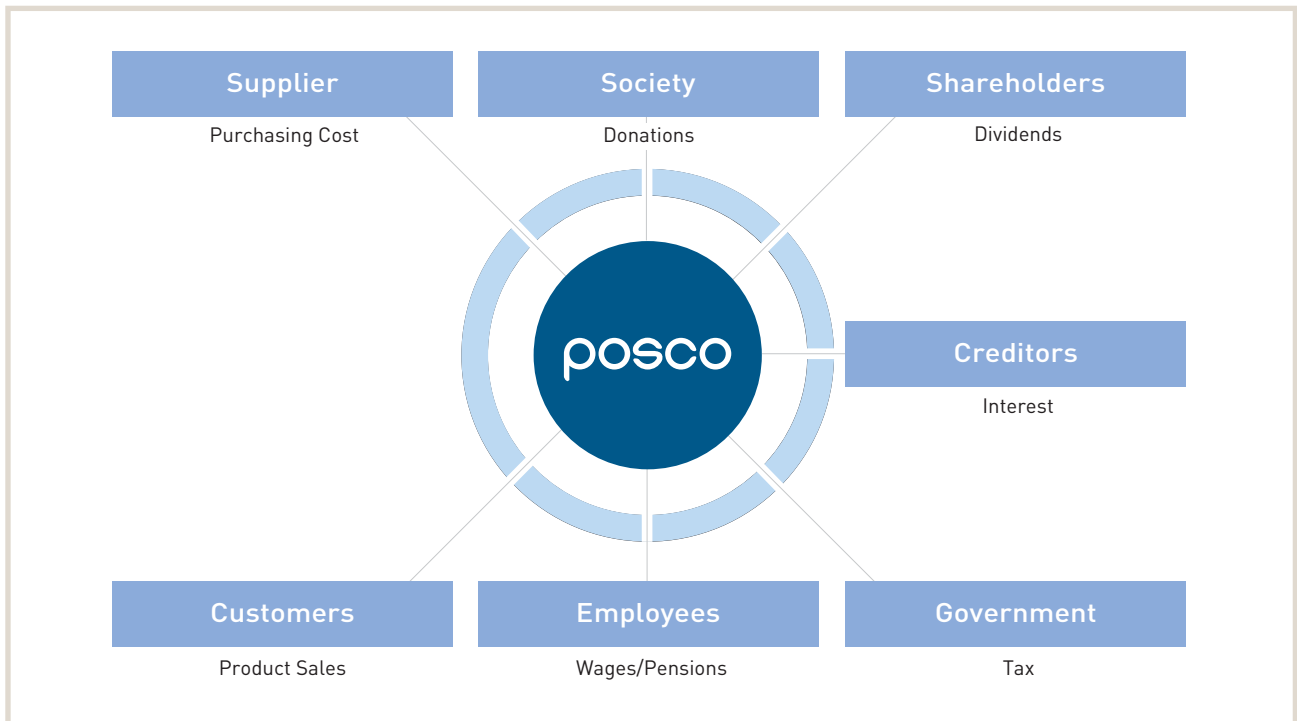
In 2006, our crude steel production and sales amounted to 30.05 million tons and 28.54 million tons, respectively. We posted revenue of KRW20,043.4 billion, operating income of KRW3,892.3 billion and net income of KRW3,206.6 billion. In the first quarter operating margin (operating income relative to revenue) was 16.9%, but the figure improved to the 20% range from the second quarter onwards.

Earnings before interest, tax, depreciation and amortization (EBITDA), an indicator of cash generating ability, reached KRW5,450.0 billion, with the EBITDA margin standing at 27.2%. Return on equity (ROE) dropped to 15.5%, pulled down by a reduction in net income and an increase in shareholders' equity. Although borrowings were driven up by the purchase of treasury shares and new investments, the debt-to-equity ratio declined further in 2006.

## Production and Sales



## Economic Performance and Distribution



## Financial Highlights

(Unit: KRW billion)

	2003	2004	2005	2006
Sales	14,359	19,792	21,695	20,043
Operating Profit	3,059	5,054	5,912	3,892
Net Income	1,980	3,826	3,995	3,207
Operating Margin (%)	21.3	25.5	27.2	19.4
ROE (%)	16.2	26.3	22.4	15.5
EBITDA	4,519	6,500	7,393	5,450
EBITDA Margin (%)	31.5	32.8	34.1	27.2
Interest-bearing Liabilities	3,580	2,498	1,416	2,146
Shareholders' Equity	12,958	16,110	19,510	21,792
Debt-to-Equity Ratio (%)	42.1	32.6	24.1	21.0

\* In accordance with the statement on application of accounting standards 06-2 (Dec. 29, 2006) (change in recognition of deferred income taxes related to investments subject to the equity method of accounting):

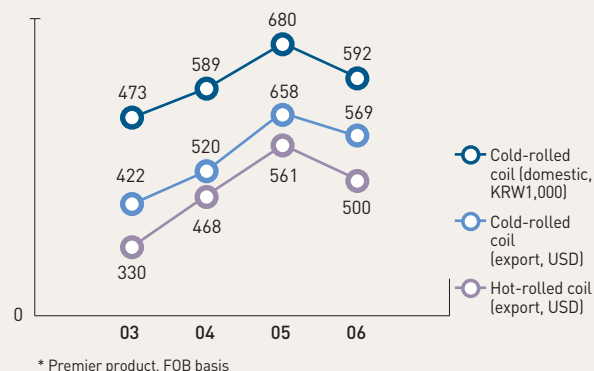
- Adjustment in 2005 net income: KRW401.3 billion → KRW399.5 billion
- Adjustment in 2005 shareholders' equity: KRW1,952.2 billion → KRW1,951.0 billion

## Product Sales and Exports

Total sales volume decreased in 2006, but sales of strategic products grew 18.5% year-on-year to 14.7 million tons. Strategic products refer to high value-added products such as automotive steel sheets, high-quality API steel, 400 series stainless steel, electrical steel, TMCP steel, high-grade hot-rolled and cold-rolled steel products, and high-grade wire rods.

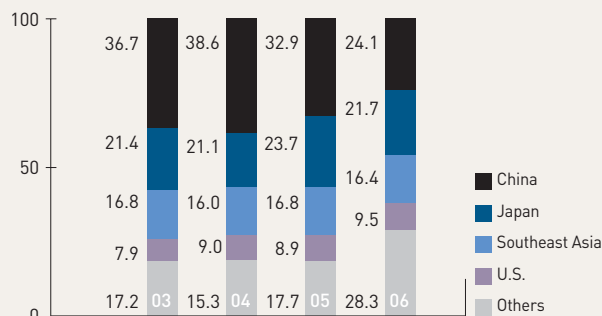
Product prices retreated from the previous year owing to a decline in prices of steel products from China. We lowered prices by a large extent in the first half of 2006, but managed to raise them in the latter half as market conditions stabilized. In particular, there was a substantial increase in the stainless steel

## Prices of Major Products



## Export Breakdown by Region

(Unit: %)

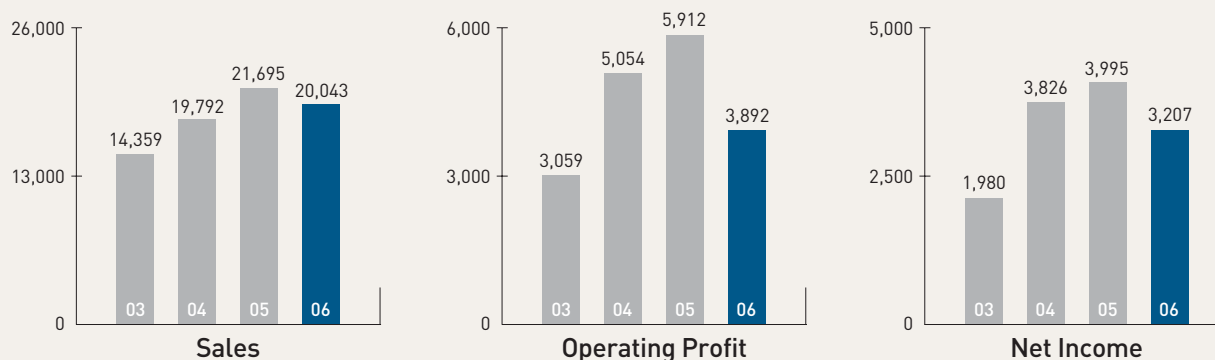


price underpinned by higher price of nickel (a raw material).

Exports totaled 8.68 million tons and accounted for 30.4% of total sales volume. POSCO's products are exported to some 60 countries, with 62.2% of shipments bound for the Asian markets. Shipments to China as a proportion of total exports dwindled from a year earlier to reach 24.1%. POSCO is expanding its export

## 2006 Financial Highlights

(Unit: KRW billion)



business centered on its regular customers. In addition to our main export markets of China, Japan and Southeast Asia, we are striving to extend our reach to the more distant regions of Europe, Central and South America and Africa.

### Purchasing, Outsourcing and Asset Acquisition

Expenditures for materials procurement and outsourcing amounted to KRW11,386.6 billion, down slightly from a year earlier. However, such spending as a percentage of revenue climbed to 56.8% owing to decreased sales. In detail, raw material costs stood at KRW8,805.0 billion, other material costs at KRW1,350.8 billion and outsourcing costs at KRW1,230.8 billion. Outlays for the acquisition of tangible assets (e.g., buildings, structures, fixtures) and intangible assets came to KRW5,773.9 billion.

### Wages

Economic benefits for employees are classified into wages and welfare. In 2006, there was a reduction in variable wages including incentives due to a contraction in operating income. Total labor costs were recorded at KRW1,141.8 billion. Excluding severance and retirement benefits of KRW78.0 billion, wages amounted to KRW1,063.8 billion.

### 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. 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 employees. In the case of private

### Material and Outsourcing Costs

(Unit: KRW billion)

	2004	2005	2006
Raw material costs	8,196.6	8,930.5	8,805.0
Other material costs	1,446.6	1,492.7	1,350.8
Outsourcing costs	1,071.7	1,146.4	1,230.8
<b>Total</b>	<b>10,715.3</b>	<b>11,569.6</b>	<b>11,386.6</b>
As % of revenue	54.1%	53.3%	56.8%

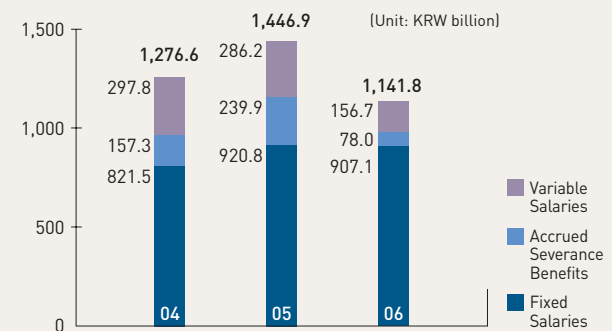
\* Other material cost data adjusted according to the changed calculation method  
1,467.0 billion → 1,446.6 billion in 2004, and 1,429.0 billion → 1,492.7 billion in 2005

### Asset Acquisition

(Unit: KRW billion)

	2004	2005	2006
Construction in progress	4,557.9	7,170.5	3,029.8
Machinery and equipment	684.1	2,164.6	2,292.3
Buildings, structures, etc.	158.3	803.9	340.3
<b>Total tangible assets</b>	<b>5,400.3</b>	<b>10,139.0</b>	<b>5,725.4</b>
Intangible assets	344.6	14.6	48.5
<b>Total</b>	<b>5,744.9</b>	<b>10,153.6</b>	<b>5,773.9</b>

### Wages



### Sales Volume by Product

(Unit: 1,000 tons)

	2003	2004	2005	2006		
				Total	Domestic	Export
Hot-rolled steel	10,461	10,092	11,148	10,395	7,395	3,000
Plate	2,970	3,438	3,155	3,572	3,287	285
Wire rod	1,969	2,014	1,945	1,853	1,426	427
Cold-rolled steel	9,281	9,844	8,713	8,971	5,385	3,586
Electrical steel	656	701	727	659	318	341
Stainless steel	1,571	1,937	1,858	1,885	962	923
Others	1,294	1,176	1,113	1,208	1,085	123
<b>Total</b>	<b>28,202</b>	<b>29,202</b>	<b>28,659</b>	<b>28,543</b>	<b>19,858</b>	<b>8,685</b>



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, 2006, the number of employees who received subsidies for private pension plans numbered 12,606 with the recipient ratio at 72%.

## Taxes

POSCO's contribution to the society is also made through taxes. In 2006, 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. We paid total taxes of KRW1,396.7 billion in 2006, broken down into KRW1,089.9 billion in national taxes, KRW180.4 billion in local taxes and KRW126.4 billion in customs duties. Total tax payment shrank by 12% compared to the previous year. In terms of local taxes, the amount paid to Pohang City rose by 16% to KRW85.9 billion and that to Gwangyang City went up 27% to KRW84.5 billion. Income tax expense as reported on the income statement was KRW911.8 billion, down by 33% from 2005.

## Interest Expenses

Interest expenses for debts stood at KRW78.8 billion, a drop of KRW9.5 billion from KRW88.3 billion in 2005. Interest balance (interest income minus interest expenses) turned into the black to record KRW2.9 billion in 2006 from negative KRW25.0 billion in 2005.

## Dividends

Dividend payments amounted to KRW621.1 billion in 2006, declined from KRW638.4 billion in 2005. Dividend per share was KRW8,000, or 160% of the face value, same as that in 2005.

## Taxes

(Unit: KRW billion)

Category	2004	2005	2006
National Tax	765.7	1,370.3	1,089.9
Local Tax	101.4	149.3	180.4
Customs Duty	43.9	65.6	126.4

## Dividend Payments

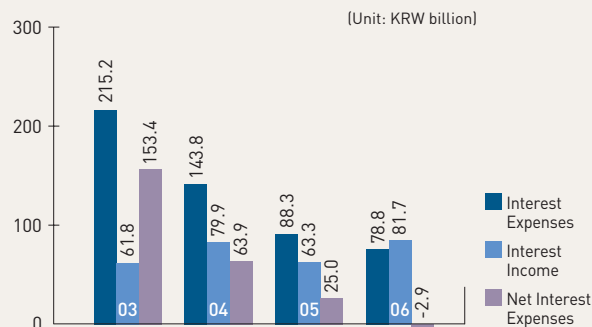
Category	2003	2004	2005	2006
Dividend Ratio (%)	120	160	160	160
Dividend Per Share (KRW)	6,000	8,000	8,000	8,000
Interim Dividend Per Share (KRW)	1,000	1,500	2,000	2,000
Total Dividends (KRW billion)	485.1	644.4	638.4	621.1
Year-end Stock Prices (KRW)	163,000	187,000	202,000	309,000
Earnings Per Share (KRW)	24,306	47,331	50,438	40,748

\* EPS of 2005 adjusted according to adjusted net income of 2005: KRW50,670 → KRW50,438

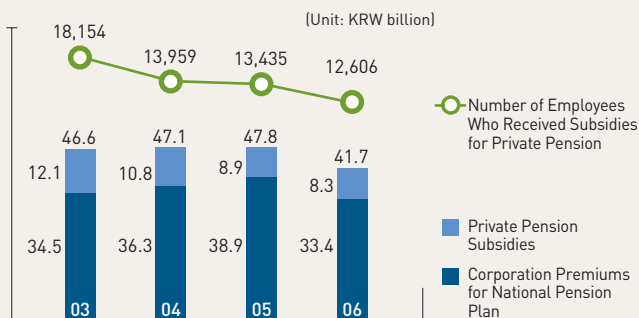
## Contributions

POSCO manages 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 donations of between KRW100 million and KRW1 billion. The Committee also deliberates on the giving of donations of more than KRW1 billion. 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 totaled KRW135.3 billion in 2006. Details are as follows: KRW 33.0 billion to POSCO Education Foundation, KRW59.4 billion to Labor Welfare Fund, KRW20.0 billion to POSTECH, KRW10.0 billion to POSCO TJ Park Foundation.

## Interest Expenses



## Support for Pensions



# Safety & Health

**POSCO regards safety and health as basic responsibilities to its employees. Priority is given to ensuring safety and health across all of our operations.**

POSCO's fundamental responsibilities are for the safety and health of its employees at all workplaces. Efforts to meet these responsibilities are an essential element of our competitiveness. In accordance with the related company guidelines, steps must be taken to ensure safety and health in all work processes. The guidelines stipulate that priority be given to injury prevention in terms of budget, personnel and system.

Pohang Works and Gwangyang Works have their respective safety and health policies. These standards apply not only to POSCO employees, but also to the employees of outsourcing service partners residing on our premises. Pohang and Gwangyang Works each holds a meeting of their respective Industrial Safety and Health Committee every quarter to deliberate on matters related to safety and health. The committees are composed of seven representatives from management and seven from labor, and are chaired by the heads of the respective Works. Each business site also holds division level safety and health committee meetings on a regular basis.

## Safety

Activities to advance safety start with education. In accordance with the POSCO Safety Program we conduct safety education

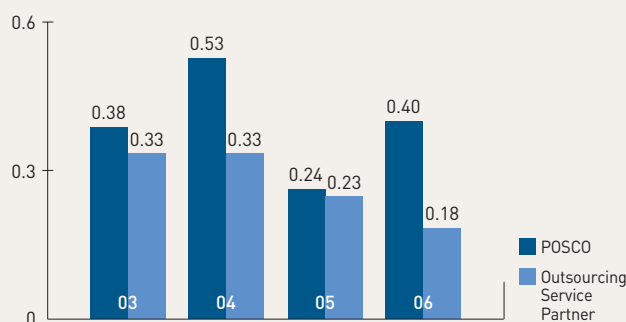
classes for employees from new recruits to team leaders. We also offer safety lectures through e-learning courses. Examples of various safety-related programs are Isolation & Locking System (ILS), Tool Box Meeting (TBM), and Process Safety Management (PSM), as well as Cardinal Rules and Autonomous Safety Management Licensing System.

The company-wide integrated e-Safety System plays an important role in promoting safety, health and injury prevention. It facilitates implementation of activities to ensure safety, especially with regard to facilities exposed to the risk of accidents. The system also helps to prevent the omission or delay in inspections prescribed by law. Moreover, the system enables effective management of safety related statistics and faster access to reports on accidents.

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.

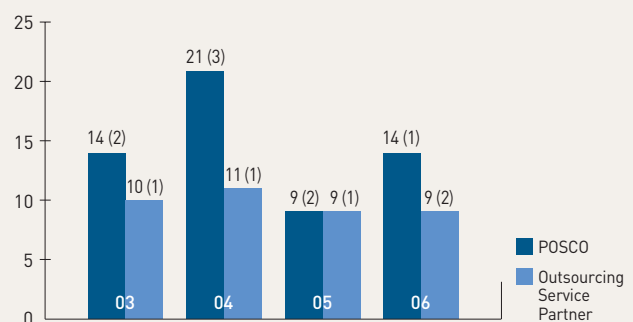
In keeping with strict safety management practices and procedures, in the event of an accident, an immediate examination is carried out and the results are registered in the e-Safety System, which can be accessed by all employees. We also keep indicators of worksite safety, including the Lost-time Injury Frequency Rate (LTIFR) and the Injury Rate of employees. The LTIFR is the number of lost-time injuries per one million work hours. In accordance with related laws and regulations, injuries

**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  
 \* Parenthesized figures indicate fatalities



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

The underlying basis of our health policy is to promote the well-being of employees. We provide physical checkups and medical support for workers at all of our business sites. Pohang and Gwangyang Works have the added function of upholding a clean work environment. Through the company-wide health support system, we maintain health and work environment data for individual employees. Health is also an important part of our social contribution activities, as demonstrated by our volunteer

medical services for regional communities and blood donation drives.

## Employee Health Program

We provide an annual health checkup for all employees for the early detection of diseases. We have clinics to provide consultations for those with acute or chronic conditions. For those suffering medical problems, we provide regular monitoring to prevent their conditions from worsening. A “deliberation committee on employees with medical conditions” assists employees with serious illnesses.

## Promoting Healthy Lifestyles

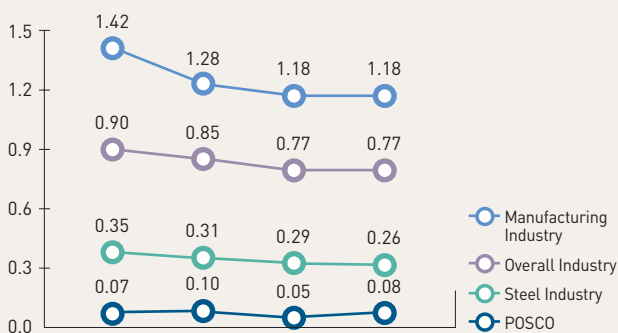
Our health promotion campaigns are based on a long-term approach. We have paid particular focus on musculoskeletal disorders and managing stress. Another major initiative is our anti-smoking drive. First introduced in 1999, our anti-smoking campaign is contributing to the health of our employees as well as the wider community. We introduced various programs to encourage smokers from giving up their unhealthy habit, including those jointly organized with public health centers.

Pohang and Gwangyang Works operate physical therapy centers. The centers have advanced equipment such as apparatus for decompression treatment to encourage employees with the risk of developing musculoskeletal disorders or those already displaying symptoms to receive treatment. Professional counselors are available to provide guidance on managing stress.

## Industrial Hygiene Management

To foster a clean and pleasant work environment, we conduct evaluations every year to measure harmful factors that arise in the workplace. Special attention is given to work sites where employees are exposed to higher health risks. For instance, we implemented a “hearing protection program” and “health protection in sealed space program.” To protect workers from harmful factors in the workplace, we have distributed high quality hygienic protection devices. For the proper handling and usage of chemical substances, we abide by the Material Safety Data Sheet (MSDS).

### Injury Rate



\* Injury Rate : number of injured workers for each 100 workers  
 \* Source : overall and manufacturing industry averages are from Ministry of Labor, and the steel industry average is from the Korea Iron & Steel Association.



# Employees

Our education, compensation and welfare systems are designed to enhance employees' quality of life and help them realize their full potential while sharpening POSCO's competitive edge.

## Policy on Human Resources and Labor Relations Management

POSCO is constantly exploring ways to enhance its organizational structure and system. We seek to enhance our work processes through such means as clearly delineating individual responsibility and authority, simplifying the decision-making process, and innovating our meeting culture. Our aim is to realize advances at POSCO and promote them throughout all of our affiliates.

High caliber employees are vital to spearheading growth and innovation in the global markets. We offer various programs to support employee development including job rotation and overseas study programs. At the same time, we continue to streamline our organization in order to secure labor competitiveness. POSCO has a long-standing tradition of labor-management harmony. Our profit-sharing scheme and Labor-Management Council have played a pivotal role in maintaining trust between the two sides. Our commitment to mutual prosperity extends beyond our workers to encompass all stakeholders including suppliers and the society at large.

## Directions of Human Resource Systems and Labor Relations



## Human Resources

A competitive workforce is crucial to staying ahead in a dynamic environment. To ensure optimal management of human resources, we have implemented facility rationalization projects and improved work processes. Other efforts include outsourcing and de-mergers which serve to promote work specialization. Additionally, POSCO takes a keen interest in helping people with disabilities lead fulfilling lives. We go beyond observing laws and regulations and employ more physically challenged people than the legally required standards. We are also bringing onboard more female employees in tandem with the government's recent moves to enhance hiring practices.

## Status of Human Resource

	2004	2005	2006
The Number of Employees	19,377	19,004	17,523
Pohang Works	8,209	7,959	7,103
Gwangyang Works	7,179	6,951	6,345
Headquarters, Technology Research Laboratory, Office and Others	3,989	4,094	4,075
Technical Service Workers	17,634	17,501	16,050
Office Workers	1,743	1,503	1,473
Annual Contract-Based Employees	34	42	39
Monthly-Paid Part-Time Employees	12	7	5
Female Employees	312	309	363
Manager or Higher Level Female Employees	9	24	34
Disabled Employees	226	245	241
Hiring	438	285	468
Retirement	419	659	1,952
Retirement due to Age Limit	153	150	274

## 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.

Employee members on the Labor-Management Council and coordinators from each department are chosen by the workers through anonymous balloting. The selected personnel serve three year terms. The fourth round of elections was held in October 2006, during which 10 employee members and 415 coordinators were selected through electronic votes. The employee members deliberate on issues that affect the entire company such as wages, working conditions, employee welfare and productivity. The coordinators tackle issues pertinent to their respective departments and matters of common interest along with the Labor-Management Council. They help to build a sense of unity between the workers and the company via communication regarding POSCO's operations and policies.

### Major Activities of the Labor-Management Council in 2006

Category	Details
Employee Issues (regular meetings)	<ul style="list-style-type: none"> <li>- 2006 wage adjustment</li> <li>- Improved medical assistance</li> <li>- Adjustment in work environment allowance</li> <li>- Formation of labor-management research team for employment period extension</li> <li>- Revised standards on carrying over "refresh leave"</li> <li>- Adjusted standards on housing loans</li> <li>- Planning of 2007 employee education programs, etc.</li> </ul>
Implementation of Joint Labor-Management Activities to Raise Corporate Competitiveness	<ul style="list-style-type: none"> <li>- Expansion of Quick Six Sigma (QSS) activities throughout the company</li> <li>- Initiative to return or reuse off-balance sheet and surplus materials</li> <li>- Clothing use reduction</li> <li>- Company-wide activities to enhance employees' safety awareness</li> </ul>

In 2006, the Labor-Management Council led the initiative for "Corporate Competitiveness Improving Activities." The drive is aimed at promoting mutual growth of labor and management in the face of globalization. Through such activities, the council is working to foster a culture of engagement and raise productivity.

### 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.

#### Young Board Report Subjects in 2006

- Squandering at POSCO
- Uncovering Reasons to Work
- Middle Managers? The Locus of Change
- Conditions and Tasks of Sustainable Corporations

### Intranet POS-B

POSCO operates the intranet site POS-B as a space where employees can exchange opinions with others. Employees can discuss topics on the company and their anxieties related to work. Departments can monitor the message board, answer questions, and reflect on solutions to problems. POS-B, which also acts as a vital communication channel between employees and management, even allows employees to write to the chief executive officer. In 2006, employees registered and discussed 2,800 messages on POS-B. Of these, 124 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



## Employee Engagement Survey

This survey measures how engaged employees are in the company's and their individual performance. The survey results are used to find ways to encourage workers to become more involved in their work. POSCO has been conducting the survey annually since 2003 in conjunction with an outside consulting firm.

Various measures have been implemented to raise employee engagement levels, giving due consideration to the characteristics of the different work functions and employee ranks. They include improvements in work process and organizational structure and team empowerment activities. In particular, the emotional networking activities and work study groups at Pohang Works and Gwangyang Works present a model for "enhancing performance by motivating people."

We continue to explore ways to sharpen our competitive edge by bolstering employee engagement. From 2006, we have been drawing greater feedback from the frontline workers. This has heightened awareness on the importance of managing people working in the fields among the upper management and those serving in supervisory positions.

## Compensation and Welfare

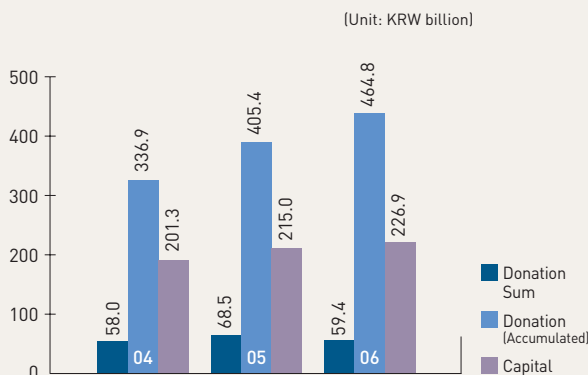
POSCO employs a yearly negotiated salary system for assistant managers or higher where one's wage can vary depending on performance. Added to this, we are solidifying our human resources management of compensation so as to be based on abilities and performances, by providing opportunities for early promotion 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 income.

## Assistance Available under the Labor Welfare Fund

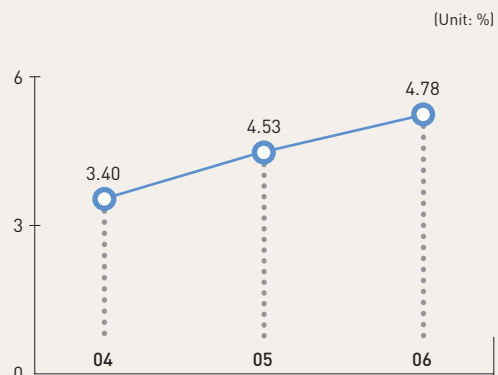
Category	Description
<b>Cafeteria Benefit Plan</b>	Employees may select from a range of welfare schemes within the budget set aside for each individual. Use of POSCO Welfare Card (credit card)
<b>Celebration/ Grievance Payment</b>	Distributed in the event of a family celebration or death
<b>Condolence Payment</b>	Distributed to employees who are on leave due to a work-related injury or for health reasons
<b>Condolence Payment for Death Unrelated to Work</b>	Distributed to surviving family members upon the death of an employee due to reasons unrelated to work
<b>Scholarship for Children</b>	Full tuition payment for middle school, high school or university for up to two children
<b>Medical Expense</b>	Annual medical fees in excess of KRW100,000 (combined total of employee and his/her spouse); maximum assistance of up to KRW10 million
<b>Housing Loan</b>	Up to KRW50 million for home purchase and up to KRW30 million for lease (Seoul basis) at annual interest of 3%
<b>Living Expense Loan</b>	Up to KRW10 million at annual interest of 5%
<b>Loan for ESOP Purchase</b>	Loan from the Labor Welfare Fund at annual interest of 5%

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 employees' independence and raising productivity. In 2006, four revisions were made to the operating standard, including an adjustment to medical assistance standards, in accordance with resolutions passed by the Welfare Fund Council.

### Donations to Labor Welfare Fund by Year



### Equity Stake of Employee Share Ownership Association





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 per person. If an employee wishes, he or she can receive a loan through the Labor Welfare Fund for the purchase.

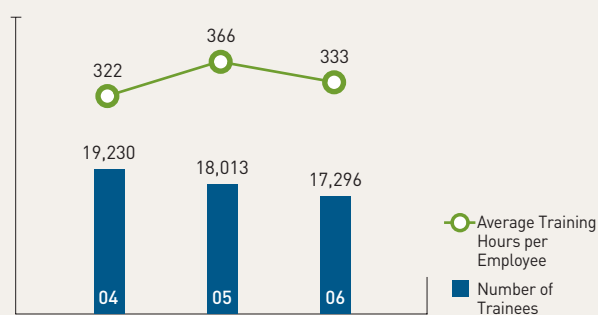
### Education and Career Development

In step with our mid-term strategy of “pursuing global growth,” POSCO decided on three major directions for training and education in 2006. The three are enhancing education to promote an innovative culture, fostering an advanced labor-management culture and cultivating global competency. In 2006, the average training time per employee was 333 hours and the total man-days



were 676,370. This included internal offline training, e-learning, external training, lifelong learning programs and training led by departments.

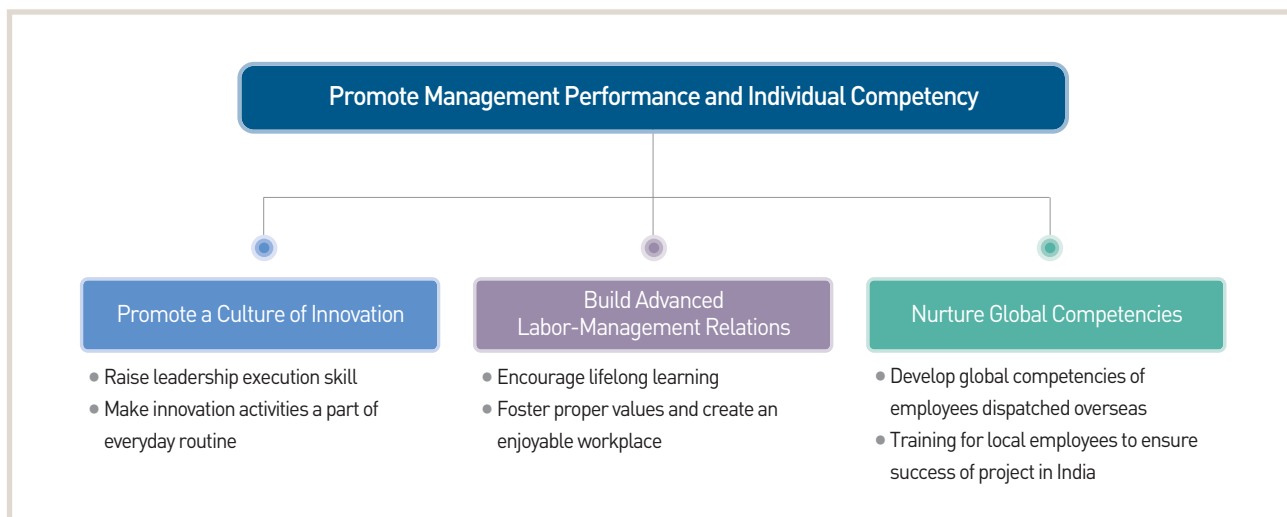
Average Training Time per Employee



### Leadership Training for Managers and Supervisors

POSCO is expanding its global operations with numerous projects such as the construction of an integrated steelworks in India. In line with our global expansion, we have been conducting global leadership training programs for people serving in management and supervisory roles. Launched in 2005, the Executive Academy is open to executives and department/section heads of POSCO as well as the executives of subsidiaries and CEOs of our business partners. Academy participants exchange ideas on key issues and receive training to cultivate the mindset and capabilities necessary to realize a global POSCO. In 2006, we introduced

### Management Goals of Education



leadership training for supervisors at various levels in the organizational hierarchy. These sessions are designed to reinforce the skills of mid-level managers and develop their ability to lead organizational change.

### POSCO Group Training Program

To power the growth of the entire POSCO Group, we introduced a Group initiation training program for new recruits of POSCO and all subsidiaries in December 2006. The program instills Group-wide core values (POSCO Way) and fosters a sense of belonging and unity among the new recruits. The course allows participants to obtain basic knowledge and cultivate healthy values as a member of the POSCO Group. The Group program is followed by introductory training organized by the individual companies to help the newest additions gain an understanding of the spirit and culture of the respective entities and acquire basic skills needed to perform their duties.

### Innovation Education

Grounded on the POSCO Six Sigma Model (PSSM), our innovation activities are intended to nurture employees who go about their work with a global perspective. As part of the Six Sigma initiative, innovation training empowers our workforce with the ability to drive organizational change and spread the spirit of innovation.

Innovation education at POSCO is broadly classified into the Six Sigma and Quick Six Sigma (QSS) categories. In 2006, 9,971 employees participated in these programs, which ranged from two-day courses (QSS) to those lasting 3.5 months (MBB; Master Black Belt). Rather than the toolset, the emphasis of our Six Sigma education is on the Six Sigma philosophy and mindset. Through these programs, employees are stimulated to innovate their way of thinking and develop their competencies. QSS training focuses on execution, so that employees are spurred to discover problems and pursue the necessary improvements while performing their job.

We believe that we have to overhaul our thought patterns and the way we go about our work to evolve into a world-leading

corporation. Our innovation education is nurturing smart and innovative people who embrace challenge and lead change.

### Lifelong Learning Program

POSCO introduced the Lifelong 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 competitiveness. The Lifelong 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 Lifelong 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 lifelong learning support system, opened cultural courses, and organized sessions focusing on work functions. In 2006, we set up a database of learning materials related to the five core areas of corporate management and distributed the data to managers and supervisors. We also focused on supporting Communities of Practice (CoP) to encourage the generation and sharing of work knowledge. We plan to provide greater support to frontline departments to induce a culture in which all employees actively pursue continuous learning.

### e-Leaders Academy

POSCO manages an e-Leaders Academy and selects employees from the team leader class, Six Sigma 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.

### Lifelong Learning

Category	Value Sharing Studies	Job Competency Studies	Cultural Studies
Goals	Increasing trust between employees and POSCO through the sharing of core values	Nurturing knowledge workers by encouraging employees to strengthen their capabilities as professional	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



## Knowledge Management

The purpose of knowledge management (KM) is to upgrade the competencies and performance of employees through the creation, utilization and sharing of knowledge and extension of the human network. In setting our action plans for 2006, we tried to ensure that KM activities make an actual contribution to corporate performance. With that in mind, our targets for the year were “strengthening know-how and knowledge management,” “upgrading Community of Practice (CoP) activities,” and “enhancing the knowledge mileage and reward system.” During the year, 1,346 cases of job know-how were registered, including 14 quality know-how. We honed our reward system, giving greater recognition for comprehensive knowledge and know-how creation, but not awarding mileage points for activities bearing little value.

The most meaningful achievement in 2006 was that CoP took root as a medium for innovation and learning. QSS and lifelong learning were carried out through CoPs, leading to the sharing and utilization of know-how on preventing waste and quality knowledge. It also resulted in the formation of a network of specialists. The link between CoPs, QSS and lifelong learning is producing synergies to build a unique system of knowledge management at POSCO.

Based on figures for December 2006, an average of 6,000–8,000 employees logged on to the Knowledge Management System (KMS) each day to access information necessary to carry out their duties. Moreover, 200–300 registrations of knowledge generated on the job and through CoP activities are made to the system on a daily basis. About 360,000 instances of quality knowledge are registered on KMS. This data is used by workers to perform their duties and as learning material. There are 2,878 CoPs at POSCO with total membership of 63,214. On average, each employee participates in 3.61 CoPs. Furthermore, we opened the POSCO Digital Library in July by integrating the five libraries spread out in different regions. The opening has expanded the pool of digital information and provides easier access to a wide range of data.

POSCO has been a recipient of the knowledge management award jointly presented by Maeil Business Newspaper and the consulting firm Booz Allen Hamilton for three consecutive years, from 2004 to 2006. Last year, POSCO received the grand prize. The awards were introduced in 1999 to recognize companies that contribute to raising Korea’s national competitiveness through knowledge management. Additionally, POSCO was selected as Asian MAKE (Most Admired Knowledge Enterprise) by Teleos, a knowledge management research agency in UK, in 2005 and 2006.

Our KM program has been benchmarked by some 110 companies. We have assisted various overseas steel producers in establishing their KM systems.

## HR Development Support for Our Outsourcing Service Partners

POSCO was selected to take part in the SME Job Training Consortium program in November 2004. The program was introduced in 2001 to help SMEs (small- and mid-size enterprises) with human resources development. It brings together large corporations with SMEs, who receive assistance with their employee training. Financial support is provided by the government. Leveraging the infrastructure and know-how of POSCO Human Resources Development Center, we offer tailored education services to subsidiaries, outsourcing service partners, suppliers, and SMEs in the vicinity of Pohang and Gwangyang.

Outsourcing service partners manned by competitive human resources are essential for the continued development of POSCO. Accordingly, we provide support to enhance the human resources, as well as technologies, of those enterprises. Our assistance includes training for frontline workers, setting up advanced equipment, and customized education programs.

We held the inaugural meeting of our SME Job Training Consortium on March 17, 2005. In the initial year, we provided services for 4,200 persons in 132 companies. In 2006, our support reached out to 215 member companies (82 business partners, 94 suppliers and 39 affiliated companies). We organized job training courses for 122 people and skills improvement sessions for 7,746 attendants.



# Environmental Management

POSCO has built an environmental management system and is taking various steps to preserve our planet for future generations.

## Environmental Management System

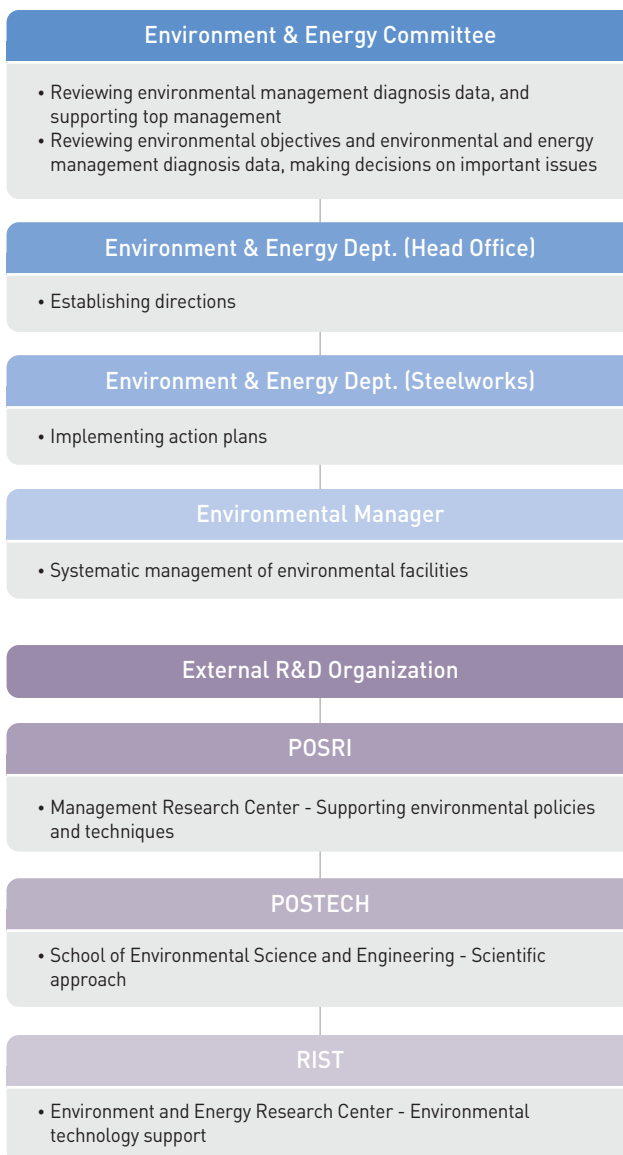
POSCO is committed to enhancing value by promoting harmony between man and nature. POSCO maintains an environmental management system (EMS) that incorporates our environmental vision, policy, organizations and accounting system.

To enhance the impact of environmental management, POSCO's environmental division is working closely with the Research Institute of Industrial Science & Technology, Pohang University of Science and Technology (POSTECH), POSCO Research Institute (POSRI), and other domestic and overseas research institutions to analyze current trends and develop new technologies. We monitor the effectiveness of our EMS in view of ISO14001 requirements through internal and external reviews.

## 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 9,000 workers have finished the course, 753 in 2006 alone.

## Environmental Organization



## Environmental Objectives and Action Plans in 2006

Objective 1 Reduce environmental load continuously	Objective 2 Improvement of communication with environmental stakeholders	Objective 3 Voluntary implementation of global treaties and domestic policies
<b>Basic Policy</b> Continuous reduction of pollutants and stable utilization & increasing value added of byproducts	<b>Basic Policy</b> Environmental improvement in surrounding regions and better communication with stakeholders	<b>Basic Policy</b> Formulation of action plans related to government policies as international environmental treaties takes effect
<b>Action Plan</b> <ul style="list-style-type: none"> <li>• Reduce chemical substances pollutants</li> <li>• Increase added value for byproducts and find stable demand</li> </ul>	<b>Action Plan</b> <ul style="list-style-type: none"> <li>• Enhance communication with stakeholders regarding the environment</li> <li>• Conduct environmental impact minimization</li> <li>• Participate in activities to improve the local environment</li> </ul>	<b>Action Plan</b> <ul style="list-style-type: none"> <li>• Reduce POPs (Persistent Organic Pollutants) and respond to regulations</li> <li>• Establish post-Kyoto Protocol countermeasures</li> </ul>

## ISO14001 Audit Results in 2006

Category		Pohang Works	Gwangyang Works
Audited Depts.		9 depts. including iron-making dept.	9 depts. including iron-making dept.
External Review	Certification organization	Lloyds's Register Quality Assurance Korea (LRQA KOREA)	
	Period	2006. 5. 15 ~ 18	2006. 10. 23 ~ 26
	Audit results	<ul style="list-style-type: none"> <li>• Build up an information delivery process between environment dept. and functional depts. related to environmental regulations and voluntary compliance subjects</li> <li>• Organize education and training for employees involved in environmental duties</li> </ul>	
Internal Review	Period	2006. 5. 2 ~ 4	2006. 9. 12 ~ 14
	Audit results	<ul style="list-style-type: none"> <li>• Need to draw up and implement environmental training program for outsourcing partners</li> <li>• Improvement in emergency response training</li> </ul>	

## Automatic Monitoring Facilities and Items

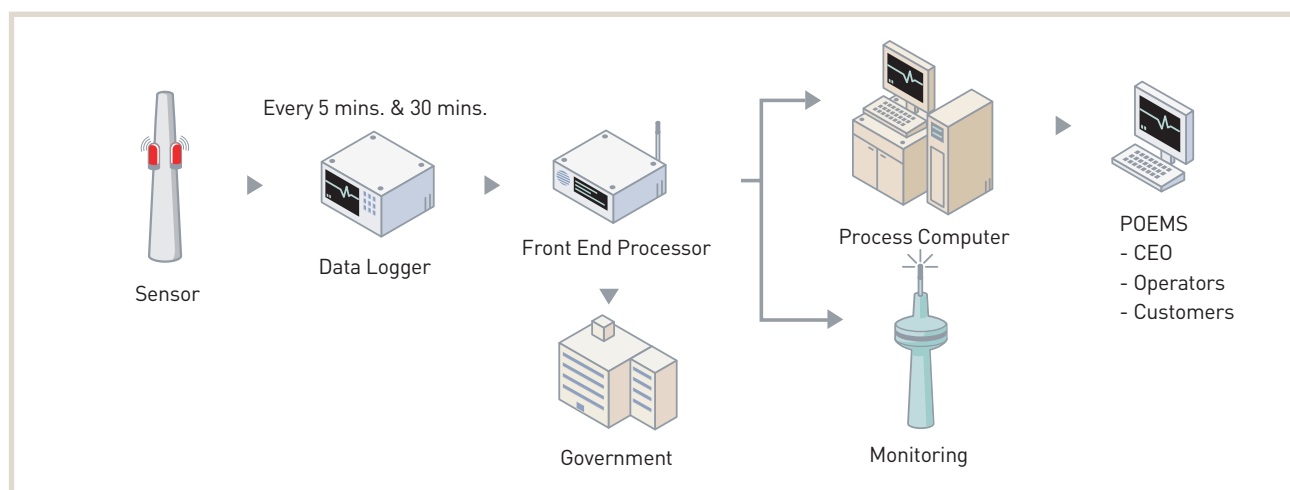
Category	Stack Emissions	Atmospheric Concentration	Open-Path Method	Wastewater Effluent
Pohang Works	40 sites	2 sites	6 paths	3 sites
Gwangyang Works	56 sites	3 sites	9 paths	-
Items	9, including Dust, SO <sub>2</sub> , and NO <sub>2</sub>	9, including PM10, SO <sub>2</sub> , NO <sub>2</sub> , and O <sub>3</sub>	7, including SO <sub>2</sub> , NO <sub>2</sub> , and O <sub>3</sub>	4, including COD, and SS

\* SO<sub>2</sub>: sulfur dioxide, NO<sub>2</sub>: nitrogen dioxide, PM10: Particulate matter smaller than about 10 micrometers, O<sub>3</sub>: ozone, COD: chemical oxygen demand, SS: suspended solid

\* No. of stack emission gauges - 41 in 2005 → 40 in 2006 (shutdown of fluidized bed type incinerator in Sept. 2005)

\* No. of open-path gauges - 7 in 2005 → 6 in 2006 (FINEX plant set up in one area)

## Telemetry System Management



## Environmental Impact Assessment

POSCO conducts regular activities to assess air and water quality and monitors the ecosystems of soil and coastal areas as well as pollutants in the surrounding areas. We also have external specialists evaluate the water quality and ecosystems around landfills and changes of the topography in soil. The results of

environmental impact assessments are reported to the Korean government. Furthermore, POSCO frequently tests for air pollution with vehicles fitted with measurement equipment and if requested, such information is promptly provided to the local communities to improve public awareness.

### 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.

### Compliance

POSCO has more stringent standards for pollutants and waste than the legal requirements and conducts monitoring on a regular basis. Out of a total of 62 inspections by relevant authorities, two cases were noted following the partial malfunction of our water sprinkler system. The problem was promptly corrected.

### POSCO Environmental Accounting System



### Joint Activities with Environmental Organizations to Preserve Biodiversity



POSCO is participating in the preservation or ecosystem in eastern coastal regions through various research activities. In addition, the company has been closely working with the 'Forest for Life Pohang', a forest-specified institution to preserve the local flora since August 2005. It has also been conducting environmental protection activities in the Sueo Brook, a water source for Gwangyang citizens, in cooperation with local residents and citizens groups. Another major undertaking is the underwater cleaning activities and projects to stock the sea with fingerlings in an effort to protect Gwangyang Bay, a fishing area for local fishermen. Other green activities include research to assess environmental impact and inspection of the local ecosystem.

## 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 2000 and a total of 138 products in the fields of environmental preservation, energy saving, and recycling improvement by 2006. The share of environment-friendly products developed was up to 83% in 2006 from 81% in 2005. The accumulated sales volume totaled 1,143 thousand tons between 2000 and 2006.

## Corrosion Resistant Hot Rolled Steel for Environmental Facilities

Corrosion resistant hot rolled steel for environmental facilities is specialty steel that is 10 times more resistant to sulfuric corrosion compared to general carbon steel. Given its features, the product is used in boiler pipes for thermal power plants (using fossil fuel with sulfuric contents) or dust collectors for environmental facilities. The corrosion resistant hot rolled steel developed with proprietary technology of POSCO (product name: ANCOR) obtained the NEP (New Excellent Product) mark from



the Korean Agency for Technology and Standards (KATS; under the Ministry of Commerce, Industry and Energy) in 2006 and further enhanced the credibility of POSCO's products. The NEP certification is given by the Ministry of Commerce, Industry and Energy for products developed with new technology. Since public offices prioritize the purchase of certified products, the market naturally expands for companies that have obtained the NEP mark.

## Types of Environment-Friendly Products

Category	Function	Number of Products in 2000~2006
Environmental Preservation	<ul style="list-style-type: none"> <li>Non-containment of environmental hazardous substances, isolation of substances</li> <li>Reduction of noise and quakes, improvement of exhaust gas purification performances</li> <li>Improvement of collision and safety properties</li> </ul>	13
Energy Saving	<ul style="list-style-type: none"> <li>Light-weight automobiles, omission of a process of heat treatment</li> <li>Improvement of energy efficiency, and improvement of processibility</li> </ul>	103
Recycling Improvement	<ul style="list-style-type: none"> <li>Improvement of corrosion resistance and life span, and improvement of durability</li> </ul>	22

Since 2005, POSCO commenced full-fledged production of corrosion resistant hot rolled steel for environmental facilities and supplied the product to large companies such as Doosan Heavy Industries & Construction, Halla Energy & Environment and KOPEC. The steel was also supplied for national projects such as the thermal power plant of Taean and Young Hung. However, it was deemed lacking compared to Japanese products in terms of actual application. Accordingly, POSCO applied for the NEP certificate in March 2006. We obtained certification after passing the final inspection on the technology and manufacturing process and a review by the certification committee. Now POSCO stands above the competition and is better positioned to supply the product to large companies and government organizations. Furthermore, the specialty steel can help our clients in opening up markets both at home and abroad. We will endeavor to boost sales of the corrosion resistant hot rolled steel for environmental facilities, as well as prepare for production of high-strength corrosion resistant hot rolled steel for environmental facilities.

## Environment-Friendly Products Development Status

Category	2002	2003	2004	2005	2006
Environment-Friendly Products Development Ratio (%)	65	74	74	81	83
Number of Environment-Friendly Product Types	20	25	25	22	19
Accumulated Orders (ton)	68,871	130,830	418,007	681,131	1,143,111

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



## 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.

## Air

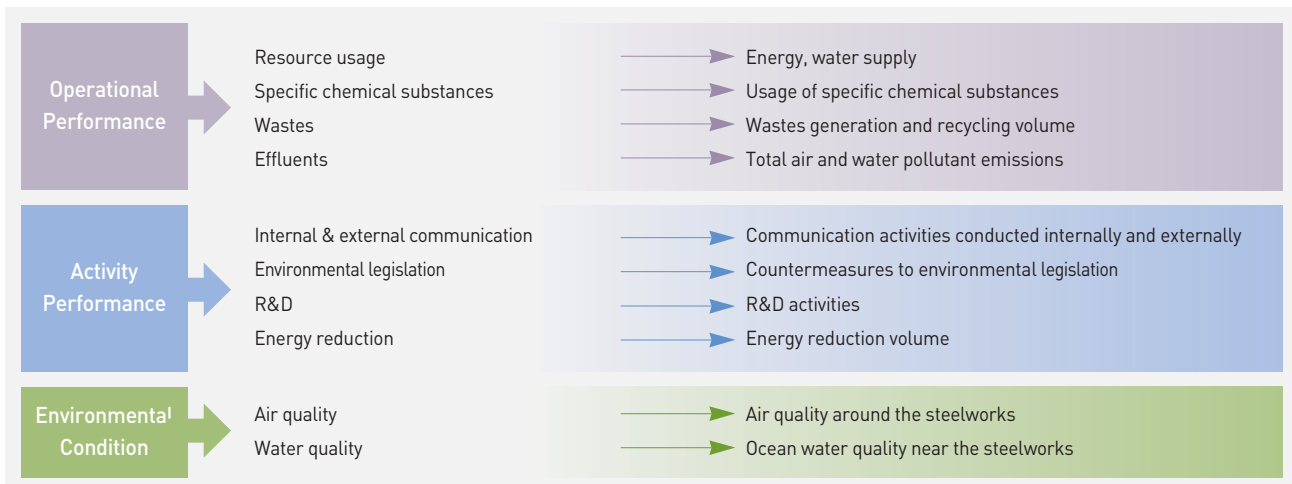
Major air pollutants generated from steelmaking processes include dust, sulfur oxides (SO<sub>x</sub>), and nitrogen oxides (NO<sub>x</sub>). POSCO has continued to invest in technology development to reduce the amount and density of air pollutants. Based on a comprehensive plan, we carefully monitor and inspect all dust collection systems at our steelworks in conjunction with RIST.

### 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. We introduced clean extinguishing equipment in 2006 to replace the former halon gas extinguishers.

\* TCE: Trichloroethylene  
\* CFCs: Chlorofluorocarbon

## POSEPI Factors



\* Management Performance Index changed to Activity Performance Index in 2006 due to change in business environment

\* Calculation of 2006 Activity Performance Index: Used revised index categories, then adjusted for consistency with 2004-2006 Management Performance data

## POSEPI

Category	Reference Year	2002	2003	2004	2005	2006
Operational Performance	60	85	84	83	83	87
Activity Performance	30	35	38	39	41	44
Environmental Condition	10	8	8	9	11	11
Total	100	128	130	131	135	142

## Dioxin

POSCO signed a Voluntary Agreement for Reduction of the Emissions of Persistent Organic Pollutants (POPs) led by the Ministry of Environment in July 2005. Accordingly, we are endeavoring to introduce sintering exhaust treatment facilities to reduce dioxin and develop technology to lower POPs. The best available technology (BAT) - absorption facility for activated carbon at the sintering facility units 3 and 4 - was installed and became operational in July 2004 at Pohang Works. In addition, a new technology which significantly reduces dioxin and SOx by injecting NaHCO<sub>3</sub> was developed and applied to all sintering plants at Gwangyang Works from December 2004. The technology was also applied to the No. 1 and 2 sintering plants at Pohang Works from January 2005. We plan to complete the installation of gas exhaust treatment facilities in all sintering plants at Gwangyang Works by 2007. The measures noted above are expected to reduce dioxin emission in 2007 by more than 70% relative to 2001.

## Chemicals

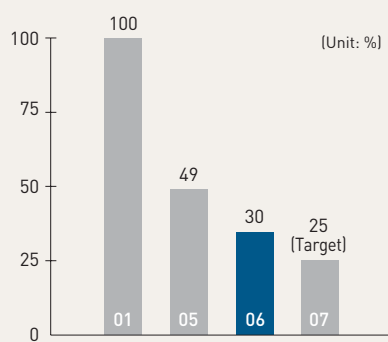
POSCO made a voluntary agreement to reduce the emission of chemicals with the government and civic groups in December 2004. This agreement in which 19 local companies are



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 the 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.

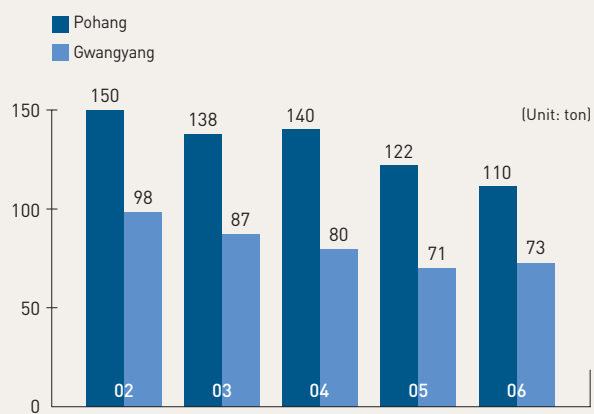
\* BTX: Derivative chemical from Benzene, Toluene and Xylene

### Reduction of Dioxin relative to 2001



\* Reduction of dioxin emission was calculated with the reference figure of 100 for the year 2001

### Emissions of Chemical Substances



## Emission of Air Pollutants

(Unit: (Kg/T-S))

	1997	2002	2004	2006
Dust	0.44	0.22	0.24	0.24
SOx	1.47	0.91	0.91	0.94
NOx	1.84	1.49	1.41	1.44

## Water

POSCO was daily supplied with about 130,000 and 180,000 tons of water from the Youngcheon Dam and Sueo Dam, respectively. The supplied water accounts for only about 2% of the steelworks' daily needs. Most water is treated at the 1st wastewater treatment plant (WWTP). More than 98% of the water from the 1st WWTP is recycled and the remaining water undergoes advanced treatment at the 2nd WWTP. A portion of the water from the 2nd WWTP is used for cleaning roads in steelworks or sprinkling at the materials yard to reduce dust. The remaining portion is discharged into the nearby sea.

## Water Use and Discharge

(Unit: m<sup>3</sup>/T-S)

	1994	2004	2005	2006
Water Use	4.27	3.78	3.76	4.00
Discharge	1.95	1.51	1.61	1.54

\* Water use: external supply + underground water and surface water

## Chemical Oxygen Demands (COD) Concentration in Effluents

(Unit: mg/l)

	1994	2004	2005	2006
Concentration	10	6	5	5
Legal limit	80	70	70	70

## T-N Concentration in Effluents

(Unit: mg/l)

	2000	2004	2005	2006
Concentration	51	20	21	15
Legal limit	-	60	60	60

\* T-N: Total Nitrogen

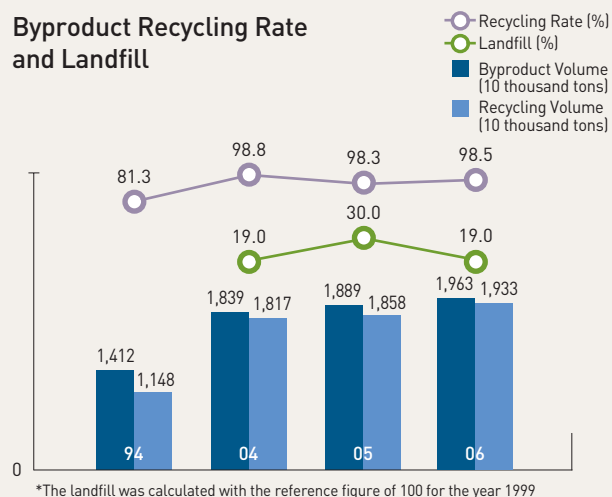
\* T-N Concentration has been regulated since 2003.

To minimize the emission of water pollutant, activated carbon adsorption facilities have been installed in the 1st WWTP for the coke-making plant at Pohang Works and the 2nd WWTPs at Gwangyang Works. In 2006, state-of-the-art biological treatment facilities were installed in the 1st WWTP for the iron and steel making processes to reduce the load of the water pollutants into the 2nd WWTPs at Pohang and Gwangyang Works. In addition, the new 2nd WWTP was built to improve the quality of the wastewater from the 2nd WWTP for the iron and steel making plants at Pohang Works.

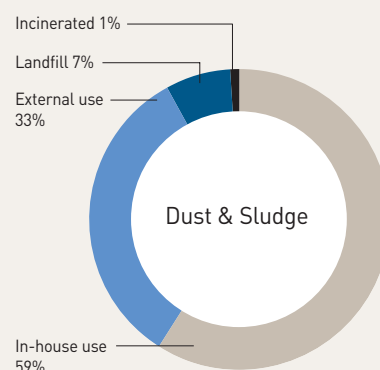
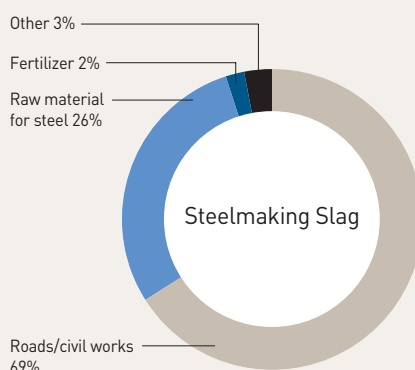
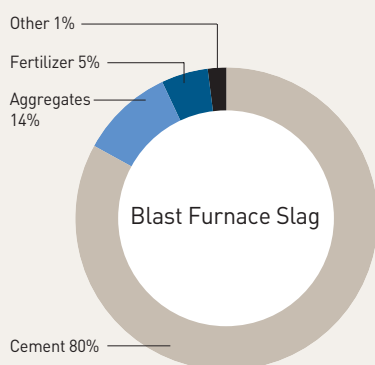
## Byproducts

The total volume of byproducts created during steelmaking at the Pohang and Gwangyang Works in 2006, reached 19.63 million tons, 75% of which was slag, with 45% blast furnace slag and 30% steelmaking slag, 15% dust and sludge, and the remaining 10%

## Byproduct Recycling Rate and Landfill



## Byproduct Recycling by Application (2006)



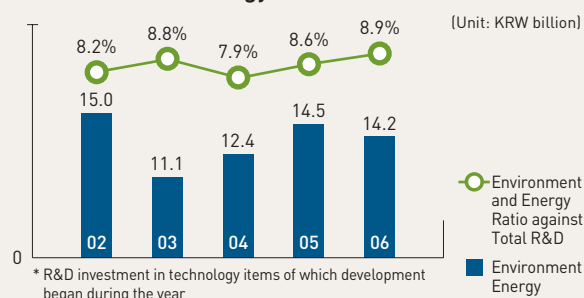
was other slag materials. Around 98.5% of byproducts are recycled and the remainder are either incinerated or solidified for landfill.

Blast furnace slag is used as a raw material for cement and fertilizers and is used at building sites. Dust, sludge, and others are either recycled as main/sub raw materials or as raw materials for cement and fertilizers. To enhance the added value from blast furnace slag, 84% of the total output volume in 2006 was produced as granulated slag. In addition, we are expanding the application of composite slag for road construction to solve the problem of lump ore shortage (in light of increased production of granulated slag) and maintain stable demand for steelmaking slag.

### Environmental Investment and Cost

Our environmental investment accounted for 7.3% of our total corporate investment, or KRW194 billion. Since its establishment in 1968 until late 2006, POSCO has invested KRW 2.95 trillion in environmental improvement activities. This amount is equivalent to 8.6% of all investments made in facilities. To maintain and manage environmental facilities, a total of KRW569.5 billion was expensed as environmental costs in 2006. The total is KRW 630.0 billion with energy recovery cost and environmental R&D cost.

### Environment and Energy R&D Investment



### Key Environmental Facility Investment in 2006

(Unit: KRW billion)

Category	Investment Details	Amount
Air	<ul style="list-style-type: none"> <li>• Installation of air pollution treatment facilities on 2nd repair of blast furnace unit 3</li> <li>• Replacement of superannuated acid recovery facility in the cold rolling mill plant 1</li> <li>• Installation of air pollution treatment facilities at scrap yards</li> </ul>	50.4
Water	<ul style="list-style-type: none"> <li>• Improvement of wastewater discharge system in iron and steel making areas</li> <li>• New treatment facility for wastewater discharged from blast furnace</li> </ul>	136.7
Recycling & Others	<ul style="list-style-type: none"> <li>• Replacement of STS (Stainless Steel) steelmaking slag pot</li> <li>• Environment improvement in byproduct storage facility</li> </ul>	6.9
Total		194.0

### Environmental Cost

(Unit: KRW billion)

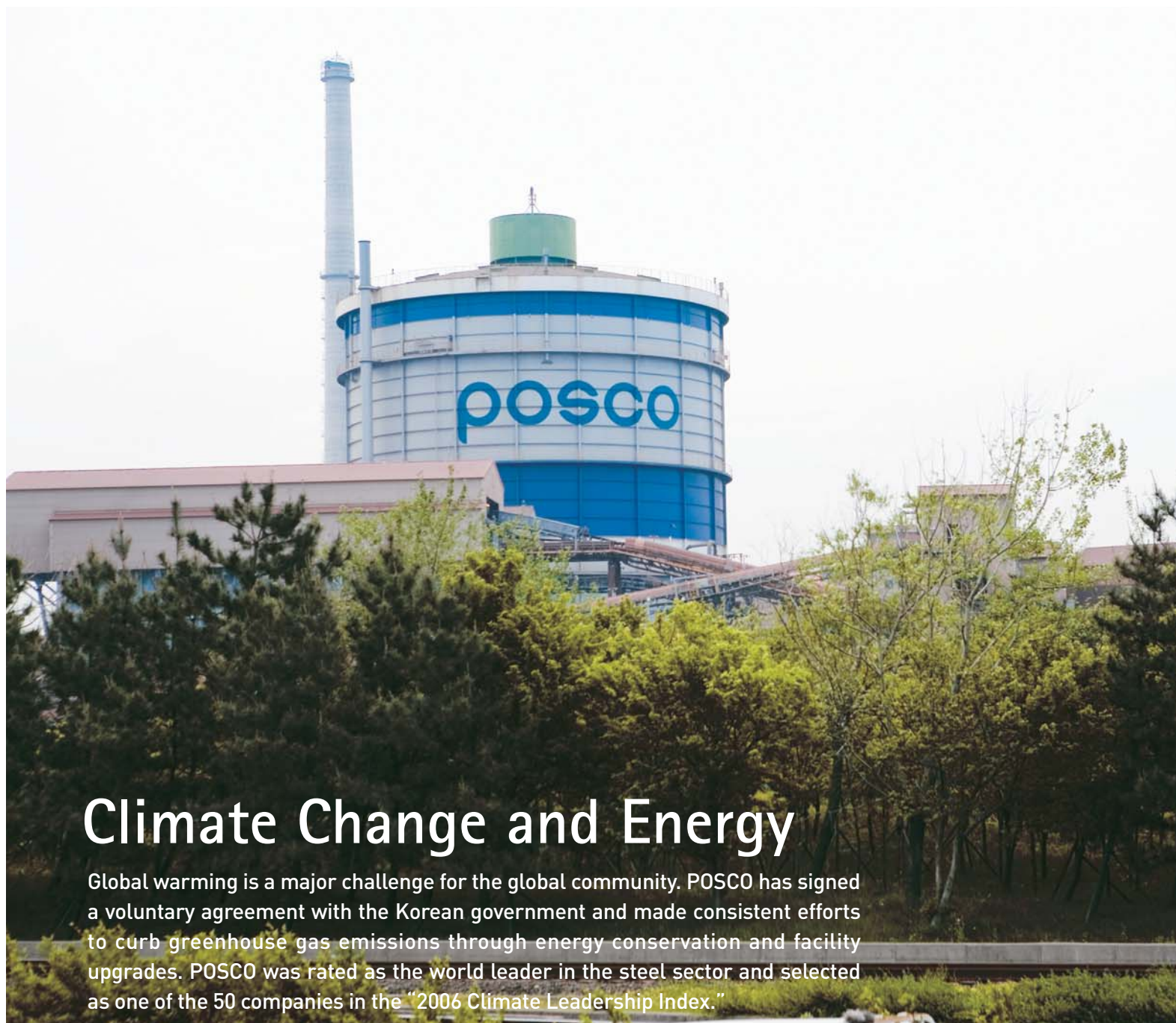
Category	Item	2002	2003	2004	2005	2006
Environmental Facility Management	Electricity cost, maintenance cost, labor cost, etc	258.3	296.6	264.9	225.1	226.4
Recycling	Byproduct processing cost, delivery cost, incineration/landfill cost, outsourced treatment cost, etc	133.6	134.2	146.4	199.4	186.8
Depreciation	Environmental facility depreciation cost	114.3	119.9	126.3	115.0	122.0
General Management	Environment related department labor cost, water usage dues, etc	11.9	20.5	21.0	25.5	34.4
Environment R&D*	Environmental R&D cost				10.3	9.7
Energy Recovery*	Byproduct gas, hot water, steam, and power				51.7	50.7
Total		518.1	571.2	558.6	627.0	630.0

\* Added in 2005 (ABM system used)

### Green Partnership with Suppliers

The Green Partnership of the supply chain aims to promote environmental management for mutual benefits with small and mid-sized enterprises. The pilot project is carried out in cooperation with the Ministry of Commerce, Industry and Energy and sponsored by Korea National Cleaner Production Center. During the pilot project phase (from Year 2003 to Year 2006), POSCO provided assistance to 44 small and mid-sized suppliers and customer companies. POSCO implemented many programs for clean technology transfers, ISO14001 certification, environmental reporting, and various support programs for acquisition of environmental labels. POSCO made an additional voluntary agreement with the Ministry of Commerce, Industry and Energy in October 2006 to expand the project to contractors.





# Climate Change and Energy

Global warming is a major challenge for the global community. POSCO has signed a voluntary agreement with the Korean government and made consistent efforts to curb greenhouse gas emissions through energy conservation and facility upgrades. POSCO was rated as the world leader in the steel sector and selected as one of the 50 companies in the "2006 Climate Leadership Index."

Climate change is one of the greatest challenges of this century. POSCO is an active participant of global initiatives to find and implement solutions to address global warming. This is one of the ways in which we are fulfilling our responsibilities to the environment and society.

We signed a voluntary agreement with the Korean government in 1998 and have made consistent efforts to reduce greenhouse gas emissions through energy conservation and facility upgrades. After the Kyoto Protocol went into effect in February 2005, we set up a greenhouse gas management system that meets international standards. We have also joined the government-led greenhouse gas reduction registry.

CDQ (Coke Dry Quenching) and TRT (Top-gas pressure Recovery Turbines) are major energy recovery facilities operated at integrated steelworks. POSCO boasts one of the highest installation rates in the world, with 90% and 100% respectively. We are now striving to attain our energy reduction goal of 1.04 million TOE (Ton of Oil Equivalent: corresponds to 10 million kcal) between 2004 and 2008. Since 2004, we have been implementing a 5-year energy facility investment project totally worth KRW 890 billion which includes power plant for byproduct gas recovery at Gwangyang Works and additional CDQ facilities at Pohang Works.

Steel making is an energy intensive industry and POSCO is equipped with highly energy efficient processes. We have also launched research into technological solutions to drastically curb CO<sub>2</sub> emissions as part of our long-term roadmap.



## Goal, Strategy and Action Plan



As part of an international program to develop innovative technology to reduce CO<sub>2</sub> emissions, we are carrying out such projects as "CO<sub>2</sub> absorption and capturing process for byproduct gases from steel production." We are also working to secure carbon credit through increased investment in renewable energy and participation in the clean development mechanism.

## Carbon Management System

POSCO has created a companywide greenhouse gas management system which covers both Pohang and Gwangyang Works. The system, developed in accordance with the WBCSD/WRI Greenhouse Gas Protocol Guidelines, went into operation in January 2006. Under the system, CO<sub>2</sub> emission is calculated by taking into account annual fuel consumption, electricity purchase, product output and amount of byproduct generation. The system allows us to more effectively manage CO<sub>2</sub> emissions during the steelmaking process. We also anticipate the system to facilitate implementation of the Kyoto Mechanism.

## Greenhouse Gas Emissions

The main greenhouse gases generated from integrated steelworks is CO<sub>2</sub> from coal, which is used as a reducing agent. POSCO has made significant progress in slashing CO<sub>2</sub> emissions per ton of crude steel produced, with a reduction by 6.8% in 2006 from 1990. A slight increase in CO<sub>2</sub> emissions in 2006 over 2005 was due to an increase in the production proportion of hot metal for use in high quality steels. Lowering the purchase of iron ore pellets and replacing them with self-produced sintered ore was another factor that pushed up CO<sub>2</sub> emissions.

## Energy Conservation

Energy conservation is an important means of reducing greenhouse emissions from the steelmaking process. Our 2006 target is to take the global industry leadership in energy





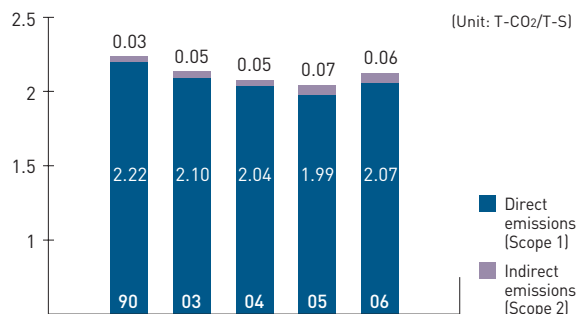
efficiency. We are taking diverse actions to achieve that goal. A comprehensive energy information system has been devised to search for mid-to-long term energy conservation plans and to evaluate our activities, performance as well as energy per ton of crude steel. The system is also used for sharing information on energy conservation ideas and activities among departments.

We held an energy conservation idea contest and put 117 winning ideas into practice. Moreover, energy assessment, department

workshops, and benchmarking studies resulted in savings of KRW68.9 billion in energy costs in 2006 alone. Starting in April 2006, we computerized the energy diagnostic system to further advance our initiative.

Six Sigma activities to build an innovative corporate culture also have been instrumental in achieving success. Improvement of steel plate plant and furnace operations in Pohang Works' Wire Rod Division cut the lag time between processes. This innovation led to a 13% reduction over 2005 in the reheating furnace's unit energy use.

### CO<sub>2</sub> Emissions per Ton of Crude Steel



\* Calculated based on the WBCSD/WRI Greenhouse Gas Protocol Guidelines (2004)

- Calculation scope: Pohang Works & Gwangyang Works  
 - Direct emission (Scope 1); CO<sub>2</sub> emissions via transportation in the steelworks excluded  
 - Indirect emission (Scope 2); Indirect CO<sub>2</sub> emissions via use of purchased electricity

\* CO<sub>2</sub> emissions may be subject to change in the future according to adjustment in the national emission factor and boundary condition for calculation as well as self-production of cokes, self utilization of byproduct gas and emissions factor adopted at calculation.

### Second Voluntary Agreement to Reduce Energy

POSCO made a second voluntary agreement with the government to reduce energy consumption by 6.9% or 1.04 million TOE 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 1.26 million TOE in energy consumption over five years from 1999 to 2003, using 1997 as a base year.

### Byproduct Gas Recovery

Most of the fuel used in POSCO's steelmaking operations is byproduct gases such as COG (Coke Oven Gas), BFG (Blast Furnace Gas), LDG (Linz-Donawitz Converter Gas) and FOG (Finex Off Gas) which are generated during the production process. Surplus byproduct gases are used in in-house generation systems

within the steelworks. In 2006, 79% of power used in the Head Office and the Pohang and Gwangyang Works was procured from the in-house power plant using byproduct gases, energy recovery facilities such as CDQ and TRT, and LNG composite generation facility. The remaining 21% was secured through external supply.

The CDQ facility cools the red-hot coke from coke ovens using nitrogen gas and sends it to the blast furnace. During the cooling process, the facility recovers the heat from the coke and makes steam, which is used to run generators, ultimately saving energy. We installed two more CDQ facilities at the Coke Plants 3 and 4 of the Gwangyang Works in 2005. They have an energy saving effect of 125,000 TOE in 2006. We are anticipating additional energy savings of 64,000 TOE a year when Coke Plant 2 and 5A, slated to open in March and December of 2007, respectively, get into full swing. Meanwhile, POSCO has expanded its TRT capacity and generates additional power of 5MW per hour at the Pohang and Gwangyang Works.

To recover the increased amount of byproduct gas from expansion gases generated after the rebuilding of blast furnaces, POSCO completed building a 100MW steam power facility in August 2006, which was ahead of schedule. Moreover, we are in the process of constructing a 150MW combined power generation facility to retrieve byproduct gases generated from the FINEX process. POSCO also expects fuel savings of 3~5% from the application of technology to preheat BFG by 120°C using exhaust gas (200°C) from power plants at Gwangyang Works from 2006.

### CO<sub>2</sub> Breakthrough Technology Development

We believe existing technologies are not enough to reduce greenhouse gas emissions and are committed to mid-to-long term innovative technology development under the POSCO CO<sub>2</sub> Breakthrough Framework to curb emissions.



#### • CO<sub>2</sub> Capturing Technology Using Ammonia and Waste Heat

Technology capturing CO<sub>2</sub> from byproduct gases generated from the blast furnaces using the ammonia absorption method. Easy application due to a rise in byproduct gas calories. Also under consideration is separating and then treating captured CO<sub>2</sub>.

#### • CO<sub>2</sub> Fixation Using Marine Bio- Slag

Technology using steel byproducts to develop artificial fishing reef and marine forests to promote growth and photosynthesis of seaweeds while fixating CO<sub>2</sub> through byproducts' carbonation reactions.

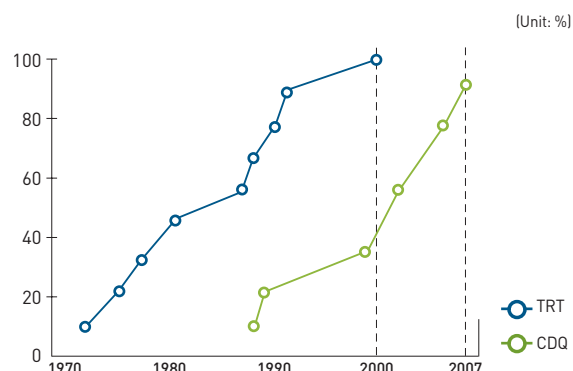
#### • Hydrogen Production Technology Using Byproduct Gases and Waste Carbon Source

Technology using coke oven gas, tar and waste plastics generated from the steelmaking process to produce hydrogen. Under consideration is capturing and separating CO<sub>2</sub> generated during the hydrogen synthesis process and turning it into clean hydrogen.

#### • Sensible Heat Recovery of Sintered Ore and Preliminary Reduction Technology

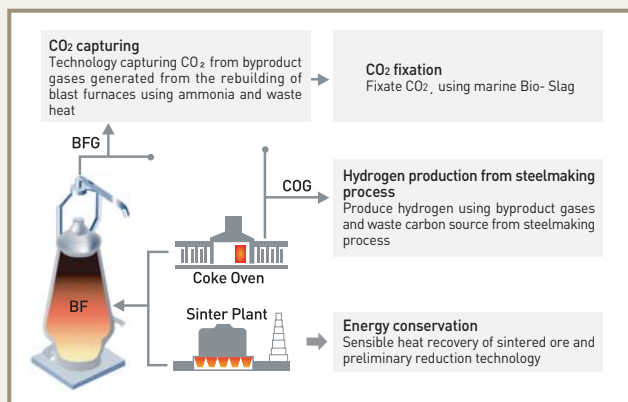
Technology using reduced gas to retrieve energy contained in sintered ore of approximately 850°C.

Installation Rate of Energy Recovery Facilities





## POSCO CO<sub>2</sub> Breakthrough Framework



### Strip Casting

POSCO has been developing strip casting technology since 1989. The technology represents an advance in the steelmaking process and eliminates the forging and rolling processes to cast strips directly from molten steel. Not only does this method lower operational costs, but it also dramatically reduces energy consumption and pollutants. POSCO finished constructing a 600,000-ton capacity “poStrip” demo plant within Pohang Works in June 2006, and will endeavor to secure the technology for commercialization.

### Steel Taskforce of Asia-Pacific Partnership

Six countries in the Asia-Pacific region (Korea, US, China, India, Japan, Australia) signed a partnership for clean technology development and UNFCCC in July 2005 and formed a taskforce team comprising government and industries in January 2006.

To achieve voluntary greenhouse gas reduction and clean technology deployment, POSCO is actively participating in the taskforce team in the steel industry. Discussions are underway to transfer technologies and induce cooperation, and there is growing anticipation for visible results.

### Participation in Greenhouse Gas Registry

POSCO participates in the Korean government’s GHG Emission Registration Reduction Project supervised by the Korea Energy Management Corporation and was pursuing nine greenhouse gas reduction projects until the end of 2006. The GHG Emission Registration Reduction Project provides an opportunity for us to enhance our ability to counter climate change and participate in the future carbon-trading market.

## POSCO’s Domestic & International Cooperative Activities for Climate Change

	Activities	Details
Domestic	Voluntary Agreement of Energy Reduction	Voluntary agreement on a 5-year target between government and businesses to save energy and reduce greenhouse gas
	Energy Saving through Partnership	Led by the Korea Energy Management Corporation, this is an effort among companies to share proprietary technology and know-how for energy reduction
	Taskforce Team of the KISA for the UNFCCC	Participation in the taskforce bracing for the UNFCCC organized by KISA, Ministry of Commerce, Industry, and Energy, key steel companies and research institutions
	IISI Kyoto Protocol and the Steel Industry Project	Cooperation of steel companies for response to the climate change
Overseas	IISI CO <sub>2</sub> Breakthrough Program	Participation in IISI CO <sub>2</sub> Breakthrough Program, jointly pursued by international steel companies
	Steel Taskforce of Asia-Pacific Partnership	Participation in the steel taskforce to implement Asia-Pacific Partnership for Clean Technology Development and UNFCCC
	IISI LCA Project	LCA Project led by IISI. Activities involve developing LCA software for steel processing and LCA automatic input system linked to ERP

\* KISA: Korea Iron & Steel Industry

\* IISI: International Iron and Steel Institute

\* UNFCCC: United Nations Framework Convention on Climate Change

\* LCA: Life Cycle Assessment

\* ERP: Enterprise Resource Planning

## Proactive Activities for Clean Development Mechanism (CDM)

POSCO is pursuing Clean Development Mechanism (CDM) schemes such as small hydroelectric power plants and overseas afforestation and reforestation projects. POSCO has reviewed the feasibility of small hydroelectric power plants as part of CDM, and facility investment is underway. Two small-scale hydroelectric power plants with power generation target of 300kW are being installed at the Gwangyang Works (to become operational from May 2007). Electricity of 4.82 million kWh will be generated annually from the units. We have also analyzed the investment environment and reviewed the feasibility of projects by the Overseas Forestation Project Team, which was mobilized in May 2005. We are devising plans for the investment target, the selection of species of trees, and pilot planting.

## External Recognition

### Inclusion in '2006 Climate Leadership Index'

Based on the CDP (Carbon Disclosure Project) evaluation of climate change countermeasure of major global companies, POSCO was rated as the global leader in the steel sector and was selected as one of the 50 companies in the '2006 Climate Leadership Index.' The CDP Committee was commissioned to

assess the climate change countermeasure of global companies included in key indices such as FT500 and S&P500 by 225 investment institutions. The evaluations have been conducted since 2003. The committee noted POSCO's efforts to develop breakthrough technology for energy saving such as strip casting and efforts to develop renewable energy. This is the second time since 2003 that POSCO was selected as the section leader for the steel industry. POSCO is the only Korean company included in the 2006 Climate Leadership Index.

### Designated as One of the Best Voluntary Energy Saving Companies

Gwangyang Works diligently adhered to its voluntary agreement with the government to save energy and reduce greenhouse gases. As a result, it was designated as one of the best voluntary energy saving companies in 2006. With its 5-year target in place, it endeavored to save energy and implemented 225 large and small-scale energy saving projects. It surpassed its target of 219,800 TOE by saving an additional 32,700 TOE.

\* Ton of Oil Equivalent (TOE): 1 TOE is defined as 10<sup>7</sup> kcal calorific value generated from 1 ton of crude oil

## Registration Status in Greenhouse Gas Reduction Projects

Project Name	Registration Status	Expected Reduction Volume (10 <sup>3</sup> T-CO <sub>2</sub> eq)
New installation of composite power generation system using FINEX byproduct gas	Completed	406
Additional electricity generation with energy recovered from blast furnace TRT	Completed	176
Energy saving with installation of converter byproduct gas boiler	Completed	36
Electricity generation with installation of CDQ facilities at units 3 & 4 at Gwangyang Works	In Progress	845
Reduced electricity consumption with installation of fluid coupling implemented pump at the de-scaling system at hot coil plant	In Progress	19
Installation of cogeneration power facilities using the previously unutilized byproduct gas at steelworks	In Progress	1,204
Electricity generation using energy recovered from CDQ facilities	In Progress	209
Additional electricity generation with energy recovery from highly efficient TRT Pohang Works	In Progress	92
Installation of electricity-saving facility at power plant's boiler	In Progress	35



# FINEX

POSCO has successfully commercialized FINEX, the next generation technology that will replace the blast furnace method. FINEX upgrades the steelmaking process with lower up-front investment and raw material processing cost and sharply reduces the generation of pollutants.



## Significance of FINEX

The FINEX process is an innovative, eco-friendly iron-making technology. As the world's first commercialization of smelting reduction technology, FINEX opens a new chapter in the history of steel production.

Realizing the need to go beyond adopting advanced technologies from abroad, POSCO collected the opinions of domestic steel experts and embarked on a project to develop unique process for manufacturing steel. Cooperation between the government and the business sector as well as collaboration between researchers and those on the frontline were crucial to the development of FINEX. In 1990, the government selected development of the smelting reduction process as a national policy project. Subsequently, POSCO set up a body to tackle research on new steel making technology with other steelmakers in Korea. After commissioning the Research Institute of Industrial Science & Technology (RIST) to study the theoretical aspects, POSCO started pursuing commercialization of the new technology.

In 1995, POSCO proceeded with a trial application of the COREX process, a form of smelting reduction technology. Based on the test run and review of worldwide research on COREX, POSCO was able to verify the theoretical feasibility of directly producing molten iron using iron ore fines. From 1998, POSCO applied the FINEX process at its plant, working on various related technologies such as temperature control. The pilot plant with a

daily production capacity of 150 tons started running in 1999, followed by operation of the 600,000 ton-capacity demo plant in 2003. The commercial purpose plant was completed in May 2007.

KRW1.06 trillion was invested in the 1.5 million ton plant. A total of KRW2 trillion will be invested until 2008 to boost the total production capacity to 34 million tons.

FINEX technology is expected to play a vital role in enabling POSCO to retain its competitive edge on the global stage. POSCO plans to replace small, outdated blast furnaces with FINEX facilities around 2010. That should reinvent POSCO into an innovative, environmentally friendly steel producer.

## Benefits of FINEX

From an economic standpoint, FINEX should reduce both up-front investment and manufacturing costs. Over the past 100 years, the blast furnace process has been regarded as the most productive and efficient process for making steel. However, it has its drawbacks, namely the need for the sintering and coke making steps.

FINEX removes the need for preliminary raw material processing. This means up-front investment comes to about 80% of the outlay needed to build a blast furnace. Moreover, the use of cheaper raw materials will lower production costs to 85% of the costs associated with the blast furnace method.

## Investment & Production Cost Comparison

	Blast Furnace	FINEX
Investment	100%	80%
Manufacturing Cost	100%	85%

## Pollutant Emission Comparison

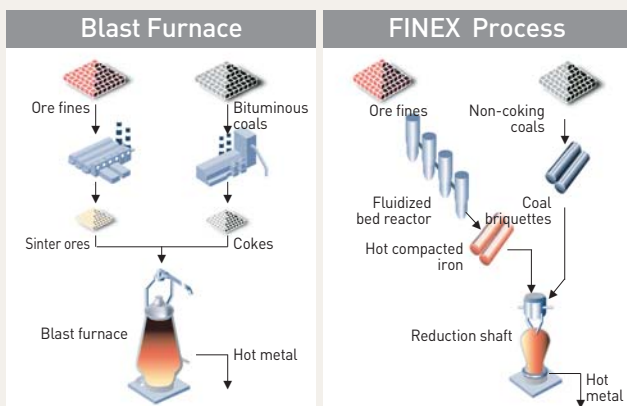
	Blast Furnace	FINEX
Sulfur Oxides (SOx)	100%	3%
Nitrogen Oxides (NOx)	100%	1%
Fugitive Dust	100%	28%

FINEX also offers environmental benefits in the form of lower pollutant emission. It should help to transform the perception of steel-making as a sector having a significant environmental impact to an eco-friendly, high-tech business.

Thanks to the elimination of sintering and coke-making, the emission of sulfur oxides (SOx) and nitrogen oxides (NOx) will respectively fall to 3% and 1% of the emissions from the blast furnace process. The levels of fugitive dust will also fall sharply. Less emission will contribute to keeping POSCO competitive amid tightening environmental regulations.

## What is the FINEX process?

Modern day steel-making can be traced back to around the 14th century when the blast furnace was invented. Over the past 100 years, the blast furnace method, which is broadly composed of the blast furnace and the basic oxygen furnace, has been regarded as the most competitive method of making steel. Its advantages include optimal energy use and efficiency, high productivity and long life. More than 60% of steel is made using the blast furnace method.



In the blast furnace process, hot air is blasted into the bottom of the furnace to combust coke and reduce iron ore. If the raw materials are in powder form, they can be blown away by the hot air. Another problem is poor ventilation, which would hinder combustion. The sintering and coke making processes are used to prevent such problems.

Iron ore lumps and coking coal, used in the blast furnace process, comprise only 15~20% of global ore deposits. They are also costly. That prompted the need to develop a process in which iron ore fines (diameter below 8mm), accounting for more than 80% of iron ore deposits, can be used. Another issue facing global steelmakers was tightening environmental regulations. Research on developing an eco-friendly and economical method for steel production has continued since the 1970's.

POSCO started work on the FINEX method in 1992. With FINEX, the sintering and coke making steps are eliminated. That means two less steps compared to the conventional blast furnace method (sintering - coke making - blast furnace - converter - casting - rolling). The shorter process leads to lower costs as well as less generation of pollutants.

Iron ore is both reduced and smelted in the blast furnace. In contrast, FINEX is a smelting reduction technology that produces molten iron by separating the reducing and smelting functions.

The core components of the FINEX process are the smelter operation (melting the iron separated from iron ore), that includes gas and pig iron temperature control and blowing-in of the pulverized coal, and fluidized bed reactor (separating iron from fine ore). Also important are the hot compacted iron technology (HCl; applying pressure to reduced iron powder at over 700°C to make it adhere) and coal briquetter (blending in additives to coal fines and applying pressure to make them into briquettes).

The FINEX plant is able to use iron ore with high concentrations of alumina ( $Al_2O_3$ ) and zinc (Zn) which could not be used in blast furnaces. Iron ore is reduced four times by injecting gas into the four-tier fluidized bed reactor to blow away the fine ore. That eliminates ventilation problems and prevents zinc from sticking to the furnace lining due to vaporization. FINEX has resolved the long-standing task facing the steel industry, i.e., overcoming the constraints of limited raw material supply.



# Customers and Suppliers

POSCO is working for mutual prosperity with our customers and suppliers through cooperation in such pursuits as developing new technologies and exploring new markets.

The ultimate objective of our business activities is to grow with our customers. We provide technological support to enhance customer value, operate a Customer Relationship Management (CRM) system, and are actively involved in joint projects to develop new products and pioneer new markets.

The steel making process involves cooperation with numerous suppliers and outsourcing firms. To grow with our valued partners, POSCO offers diverse support measures spanning management innovation, technology development, manpower exchanges, in addition to sales and purchases.

## Customers

Our aim is to have annual sales of strategic products reach 25 million tons, or 85% of total domestic production volume, by 2010. Of the 25 million tons, 10.8 million tons will be key strategic products. Considering the growing sales contribution of high value-added products, we anticipate customers to have more exacting demands. To proactively respond to the changing environment, POSCO is continuing to raise the quality of its products and services.

In the past, we had to concentrate on volume given our responsibility to provide a stable supply of steel to the domestic market. We, however, recognize that improving quality takes precedence over increasing output. From that standpoint, we

focused on quality in 2006. We also stepped up our technological support services by directly visiting customers. POSCO provided 157 related services to 173 client firms during 2006. Last May, we upgraded our online ordering system ([www.steel-n.com](http://www.steel-n.com)). A major improvement was the elimination of problems related to the discrepancy in screens seen by customers and POSCO sales personnel.

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.

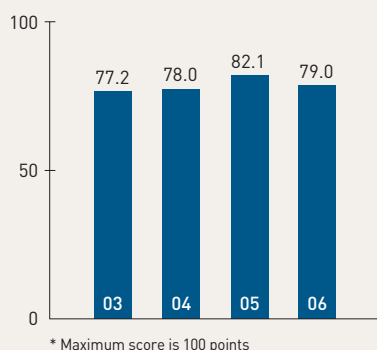
By visiting customers regularly, POSCO conducts customer care activities to listen to customers' complaints and comments and then takes steps to solve problems. We act quickly to solve problems or complaints from potential customers through our Voice of Customers (VOC) program, received on- and off-line, and operate a management system that keeps track of customer complaints while monitoring the response process. In 2006, we handled 2,295 VOCs via on-line alone.

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. In our 2006 customer satisfaction survey of 204 domestic and 88 overseas firms, we received a mark of 79. Slightly lower than in 2005, the result was influenced by the overall downturn in the steel market. We are currently searching for measures to improve customer service and plan to raise satisfaction levels through care activities tailored to each customer group.

## Suppliers and Outsourcing Service Partners

Our supply chain is directly linked to our overall competitiveness. Through joint efforts with suppliers, POSCO has established fair and transparent purchasing practices, and secured a stable and competitive supply chain. We are further improving our supply chain

Customer Satisfaction



by analyzing the performance of suppliers, uncovering excellent suppliers, and increasing cooperation with our valued partners.

POSCO has been fostering trust by maintaining long-term partnerships with exemplary suppliers, building a global sourcing network, and establishing a benefit-sharing system. We also encourage facility purchases based on price and quality and are expanding "green purchasing" activities.

In 2006, POSCO implemented TCO (Total Cost of Ownership) purchases to afford more opportunities to outstanding suppliers. By making facility purchase decisions based on TCO evaluations, POSCO has benefited from reduced costs while suppliers enhance their competitiveness. TCO purchases are expected to resolve problems associated with the previous price-bidding system, in which low prices were the sole criteria in selecting suppliers. Additionally, we believe the system will allow us to better recognize outstanding suppliers, improve the credibility of suppliers, and identify quality improvements.

To strengthen our ties with outsourcing service partners, POSCO is dedicated to upgrading their working environments and providing their employees with incentives and opportunities to raise their quality of life. We seek continuous improvements in our dealings with these firms to enhance their pride as POSCO's business partner. Additionally, we continue to use the KPI (Key Performance Indicator) system to evaluate outsourcing service partners and share the results. Introduced in 2005 to raise competitiveness of outsourcing firms, the system helps ensure objectivity and encourages fair competition and compensation, so that our leading partners can grow with us.

By supporting the adoption of ERP at outsourcing service partners, we are helping them realize improvements in their corporate image and competitiveness through stable labor-management relations and enhanced transparency. Our change management training program for mid-level managers at outsourcing partners promotes greater understanding of the business environment they face. And by improving labor-management ties and encouraging innovative thinking, we are laying the foundation for sustainable mutual growth.



### EVI Activities with Auto Manufacturers

POSCO is building a customer-oriented technology development system through EVI (Early Vendor Involvement) activities in which we work together with our customers from the early stages of product development. A major achievement was the development of an ultra-strong steel sheet for automobiles with 1180MPa (Mega Pascal) strength. Developed jointly with Hyundai Motor, the steel sheets are twice as strong as existing ones and 33% thinner.

The POSCO-Hyundai steel sheet is capable of bearing weight of up to  $120\text{kg/mm}^2$ , doubling the performance of 590MPa steel sheets. POSCO began mass producing the new sheets for the first time in the world and they are now used in Hyundai Motor assembly lines. The stronger steel enhances car safety and reduces fuel consumption due to its lighter weight.

The development and mass production of the ultra-strong auto steel sheets were received favorably by the auto industry for enhancing auto safety and cost efficiency. Based on the success of our EVI activities with an auto company, POSCO plans to continue such projects in which we collaborate with a partner firm from the beginning stages of development all the way through mass production.

## Green Purchasing

Green purchasing refers to the priority acquisition of environmentally preferable products such as materials with reduced content of harmful chemicals, resource/energy saving materials, and recyclable products. The aim of green purchasing is to minimize our environmental footprint from the purchasing stage.

POSCO has been implementing green purchasing since July 2002. We give priority to goods bearing six environmental labels: the "Environmental Mark" certified by the Ministry of Environment; "Good Recycled" mark certified by the Ministry of Commerce, Industry and Energy; "Energy Saving" mark; "Reduced Harmful Material" mark; "Reduced Waste" mark; as well as other flame-retardant or foreign environmental labels. We continue to purchase such goods even if they may be up to 10% more expensive than other products.

POSCO also reviews environmental management practices of suppliers as well as the environmental impact of materials they use. The results are then reflected in our purchasing decisions. We offer preferential treatment to suppliers that complement our green purchasing initiative while sanctioning those who are uncooperative or cause serious environmental problems by distorting related data.

In 2004, we changed the purchasing unit of lubricant oils from drums to tanks in order to reduce waste. POSCO requires large amounts of oil for the rolling process and to lubricate machinery. Every year, we had to treat 60,000 waste drums or cans, which gave rise to KRW15,000 each or KRW900 million in disposal fees. However, by switching to tank lorries as part of our green purchasing initiative, POSCO realized major reductions in both cost and waste.

The July 2005 legislation of the Act on the Promotion of the Purchase of Environment-friendly Products further highlighted the importance of green purchasing. In September 2005, POSCO signed a voluntary agreement on green purchasing with the



Ministry of Environment. We came up with a detailed system and process to categorize goods and made related changes to our ERP system. Thirty of Korea's leading companies have joined the voluntary agreement and POSCO represents the corporate sector by serving as chair on the promotion committee.

In 2006, we established a Green Purchasing Team to further improve upon related activities. Our green purchases in 2006 totaled KRW124.4 billion, a vast increase over the KRW81.7 billion recorded in 2005. Of the 2006 figure, materials, including industrial machinery and chemicals, accounted for KRW113.9 billion, while office supplies and appliances accounted for KRW10.5 billion. Our efforts were recognized when Executive Vice President of Business Support Division was awarded the "2006 Environmental Executive of the Year Award" and the Green Purchasing Team leader received a commendation from the Minister of Environment.

### Green Purchases in 2006

(Unit: KRW billion)

Category	Materials	Office Supplies & Appliances	Total
Environmental Mark	2.6	8.8	11.4
GR Mark	0.1	0	0.1
Energy Saving Mark	7.4	1.5	8.9
Reduced Harmful Material Mark	29.7	0.2	29.9
Reduced Waste Mark	61.1	0	61.1
Other	13.0	0	13.0
Total	113.9	10.5	124.4

### Green Purchasing Policy

Through strategic green purchasing, POSCO aims to provide environmentally-friendly, high-quality goods to customers at optimal prices and in a timely manner. To this end, POSCO complies with the following three principles.

- First, in all purchasing activities, POSCO shall comply with laws and regulations and fulfill its social responsibilities to preserve the environment and natural resources.
- Second, in all purchasing activities, POSCO shall build a cooperative relationship with suppliers to realize our environmental policy.
- Third, POSCO shall attempt to secure a pool of best suppliers to manufacture a stable supply of environmentally-friendly products, continually improve quality, and reduce total costs.

### Pohang Construction Labor Union Strike

Pohang Construction Labor Union represents laborers working in fields such as welding, plumbing and electrical wiring at 337 specialized construction companies across the region. The specialized construction companies refer to subcontractors commissioned by general construction companies to carry out construction related projects including machinery, electric, and civil engineering works.

Pohang Construction Labor Union, composed of workers at specialized construction companies, started collective bargaining with the Council of Specialized Construction Companies on April 16, 2006. Its demands included a 15% raise in wages and paid leave on Saturdays. However, when the negotiation didn't proceed smoothly, the union launched a strike on June 29. In addition, union members occupied POSCO headquarters in Pohang on July 13, demanding POSCO, which places orders to general construction companies, to wield influence on specialized construction companies and the negotiation process. They voluntarily disbanded on July 21. Afterwards, talks resumed after the union head and negotiation officials were replaced. The strike officially ended on September 20 and union members went back to work.

POSCO is neither a direct employer, nor a negotiation party to Pohang Construction Labor Union. Therefore, POSCO is seeking civil and criminal liabilities for KRW1,632 million worth of damages incurred during the union's illegal seizure of the headquarters. The legal proceedings for monetary compensation are currently underway.

POSCO has taken this unfortunate incident as an opportunity to build rational negotiation practices and stable long-term labor-management relations by taking a resolute stance to follow the law and willingly taking on losses incurred from construction delays in 30 worksites in Pohang Works due to the strike.







## Win-win Cooperation with SMEs

POSCO promotes fair and transparent trade practices and is forging win-win partnerships with small- and mid-size enterprises to foster the development of SMEs.

2006 was a year in which the groundwork was laid for win-win cooperation between large enterprises and smaller companies. This included preparing the legal and systematic framework such as legislation of the Act on Facilitating Cooperation between Large Business Groups and SMEs for Coexistence, hosting international conferences, and publishing theoretical writings on win-win cooperation. POSCO has engaged in such practices based on the principles of fair and transparent transactions by seeking out long-term competitiveness over short-term profits and mutual win-win situations. Our objective is to bolster the competitiveness of SMEs by uncovering and pursuing projects that can satisfy and are needed by SMEs.

In 2006, POSCO continued to build upon its win-win cooperation projects, concentrating on technological support and education.

Based on industry-academia cooperation, we provided customized technical assistance and training programs for SMEs.

We were recognized for our efforts once again in 2006 by winning the award for cooperation with SMEs in the individual sector; our relevant department head won the Silver Tower Order of Industrial Service Merit. This followed our receiving the group award in 2005. POSCO's leading example in working with SMEs has been highlighted many times by domestic media, while experts participating in an international conference on large enterprise-SME cooperation visited our business site to witness the execution of such programs. For 2007, we plan to further expand our group-wide support system of cooperation to include subsidiaries and upgrade POSCO's support for SMEs in our supply chain.

## Cooperative Activities with SMEs

	Support Policy	Contents
R&D Support	Joint Research with SMEs	<ul style="list-style-type: none"> <li>• Build cooperative ties with technology-intensive SMEs (1999~)</li> <li>- 99 companies undertaking 74 projects, provided KRW12.9 billion in funds</li> <li>• Award rights to supply developed products to POSCO</li> </ul>
	New Product Development Under Conditional Purchase	<ul style="list-style-type: none"> <li>• Signed agreement with Small and Medium Business Administration (June 2005)</li> <li>- Large enterprises guarantee purchases for a certain period of time to encourage SMEs to develop new products</li> <li>• Conducting 14 projects with 14 companies (~ 2006)</li> </ul>
	Transfer of Patented Technologies	<ul style="list-style-type: none"> <li>• SME Patent Consulting Center (opened in Aug. 2006) in Pohang and Gwangyang</li> <li>• Waive technology fees for POSCO patents used in product manufacturing and delivery (Aug. 2006)</li> <li>- Renewed contracts for technology transfer: 210 cases with 140 firms</li> <li>• Build support network for practical application of POSCO patented technology (Aug. 2006)</li> <li>- Free support for research and tests by internal and external R&amp;D institutes</li> <li>• Full support for patent costs when applying for joint patent (July 2006)</li> <li>• Participation in government-led campaign to activate sleeping patents (July 2006)</li> <li>- Provided 120 sleeping patents</li> <li>• Promote technology transfers via 12 specialized institutes (Nov. 2005~)</li> </ul>
	Techno Partnership	<ul style="list-style-type: none"> <li>• Industry-academia program to provide customized technological support to SMEs (Sept. 2006)</li> <li>• Participating organizations: POSCO, POSTECH, RIST, Pohang Technopark</li> <li>• Free technology consulting, use of research and testing equipment</li> <li>• Signed MOU with 37 SMEs in Pohang region</li> <li>(Plan to expand to Gwangyang in 2007)</li> </ul>
Educational Support	SME Vocational Training Consortium	<ul style="list-style-type: none"> <li>• Acquired certificate as SME education and training organization (Nov. 2004)</li> </ul>
	Management Innovation Course	<ul style="list-style-type: none"> <li>• Support for Six Sigma education (reduced production costs, improved quality, etc)</li> <li>• Opening of POSCO' s online education program</li> </ul>
Financial Assistance	Full Cash Settlement	<ul style="list-style-type: none"> <li>• KRW16.6 billion in reduced financial costs for SME partners since 2004</li> </ul>
	Expanded Prepayments for Equipment Purchases	<ul style="list-style-type: none"> <li>• Expanded from 10% to 20%</li> </ul>
	Assistance Fund for POSCO Partners	<ul style="list-style-type: none"> <li>• Financial assistance at favorable interest rates</li> <li>(Industrial Bank of Korea: KRW60 billion, Daegu Bank: KRW40 billion)</li> </ul>
	Network Loan	<ul style="list-style-type: none"> <li>• Low interest rate loans (within set limit) to partner SMEs (9 banks)</li> </ul>
Purchasing and Sales Cooperation	Benefit Sharing	<ul style="list-style-type: none"> <li>• Conducted joint improvement activities with suppliers and shared benefits (July 2004)</li> <li>• Expanded program to outsourcing service partners (2006)</li> <li>• Returned all benefits to SMEs in first year, and thereafter divided benefits 50:50</li> </ul>
	Support for SME Orders	<ul style="list-style-type: none"> <li>• Maintain and expand SME order volume (KRW3 trillion in 2006)</li> <li>• Identify items that can be purchased from SMEs from feasibility study stage for major projects (KRW265 billion worth of orders in 2006)</li> <li>• Place construction orders with regional SMEs (KRW372.8 billion in 2006)</li> </ul>
	1 World-leading Product for 1 Company Initiative	<ul style="list-style-type: none"> <li>• Nurturing suppliers with specialized goods that have global competitiveness</li> <li>- Selected 27 items from 22 suppliers</li> </ul>
	Support for Overseas Sales	<ul style="list-style-type: none"> <li>• Introduce model SMEs to overseas steel mills and equipment suppliers</li> <li>• Exports by major suppliers (2006): KRW183.1 billion by 61 companies</li> </ul>

(Continued)

## Cooperative Activities with SMEs

	Support Policy	Contents
Purchasing and Sales Cooperation	Improvement in Working Conditions for Outsourcing Service Partners	<ul style="list-style-type: none"> <li>• Wage increase for employees of outsourcing service partners               <ul style="list-style-type: none"> <li>- 70% of POSCO wages by 2007</li> <li>- Assistance of KRW260.3 billion from 2003~2007</li> </ul> </li> <li>• Support for repairs of employee welfare facilities and organizational activities</li> </ul>
	Support for ERP Adoption by Outsourcing Service Partners	<ul style="list-style-type: none"> <li>• Promote greater operational efficiency at outsourcing service partners               <ul style="list-style-type: none"> <li>- Sharing of production plans, establishing work plans, etc</li> </ul> </li> <li>• Adopted by 63 firms (33 in Pohang, 30 in Gwangyang)</li> </ul>
	Support for SME Customers	<ul style="list-style-type: none"> <li>• Expand supply to SME customers, centering on high-grade steel (570,000 tons --&gt; 820,000 tons)</li> <li>• Maintain discount rates for cash settlements</li> <li>• Extend credit periods</li> <li>• "1 Help for 1 Company" system (solve problems from purchase of steel materials to product manufacturing)</li> <li>• Compensation on the line of documents for small-amount claims</li> </ul>
Management Innovation	Creation of Dedicated Team	<ul style="list-style-type: none"> <li>• SME Support Team (June 2005)</li> </ul>
	Win-win Cooperation Committee for POSCO and Subsidiaries	<ul style="list-style-type: none"> <li>• Search for win-win cooperation activities with 12 Subsidiaries</li> <li>• Devise and check plans</li> <li>• Find best practices and share information</li> </ul>
	SME Consulting Center	<ul style="list-style-type: none"> <li>• Use of website, exclusive phone line, fax</li> </ul>

### Case Study: POSCO-SME Cooperation Process Techno Partnership

In July 2006, POSCO inaugurated the "Techno Partnership" program with the POSCO Technical Research Laboratories, Research Institute of Industrial Science & Technology (RIST), and Pohang University of Science and Technology (POSTECH). The program provides customized technological support for small- to medium-sized suppliers and customers in the Pohang region. Support was extended to the 37 SMEs which had registered with the program.

Each participating research institute created a "Techno Partnership Support Team" and drew up plans in accordance with their expertise, manpower and the support required by participating SMEs. From September, a wide range of projects were undertaken to offer free support regarding technical problems with SMEs' manufacturing processes or products. Assistance included assessments, consultations, training, analysis, use of testing and R&D facilities, as well as the solving of short-term onsite problems. Our services will initially be available to SMEs in Pohang which have had business transactions with POSCO. After the program yields visible results, we plan to expand the program to SMEs in Gwangyang from 2007.



### Nurturing Suppliers of World Leading Items

A plan to help each SME partner secure at least one world-leading product was announced in November 2006 to encourage suppliers with superior technology and nurture them as providers of world-leading goods. Through the program, POSCO offers technological and educational support to promote innovation and improvement activities at SMEs, and to raise product quality and





technological levels at supplier firms. Target products are mostly operational and maintenance materials, as well as maintenance equipment: ① items that require nurturing as specialty goods or those with strong growth potential, ② items with an average annual delivery record of over KRW2 billion which received the highest SRM (Supplier Relationship Management) ratings for two consecutive years, and ③ items requiring strategic improvements due to chronic quality problems. By helping suppliers develop world-leading specialty products, POSCO also expects to reap the benefits of a more competitive supply chain.

### Benefit Sharing

POSCO implements a benefit sharing system focusing on the purchasing sector. Adopted in July 2004, the system promotes joint improvement activities with suppliers and shares the ensuing benefits with them. Through the system, suppliers are able to strengthen their corporate structures, while POSCO realizes cost savings and quality upgrades. The benefits of the first year of implementation were wholly returned to SMEs; afterwards, results were divided 50:50 between POSCO and SMEs.

As of 2006, a total of 155 SMEs participated in the program to work on 253 projects. POSCO provided KRW12.6 billion in benefits for 68 tasks and 47 companies with verified performance results.

POSCO first adopted the benefit sharing system for material purchases in July 2004 and then expanded the program to include outsourcing service partners in November 2005. The system has since established itself as a unique brand of POSCO.

As the first Korean company to introduce the benefit sharing scheme, POSCO has been cited as an exemplary model of win-win cooperation between large firms and SMEs. It was selected as a government policy program and has had far-reaching effects on other industries. POSCO has been actively introducing or transferring Six Sigma techniques to SMEs so that they may pursue improvements. Other supportive measures include providing know-how accumulated from our experience and opportunities for on-site tests.



# Social Contribution

POSCO carries out a wide range of social contribution activities to grow with the communities in which we work and serve and to support our neighbors in need.

POSCO is committed to not only fulfilling its role of contributing to the national economy through the steel industry, but is taking an extra step forward to realize its philosophy of respecting mankind and pursuing win-win cooperation. We are actively involved in a wide range of social contribution activities to grow and develop alongside our regional communities. In particular, active volunteering by our employees and executives has enabled POSCO's sharing management to take root as a new corporate culture.

## Volunteer Service Activities

POSCO has fostered a culture of sharing and participation through employees' involvement in volunteering activities. Since the launch of POSCO Volunteers in 2003, POSCO's volunteer service activities have grown more systematic and substantial in content.

More than 74% 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.

## Participation in Volunteer Service

Category	2004	2005	2006
Total Volunteer Service Hours	121,493	305,183	361,732
Average Volunteer Service Hours of All Employees	6.7	12.7	14.6
No. of Volunteers (including families)	-	15,769	15,018
Ratio of Employees' Volunteer Service Participation	40.9%	75.7%	74.2%
No. of Volunteer Service Groups	249	315	340
No. of Participants in Sharing Saturday	27,653	45,206	47,462
No. of Average Participants in Sharing Saturday per Month	2,765	3,767	3,955

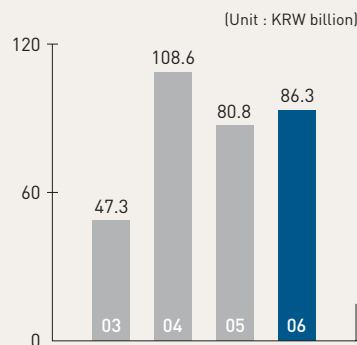
## Infrastructure to Support Volunteer Service Activities Volunteer Service Mileage System

Individuals who clock in a set amount of volunteer hours receive certificates and badges, and their volunteer group receives funding for activity fees. As of the end of 2006, a total of 1,440 employees and their families had acquired certificates recognizing over 100 hours of volunteer services. Twenty-three were awarded certificates for 1,000 hours. POSCO also provides volunteers with necessary goods, vehicles and lunches to aid in their service activities.

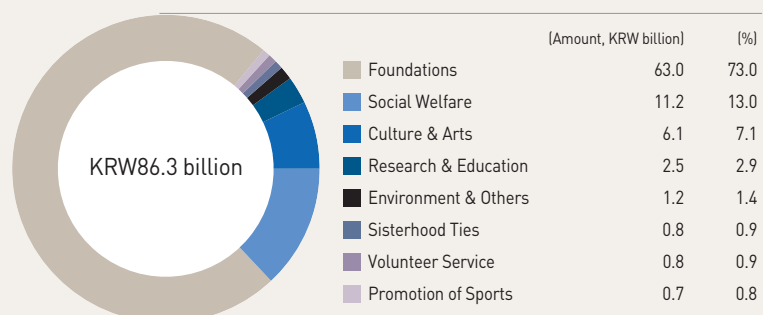
## Intranet Social Contribution System

Employees can register and search for volunteer groups, manage their volunteer records, and access information on places needing volunteers through the company's intranet system.

## Spending on Social Contribution Activities



## Spending on Social Contribution Activities by Sector in 2006



### Volunteer Service e-Learning Courses

Totally 7,802 employees have taken our volunteer service e-learning courses since they were first offered in October 2004. POSCO also offers all of its employees the opportunity to listen to related courses through the homepage of Korea Council of Volunteering. Additionally, we produced educational CDs and distributed 286 copies.

### Matching Grant System

The POSCO matching grant system donates a sum of money corresponding to the total funds collected by employees to disadvantaged neighbors. A prime example of this system was the presentation of KRW300 million in donations to help victims of the devastating earthquakes and tsunami in Southwest Asia in early 2005. 9,000 POSCO employees had collected KRW100 million, to which POSCO added a matching grant of KRW200 million.

### Employee Participation Programs

#### Saturdays for Sharing

POSCO operates a monthly volunteer program called Saturdays for Sharing, in which 47,000 people (averaging 3,955 every month) took part during 2006. Company employees and their families also regularly lend their time and support to some 70 welfare facilities in Pohang, Gwangyang and Seoul. In 2006, we added a monthly theme to the activities to promote employee participation and raise satisfaction levels of beneficiaries.

#### POSCO Sharing House

Our three Sharing Houses provide free, hot meals to the elderly, handicapped and low-income residents in the Pohang and Gwangyang areas. 656 wives of POSCO employees and local residents volunteer their time to prepare and serve the meals. The kitchens served a total of 129,555 people in 2006, averaging 536 people per day. Since their opening, more than 300,000 people have taken advantage of this service.

#### Mentoring Service

Our mentoring program pairs employees with teen heads of families, children of handicapped parents or from broken homes from regional communities and provides advice and counseling. In 2006, 87 employees acted as guardians to such children. Aside from emotional support, POSCO also offers material assistance in the form of financial aid and educational programs.

Due to the growing awareness that volunteering not only helps people in need but also brings a sense of satisfaction and happiness to volunteers, we have seen a rise in family participation. As of the end of 2006, 213 people from 60 families had signed up with our POSCO family volunteer corps.



In addition, employees donate lecture and manuscript fees received from external organizations towards a charity fund. In 2006, we were able to donate KRW37 million to the Beautiful Foundation and other groups.

### Volunteer Activities with NGOs

#### Emergency Relief Kits

Along with the Korea Food for the Hungry International (KFHI), POSCO produced 3,000 sets of emergency relief kits. Comprising medical supplies, blankets, underwear, soap and towels, the kits are distributed to people displaced from their homes in the event of natural disasters. Kits produced in 2005 were handed out to Ulleung Island residents who sustained considerable damages from Typhoon Nabi in cooperation with Good Neighbors, an NGO in the social welfare sector. Others were delivered to Jeongseon, Pyeongchang and Inje districts in Gangwon-do, hard hit by the 2006 rainy season.



### 24-Hour Famine

The 2006 24-hour Famine event, jointly organized by World Vision Korea and SBS and sponsored by POSCO, took place in September 2006. Five thousand youths and citizens took part in the program to lend a helping hand to hungry children around the world. POSCO employees and their families also braved the rain and cold to experience famine conditions for one day. Over the 24-hour period, the event managed to raise a record high amount of KRW6.01 billion for hungry children worldwide.

### POSCO Day

We regularly hold POSCO Day events with the NGO, Beautiful Store, to help our less fortunate neighbors through sale proceeds of recycled goods. In 2006, employees from 178 invested companies, suppliers and outsourcing service partners donated 136,832 items, raising KRW238 million in funds. Meanwhile, we conduct the Beautiful Office program which encourages environmental protection and also donates profits generated from the recycling of used toners and cartridges to the disadvantaged.

### Volunteer Service Program for Nationwide College Students

We supported volunteer activities by nationwide university students focusing on their majors, to encourage them to use what they learn at school to contribute to society and further spread the practice of volunteering. Working together with the Korea University Council for Social Service and the Ministry of Education & Human Resources Development, POSCO extended support for 10,000 students and professors from 92 universities taking part in the program.

### Blood Donation Drive

We continued the blood donation drive in 2006 with the Korean Red Cross to help secure a healthy blood supply. Last year, 2,905



employees from POSCO, invested companies and outsourcing service partners took part in the drive.

### Spreading the Culture of Sharing with Subsidiaries and Business Partners

Together with our subsidiaries, affiliates and partner firms, POSCO donated KRW8 billion to the Community Chest of Korea as part of a year-end collection for neighbors in need. The donation went to repairing homes of low-income families, operating social integration programs for multi-cultural families, running extracurricular study rooms, providing medicine for foreign workers, and creating jobs for elderly workers.

After the 2003 launch of POSCO Volunteers, ten related firms, namely POSCO E&C, POSCON, POSMEC, POCOS, POSCO Specialty Steel, POSREC, Samjung P&A, RIST, POSTEEL and POSDATA, created their own volunteer service teams and have been actively carrying out volunteer activities. Our outsourcing service partners and suppliers have also joined in our POSCO Day event.

In addition, English and Korean specialty publications were collected from POSCO, POSDATA and POSCO E&C and delivered to the Luang Prabang National University in Laos. POSDATA is pursuing a project to set up educational infrastructure for the university.

### Global Volunteer Activities

POSCO also implements social contributions on a global scale to extend support to our international neighbors.

### Operations for Children with Cleft Lip and/or Palate

POSCO sponsored surgeries on 40 children to correct their cleft lip and/or palate in the Indian state of Orissa, where POSCO is pursuing the construction of an integrated steel mill.

## Volunteer Comments



### Lee Eun-hee

(Manager, World Vision Korea)

The 24-hour Famine is a youth-focused volunteer event in which participants directly experience the hardships endured by starving children in some 20 countries around the world. Through the experience and fund collection, youths learn the spirit of sharing and volunteerism.

I met the POSCO family members for the first time at the September camp for the 24-hour Famine event. It was an experience that I will cherish.

For outdoor events like the camp, the weather plays a prominent role in their success. However, on that day, what began as a slight drizzle at the beginning of the event turned into a heavy downpour by night

when the TV broadcast was ongoing. Many tents became water-logged and the rain was accompanied by an uncomfortable chill.

After the many difficulties with the event, I was worried that POSCO family members would have a hard time sleeping through the night. I was sorry that I could not do more for them.

However, the POSCO employees I met the next morning greeted me with big smiles. They said they had also been worried they would not be able to find somewhere to sleep but were very grateful to find that some tents had been prepared for them.

Their willingness to endure the discomforts together with other participants impressed me, and made me realize the true meaning behind "POSCO family." I look forward to meeting more POSCO family members next year in locations around the world where a helping hand is needed.



### Kim Tae-gang

(Participant in Habitat India JCWP Project)

I participated in the 2006 JCWP to build 100 homes for homeless families near Mumbai, India, and raise awareness about the need for affordable housing. It was a large-scale project involving some 2,500 volunteers from 32 countries.

My five-day stay taught me priceless lessons from experiencing people from diverse backgrounds come together, recognize our differences and use action, rather than just words, to overcome difficulties. When we worked together to build the houses, we transcended language, race and cultural borders to become one.

We also bonded with POSCO employees who had been so helpful with

the project from the very beginning. The fact that a Korean company like POSCO had not only ventured overseas for business, but was also taking part in local volunteer activities, made me proud to be Korean.

What's more moving is that POSCO is actively taking part in various activities to give back to society. I was very proud that a leading company like POSCO was taking the initiative in such works.

I discovered quite late the fact that efforts to improve the world we live in are going on around the world. This made me look back upon my own actions and spurred me to take a more active approach to helping others.

I pray that POSCO will firmly establish its presence in India, enhance Korea's image, and create lots of jobs to bring hope and smiles to Indians.

## Support for Habitat India

We donated USD200,000 to the Jimmy Carter Work Project (JCWP) in Mumbai, India, organized by Habitat for Humanity International. Members of POSCO Volunteers and employees from POSCO-India worked alongside thousands of volunteers from around the world to build 100 homes.

## POSCO-India Fellowship

To endorse friendlier ties between Korea and India, and support our global growth strategy, we signed the POSCO-India Fellowship agreement with universities in Orissa to provide scholarships for high-achieving students.

We are expanding our global volunteer activities beyond India to other regions around Asia.

POSCO sent a team of emergency relief workers to Indonesia to help cope with the aftermath of a devastating earthquake, along with 500 emergency relief kits containing basic necessities. With the DAIL Community, we invited 19 children with cleft lips/palates and their guardians from Southeast Asian countries such as Cambodia and the Philippines to Korea. We sponsored surgeries for 13 children in 2006 and 6 children in 2007 and enabled them to experience Korean culture.



## Human Resources Development

### POSCO Educational Foundation

The POSCO Educational Foundation was established in 1971 and currently operates 12 institutions in the Pohang and Gwangyang regions, ranging from kindergartens to high schools.

Since its establishment, the Foundation has been spearheading efforts to maximize the effects of education by recruiting the best teachers, implementing diverse specialty education models and providing quality educational guidance. Gwangyang Jecheol Elementary School won the best elementary group award at the 2006 International Youth Mathematics Competition (Nankai University, Tianjin, China), while another Foundation school, Pohang Jecheol Jigok Elementary won the best school award for the 11th consecutive year at the National English/Math Competition organized by the Sungkyunkwan University and sponsored by the Dong-A Ilbo.

Pohang Jecheol Technical High School was selected by the Ministry of Education & Human Resources Development, Ministry of Commerce, Industry & Energy, and Ministry of Labor, as an excellent vocational high school supported through industry-academia cooperation in 2006. This came just one year after the same school received widespread acclaim for having all 278 graduates obtain licenses in three or more fields on average, land jobs or advance to higher learning institutes.

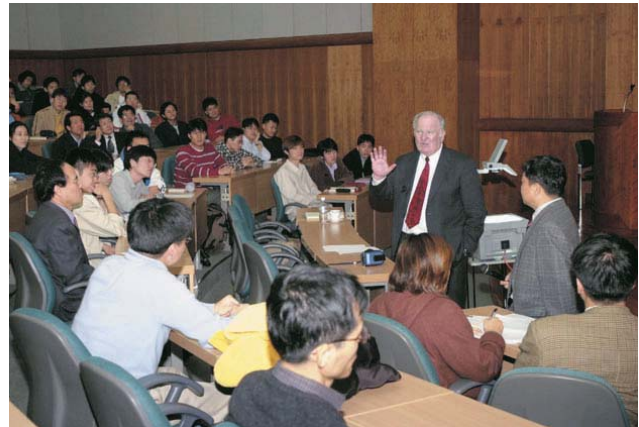
### POSTECH

In December 2006, POSTECH (the new name of Pohang University of Science and Technology) celebrated its 20th birthday as Korea's first research-oriented university. POSTECH possesses the only PLS (Pohang Light Source) or "light factory" in Korea and operates 60 affiliated R&D institutes, including the largest BT R&D facility among Korean universities, and the National Center for Nanomaterials & Technology, the center of Korea's nanotechnology infrastructure. Since its establishment, POSTECH has produced highly qualified manpower in basic sciences and engineering (3,704 graduates from undergrad program, 5,215 from masters program and 1,206 from doctoral course).

POSTECH has received both domestic and international recognition for its outstanding sciences program. It was selected as Asia's best science and technology university by Asiaweek in 1998, and voted best Korean university by the JoongAng Ilbo for four years straight (2002~2005).

### POSCO TJ Park Foundation

The POSCO TJ Park Foundation was born in August 2005 through the expansion and reorganization of the POSCO Scholarship



Foundation. Its main goals are to foster next-generation leaders, promote Asian networking, and broaden its range of social contribution.

Through the POSCO Asia Fellowship, 25 promising students from Asia were chosen to study for master's degrees at Seoul National University and other Korean schools. Additionally, scholarships were awarded to 335 students at 16 universities in nine Asian countries. The Foundation also provided research funding for 20 selected projects in the areas of humanities and social studies in Asia while nurturing regional experts.

The POSCO New Star Scholarship awarded 100 students from 35 high schools in Pohang and Gwangyang with annual scholarships of KRW1.5 million for three years. In addition, the POSCO Love Sharing program sponsored nursing services for low-income elderly people living alone or severely disabled persons to provide basic care and help with household chores such as cleaning and laundry. 594 persons benefited from the free service provided by the program in conjunction with the National Foundation for Overcoming Unemployment.

The Foundation also sponsors participation in overseas training programs by NGO members. Ten people are currently undergoing training at five universities in North America, including Stanford University. The POSCO Steel Art Exhibition promoted artistic creations made of steel, while the Foundation is also supporting publication of a quarterly "ASIA" that conducts in-depth research into Asian culture.

### Mecenat Activities

POSCO is continuing Mecenat activities to support diverse cultural and artistic endeavors in the Pohang, Gwangyang and Seoul areas. Through a varied program featuring top quality musical concerts at the POSCO Center, Campus Symphony Festival and Pohang Fireworks and Lights Festival, we are raising the cultural standards of regional communities and contributing to greater unity among local residents.

### Seoul POSCO Center Atrium

The atrium of the POSCO Center in Seoul is transformed into a cultural performance hall once a month for various musical concerts. The free performances by classical and popular artists are a hit with the public. Twelve concerts were held in 2006. One of the most popular was the September performance by world-class soprano Jo Sumi.

### Pohang Hyoja Art Hall

We started upon our Mecenat activities in earnest with the construction of the Hyoja Art Hall in 1980, which provided a regional stage for the cultural arts. In 2006, the hall hosted 13 performances ranging from magic shows to ballet performances, and 12 movie screenings.



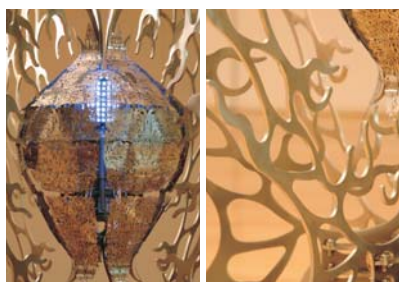
### Gwangyang Baekwoon Art Hall

The opening of the Baekwoon Art Hall in 1992 opened the way for the residents of Gwangyang to experience high-quality musical concerts and a diverse genre of performances. A variety of cultural activities were staged at the Hall in 2006, comprising 23 movies, 20 performances and other events and exhibitions.

### POSCO Campus Symphony Festival

Since May 2004, POSCO has been visiting university campuses to host symphony concerts and help popularize classical music. We staged nine festival performances in 2006, starting with Chonnam National University. By going beyond cultural events on a corporate scale, we have invigorated exchanges between industry, academia and local residents, and in the process, promoted university campuses as venues for the cultural arts.

## POSCO Steel Art Exhibition



The POSCO TJ Park Foundation hosted the first POSCO Steel Art Exhibition in May 2006 for sculptures created from steel or stainless steel. In the first competition, the Grand Prize entry received prize money of KRW20 million, while three works receiving the Prize in Excellence were each awarded KRW10 million. The size of the prize money and support extended by the Foundation were unprecedented among domestic art competitions. We hope that the event will raise the perception that steel, generally thought of as being a cold and hard substance, can be altered in a variety of ways to be reborn as works of art.

The Grand Prize went to Choi Woo-ram's "Heart of Steel." The artist used the inanimate material of steel to portray a living, human heart with the use of diverse mediums such as light and sounds. The prize in Excellence went to Kim Byung-jin's "Making the Shell," Shim Byung-geon's "Pull & Push," and Ju Song-yeol's "Heaviness of Being."

### One Keeper for One Cultural Asset

One Keeper for one Cultural Asset POSCO signed an agreement with the Cultural Heritage Administration in September 2005 to help preserve our traditional cultural properties. In 2006, we took part in moving a steam locomotive from the Jangdan Station in the Demilitarized Zone to Imjingak for preservation. The locomotive was designated Modern Cultural Property No. 78 but had sustained severe damage after 56 years of exposure to the elements.

### Regional Community

To grow with our regional communities, POSCO is engaged in a variety of social contribution activities to fulfill its role as a partner in growth.

### Sisterhood Ties

POSCO has forged sisterhood ties with 224 towns, schools and groups to strengthen our relations with communities and provide volunteering services. We open doors to communication with these communities and are striving to realize long-desired projects. The results of these activities are surveyed every year and reflected upon future community initiatives.

### Support for Neighbors in Need

We have been providing 240 disadvantaged households in the Pohang and Gwangyang areas with KRW300,000 in monthly living expenses since 2004. The campaign helps beneficiaries to pursue their dreams for independence and has been recognized as a model example of social contribution activity with the company working effectively with local autonomous groups and NGOs.



### Study Room

We operate five Study Rooms in low-income neighborhoods in Pohang. Through the program, 120 elementary and middle school students receive not only academic lessons, but also counseling and the opportunity to take part in diverse cultural experiences. Meanwhile, the Junior Engineering Classroom program teaches some 1,884 regional elementary school students the fundamentals of science and provides practical, hands-on lessons.

### Home Repair Activities

A new project launched in November 2006, POSCO selects two households every month among low-income families who desperately need home repairs. POSCO offers these households a wide range of services including wallpapering, flooring replacement, sink repairs, and work to repair leaks and roofs. Our activities for isolated neighbors in Gwangyang include sponsoring lift cars for the disabled, walkers for the elderly, and upgrading functions at welfare facilities.

### Regional Social Contribution Activities



#### Children's Steel Camp

- First launched in 1993, held every year during summer vacations
- Target: Elementary, middle and high school students in Pohang and Gwangyang
- Objective: To teach students about the value of steel, lead them to become more

aware of belonging with the community and the importance of preserving the environment  
- 14th annual camp (2006): 1,200 sixth graders participated



#### Community Events

- Sponsored Pohang Fireworks and Lights Festival and the Gwangyang Bay Bash



#### Professional Football Club

- Sponsoring two professional football teams: Pohang Steelers and Chunnam Dragons
- Built Korea's first stadiums for the exclusive use of football matches (Pohang, Gwangyang)
- Official sponsor of 2002 FIFA World Cup



#### Long-Desired Community Projects

- Funding for construction of Pohang Techno Park, a state-of-the-art venture complex (Donated land worth KRW11.2 billion and KRW10 billion in funds)
- Formed Hwanho Sunrise Park (Pohang)
- Built Gwangyang Community Center
- Donated funds to Jeonnam Techno Park (KRW6 billion, with planned donation of an additional KRW4 billion)





## Achievements of Subsidiaries

For nearly 40 years, POSCO played a vital role in advancing the Korean economy as a supplier of steel, an essential component for a vast range of products and industries. Now, we are extending our reach globally. We will continue our success story in India, China and other corners of the globe.

- 60 Overview of Subsidiaries
- 62 POSCO Specialty Steel
- 65 POCOS
- 68 POSCO-China

- 69 Zhangjiagang POSCO Stainless Steel
- 71 Qingdao Pohang Stainless Steel
- 73 POSCO-India



# Overview of Subsidiaries

POSCO has a total of 68 subsidiaries, including 46 located overseas, which are engaged in such businesses as steel, construction, energy and information technology.

As of the end of 2006, POSCO has a total of 68 subsidiaries (22 domestic, 46 overseas) based on the consolidated financial statements. In the past, subsidiaries were set up with the purpose of supporting or expanding the steel business. Their businesses included construction, maintenance, information technology (IT), raw material purchasing, sales, specialty steel and processing. But in line with POSCO's global growth strategy, a growing number of our subsidiaries started to focus on overseas production, processing and sales. Recently, more subsidiaries are becoming involved in areas such as comprehensive construction, energy and IT.

The following outlines investments in key subsidiaries in 2006.

- Growing importance in securing raw materials led to the establishment of SNNC, a joint venture with SMSP of New Caledonia, to build a nickel refinery with annual capacity of 300,000 tons. POSCO owns a 49% stake in the company and SMSP holds the remaining 51%.
- After taking over a 50% stake in Korea Independent Energy Corporation (current POSCO Power) in July 2005, POSCO acquired the remaining stake in March 2006. The acquisition laid the basis for our energy business expansion. POSCO Power is Korea's largest private electric utility company equipped with a 1,800-MW plant. The facilities are capable of supplying 3% of Korea's total power demand.
- POSCO E&C Nigeria was set up after winning orders for a USD 10 billion railroad construction project and a USD 3 billion power plant project in Nigeria.



The following outlines overseas investments for expansion of our steel business.

- In September, POS-YPC was set up to process, store and ship steel out of Japan.
- POSCO Thailand was created by consolidating POS-Thai and the Bangkok Office and reorganizing the offices in Malaysia, Indonesia, and Dubai. POSCO Thailand's objectives are to secure profitability through the existing steel processing business, engaging in the exports of automotive steel sheets to Thailand (a business transferred from POSTEEL), and pursuing new clients in the region.
- Construction began for an automotive steel plate plant in Mexico, the world's emerging automotive production base. POSCO has also decided to newly build a galvanized steel sheet plant in the country.
- In November 2006, POSCO decided on a USD 1.13 billion investment project in Vietnam. The endeavor will lead to the operation of facilities to produce 700,000 tons of cold-rolled steel, 4 million tons of hot-rolled steel and 400,000 tons of Continuous Galvanized Line (CGL). It will also enable cold-rolling-based full hard and high-quality plate production of 100,000 tons and 300,000 tons, respectively. POSCO-Vietnam was established in December for a greater efficiency in production and sales of cold-rolled products.
- POS-IPC, a high value-added steel processing center with a processing capacity of 130,000 tons per year, was completed in December for the production and sales of electrical steel for electrical engineering and automotive sheets. POSCO now has 14 overseas processing centers with plans for further expansion.



This report includes information related to sustainability management of POSCO subsidiaries of a certain size. There may be low comparability among indexes according to business, and discrepancies may exist in terms of consistency. We have categorized sustainability reports of our subsidiaries in a separate section due to disparity in the reporting process and scope between POSCO and the subsidiaries resulting from different data collecting procedures.

### Key Activities of Subsidiaries

#### POSMEC Produces Solar Energy

POSMEC, which provides machinery and facility maintenance services for Pohang Steel Works, was certified by the Ministry of Commerce, Industry and Energy as a renewable energy firm in 2006. Since June 2006, the company has been selling 330kWh worth of solar energy a month to KEPCO. The power is produced at the 3kW first phase solar power plant in Guryongpo, Pohang, which opened in September 2004. POSMEC currently supplies 10% of total power used by the POSCO headquarters through a 50kW solar power generator set up on the building's rooftop. Its wind power plant is lighting 24 street lamps outside the Guryongpo Training Center.

#### POS-M Completes Construction of Korea's Largest Solar Power Plant

POS-M which maintains machinery facilities at Gwangyang Works has constructed an 1 MW solar power plant, the largest of its kind in Korea, in partnership with Energy Solutions and developer Halla Electric Company. The plant was completed in November 2006. The Muan Solar Power Plant kicked off commercial operation in October 2006 and has been supplying electricity to Korea Power Exchange. Moving forward, POS-M plans to pursue diverse environmental and renewable energy businesses.

#### POSCO E&C wins Green Management Grand Prize

POSCO E&C won the KMAR (Korea Management Association Registration and Assessments)-sponsored Korea Green Management Grand Prize for two years in a row. The award was given in recognition of the company's emphasis on the environment as its core management philosophy and companywide activities to promote an eco-friendly construction culture that brings together people and nature. POSCO E&C also adopted the ISO14001 environment management system to all worksites in 2003.

#### ESCO PRO Designated as Official Energy Auditing Firm

ESCO PRO, started as POSCO's in-house venture team, was officially designated as an energy auditing agency by the Ministry of Commerce, Industry and Energy last December. ESCO PRO's future is promising as the revised Energy Usage Rationalization Law mandates all companies with annual energy consumption of more than 2,000 TOE (energy cost approx. KRW1 billion) to undergo inspection by a professional energy auditing agency from 2007.

#### POSCO Power Signs Compliance Agreement

POSCO Power signed the second stage Compliance Agreement (2006~2010, area: air & water quality) with the City of Incheon following the 5-year first stage agreement (2001~2005) in 2000. Under the Compliance Agreement, companies are obliged to set up a 5-year target for environmental pollution reduction and submit annual performance reports and future plans.



# POSCO Specialty Steel

POSCO Specialty Steel is guided by its basic philosophy of seeking mutual advancement with stakeholders. All business activities are based on the underlying values of quality, environment, safety and health.

POSCO Specialty Steel (POSCO SS) was established in 1997 by taking over the steel bar & seamless pipe segment of SAMMI Steel. The plant, located on a 661,160 m<sup>2</sup> site in Shinchodong, Changwon City, is equipped with annual production capacity of 900,000 tons of crude steel. The company manufactures stainless steel, materials for cutting edge industries such as automotive, aerospace, nuclear plant and shipbuilding as well as tool steels including wire rods, flat bars, round bars and seamless steel tubes. The completion of a massive casting facility enabled the company to be the first in Korea to commercially produce one million ton-grade steel ingot. In June 2007 when the first phase facility revamping investment is completed, POSCO SS will possess the capacity to produce 62,000 tons of forged products for industrial use annually.

On October 24, 2006, POSCO SS concluded the first phase facility rationalization, after 19 months of construction for facility investments, and laid the foundation for producing one million tons of crude steel. We retained global leadership in stainless wire rods through improved quality and productivity. This was the result of installing Argon Oxygen Decarburization (AOD) at the steelmaking plant, and Reducing & Sizing Mill (RSM) and Direct Solution Treatment furnace (DST) at the wire rod plant, while building the second pickling plant with annual pickling capacity of 90,000 tons. We anticipate increased production in high-quality tool steel and greater ability to defend our markets from investment in the HV-Mill. The 180,000 tons of massive steel ingot produced at the newly opened casting plant will be used as materials in turning out high value-added tool steel, mold steel and forged products for industrial use that will be produced at the forged plant to be constructed in the future.

\* AOD (Argon Oxygen Decarburization): A process for further refinement of stainless steel through carbon and oxygen content reduction  
 \* HV Mill (Horizontal Vertical Mill): Precision steel flat bar rolling mill; alternate horizontal and vertical rolling process  
 \* RSM (Reducing & Sizing Mill): Wire rod precision rolling mill  
 \* DST (Direct Solution Treatment): Stainless wire rod solution heat treatment furnace

## Key Environmental Activities

Key Environmental Risk	Response
Electricity Consumption (average 490~500 kWh/T-S)	<b>Energy conservation programs</b> <ul style="list-style-type: none"> <li>Optimize electric furnace operation - Reduced KRW 1357 million in electric furnace energy costs</li> <li>Introduce DST facility- Heat treatment process is eliminated as stainless wire rods produced in high speed precision rolling mill receives direct solution treatment at high temperature</li> </ul>
Air Pollutants (dust, sulfur oxides)	<b>Operate Tele-Metering System</b> <ul style="list-style-type: none"> <li>Install TMS in steelmaking emission control system for real-time dust density monitoring</li> <li>Real-time transmission of measured data to provincial governments and Environmental Management Corporation</li> <li>Increase use of clean fuel</li> <li>Adopt LNG, which generates less dust and sulfur oxides, as heat source for new heat treatment facilities</li> <li>Switch to LNG in facilities using B-C oil or byproduct fuel</li> </ul>
Solid Waste such as Dust, Slag and Waste Refractories  * Waste (annual 15,000 tons) Slag (annual 120,000 tons)	<b>Recycle slag for aggregate replacement</b> <ul style="list-style-type: none"> <li>Electric furnace slag: Entire volume is crushed into below 40mm particles to be reused as aggregates for roads</li> <li>Refining slag: Introduction of AOD led to the transpiration of waste since 2006. Currently they are being landfilled but other measures such as introducing treatment facility is under consideration</li> </ul> <b>Recycle dusts from steelmaking plant as asphalt concrete fill</b> <ul style="list-style-type: none"> <li>Reuse more than 70% of transpired volume as asphalt concrete fill</li> </ul> <b>Waste refractories recycled as refractory material</b> <ul style="list-style-type: none"> <li>18,000 tons of waste generated annually. Entire volume reused as materials for refractories</li> </ul>



### Management Policy

Quality, safety, health and environment are three basic principles governing POSCO SS. The company operates an integrated management system that mutually benefits customers and all other stakeholders.

### Business Ethics

With integrity as the guiding principle, POSCO SS is improving the way business operations are conducted through the establishment of its Code of Conduct and continued promotion of compliance activities. In 2006, the company introduced the "Business ethics voluntary implementation program." Under the program, team leaders assume responsibilities for promoting ethical conduct by engaging in continued self-evaluation and ethical risk discovery. By operating an online forum for lodging complaints and other cyber efforts, ethics management practices are being incorporated as an integral part of all processes within the organization.

### Employees

The labor-management council is a company-wide representative body that reflects the opinions of employees. For enhanced mutual benefits, the council holds weekly working-level meetings as well as regular and extraordinary meetings, and convenes monthly department-level council gatherings. In addition, POSCO SS collects employees' opinions through diverse channels such as workshops for council members and meetings with executives by department and by function. In the first half of the year, the CEO and lower level onsite employees engaged in constructive dialogue in which they shared views on the need for facility investment and cost cuts. In September, all executives and labor-management council members had a chance to get together and discuss overall management issues such as difficulties facing employees, their requests and progress in facility investments.

### Safety & Health

POSCO SS is taking proactive actions to create a safe and healthy work environment led by the CEO's firm determination and deep interest in the matter. In 2003, the company obtained KOSHA18001 from the Korea Occupational Safety and Health Agency and completed the recertification inspection in July 2006. In an effort to sharpen the focus on health and safety activities, POSCO SS operates an industrial safety and health committee, comprised of 14 representatives from labor and management. Moreover, a comprehensive evaluation is conducted every quarter while other improvements and risk management practices are drawn up to be incorporated in daily operations. Steps are also being taken to increase health and safety awareness among the partner firms. Under the partner firm health and safety

management system support agreement, POSCO SS provides health and safety related information, training and inspection services.

### Environment

POSCO SS sets environmental goals every three years while establishing and putting action plans into practice every year. Stringent internal indicators have been devised for compliance with environmental targets. The indicators compile the scores of the internal compliance rate, which is based on stricter standards than current laws, the real-time results of the Tele-Metering System (TMS), and the results garnered in evaluations by outside organizations. For information on the latest technology in environment and energy, we turn to the POSCO technology workshop held in conjunction with POSCO Technical Research Laboratories and Research Institute of Industrial Science & Technology. Efforts to develop and commercialize green production technologies are realized through various research programs and technology exchanges. After obtaining ISO14001 certification in 1996, POSCO SS converted this into the newly revised ISO14001 certification: 2004.





## Social Contribution

POSCO SS employees are making a positive impact on the local communities through various volunteer works and other contributions. Every third Saturday is designated as “Volunteer Day” and employees have contributed more than 15,479 accumulative hours of service to neighbors in need. POSCO SS is gaining respect from local communities for dedication to a wide range of initiatives. They include working with various social welfare centers, forging sisterhood ties, protecting the environment, supporting local cultural activities, and making donations to Beautiful Store and other nonprofit agencies.



## Key Indicators

Indicator	Unit	2002	2003	2004	2005	2006
Production	1,000 tons	734	746	782	801	831
Sales	1,000 tons	750	759	760	797	834
Revenue	KRW billion	639.0	729.6	1,006.4	1,142.1	1,147.7
No. of employees	person	1,367	1,363	1,441	1,266	1,225
No. of female employees	person	52	49	50	26	30
Average training hours per person	hour	75.2	83.2	124.0	115.2	109.6
Employee satisfaction	%	-	-	-	67.3	69.2
No. of accidents	case	8	7	2	5	5
No. of deaths	case	-	1	-	-	-
Lost-time injury frequency rate	-	2.56	2.43	0.69	1.51	1.64
Dust	ton	109	147	23	24	32
Sulfur oxides	ton	108	144	84	4	13
Water usage	1,000m <sup>3</sup>	2,450	1,464	1,289	1,346	1,609
Waste water discharge	m <sup>3</sup>	386,613	425,220	420,002	464,568	617,855
Final discharge COD	ppm	41.05	7.49	13.38	11.79	12.14
Final discharge T-N	ppm	167.97	8.66	6.27	8.25	9.68
Chemical emission	kg/ton	225	241	190	284	233
Solid waste generated	1,000 tons	175.9	161.0	168.9	160.8	177.4
Solid waste recycled	ton	159.9	151.0	159.8	140.2	148.7
Solid waste recycle rate	%	90.8	93.8	94.6	87.2	83.8
Energy consumption	million cal	2,126,410	2,181,520	2,207,260	2,261,530	2,294,240
CO <sub>2</sub> emission	ton	309,508	316,279	320,186	326,790	333,338
Customer satisfaction	%	81.3	79.8	81.1	80.5	81.9
Social contribution spending	KRW 1,000	25,905	4,500	500,500	269,000	270,000

# POCOS

**With an annual capacity of 1 million tons of galvanized sheets, Pohang Coated Steel (POCOS) is pushing ahead with 10 strategic tasks to realize its vision of becoming the world's best coated steel sheet manufacturer.**

Pohang Coated Steel Co., Ltd. (POCOS) started out in 1988 with annual production capacity of 300,000 tons. As of the end of 2006, annual capacity jumped to 1 million tons. The company mainly produces galvanized steel, aluminized steel, Al-Zn alloy coated steel and color steel sheets. It has been listed on the Korea Stock Exchange since 2002. POSCO has a 66.67% controlling stake in the company. The board of directors is comprised of three inside directors and one outside director.

POCOS's vision is to grow into the world's best coated steel sheet manufacturer. To this end, we are driving innovation in management and corporate culture through technology development for eco-friendly products, Six Sigma activities, and integrity enhancement initiatives. In January 2006, POCOS received the grand prize in the product technology category of the Korea Economic Daily-sponsored "2006 Korea Technology Innovation Management Award" The prize was in recognition of our role in improving competitiveness of the IT sector by using proprietary production technology to develop reflective panels for LCD backlights. The reflective panel is a core part which determines the brightness of LCD monitors. In the past, Korea had relied solely on imports from Japan. Moreover, our drive to revamp plating facilities led to the establishment of Al-Zn alloy coated steel sheet facilities which have allowed us to independently secure optimized production conditions and realize early quality stabilization.

## Management Policy

Harmonizing with the vision stated above, we are actively pursuing 10 major strategic tasks in order to achieve 1.2 million tons in output and KRW 1.2 trillion in revenue.

## Business Ethics

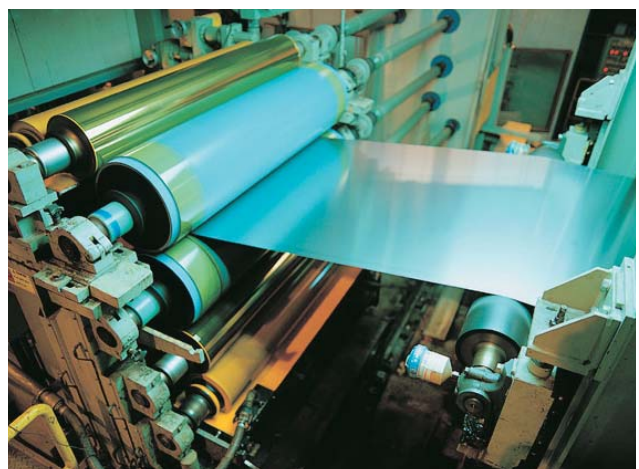
POCOS has adopted POSCO's Code of Conduct as the framework for its ethical management. In an effort to instill high ethical standards among employees, POCOS runs a cyber complaint forum and a reward program for reporting unethical behaviors, and included special clauses in the Code of Conduct. Furthermore, to promote integrity as a vital part of the corporate culture, the company has introduced its Compliance Program and ethical management leadership programs for each department.

## Employees

We believe that harmony between labor and management is the foundation for a company's health and competitiveness. This belief led to the creation of the 'One Family Council' which represents employee interests. The council collects diverse voices of the workers which are reflected in business operations. Employees were also invited to 15 seminars with top management, where they freely exchanged various views with senior executives regarding issues that directly affect them as well as company's operations. POCOS plans to continue to strengthen the two-way communication between labor and management by holding regular meetings and gatherings.

## Environment

Some of the most serious environmental risks posed by the coating process have to do with the use of environmentally hazardous materials and massive waste water discharged from rinse water in each processing stage. More stringent domestic and overseas environmental regulations have made green production and eco-friendly product development a crucial element in boosting a company's competitive edge. In particular, the European Union banned the sale of products containing lead (Pb), hexavalent chromium (Cr<sup>6+</sup>), cadmium (Cd), mercury (Hg), polybrominated biphenyls (PBB) and polybrominated diphenyl ether (PBDE) under the RoHS (Restriction of Hazardous Substances) directives. The directives went into effect in July 2006 for consumer electronics and July 2007 for automotive applications.





1. Rolling wastewater treatment
2. Chromium wastewater treatment
3. Overview of water treatment facility
4. Inside look at water treatment facility

## Key Environmental Activities

Key Environmental Risk	Response
Use of Environmentally Hazardous Substance in Processing	<p>Engage in R&amp;D to remove heavy metal and other hazardous chemical substances from raw materials</p> <p>Commercial use of raw materials free of chromium, lead, mercury and cadmium</p> <ul style="list-style-type: none"> <li>- Primer, under coat and top coat in the color steel sheet production process</li> <li>- Primer, sealer, various coating products in coating steel sheet production process</li> </ul> <p>Research underway to develop chromium-free products without compromising quality</p> <ul style="list-style-type: none"> <li>- Active application in consumer electronics. Expected to extend across industries including exterior and interior construction materials</li> </ul>
<p>Massive Wastewater Generation</p> <ul style="list-style-type: none"> <li>- Wastewater from rinse water in the debinding, pickling, coating and rinsing processes</li> </ul>	<p>Optimal operation of wastewater treatment facility &amp; utility distribution to each process</p> <ul style="list-style-type: none"> <li>- Abide by permitted level of discharge under environmental laws</li> </ul>

## POCOS Volunteer Corps

Under the slogan of "Let's come together," all POCOS employees donate their time in the volunteer corps to serve the communities they work and live in. A total of 16 POCOS volunteer teams meet every third Saturday of each month to address various social issues facing their communities. Their activities include special events to raise funds for the volunteer corps, blood drive, birthday parties for teenagers who head their households, and gift donations to disadvantaged neighbors during special holidays. Employees are also actively involved in social events sponsored by Pohang city.

## Rugby Club

POCOS and its rugby team are making a positive impact by promoting public health and amateur sports clubs. The winner of the 5th National Rugby Competition in 1999 and the 40th Presidential Championship in 2002, POCOS rugby club is one of Korea's premier teams which produced several key players who were instrumental in Korea's winning the gold medal at the 13th Asian Games held in Bangkok in 1998.

## Key Indicators

Indicator		Unit	2002	2003	2004	2005	2006
No. of employees		person	292	310	336	335	328
No. of female employees		person	8	13	15	6	6
Average training hour per person		hour	136	148	183	156	185
No. of accidents		Case	1	3	1	1	0
No. of deaths		Case	0	0	0	1	0
Lost-time injury frequency rate		-	1.02	3.06	1.02	1.46	0
Dust	Coating	ton	-	-	-	-	-
	Color	ton	10.6	12.6	7.5	11.6	8.8
Water usage	Coating	m <sup>3</sup>	156,700	148,070	147,800	281,526	328,340
	Color	m <sup>3</sup>	149,619	156,100	168,438	186,606	196,894
Water discharge	Coating	m <sup>3</sup>	-	71,054	134,446	234,461	232,805
	Color	m <sup>3</sup>	87,832	108,932	117,634	117,739	127,645
Final water discharge COD	Coating	ppm	-	15.81	7.83	10.55	12.69
	Color	ppm	8.9	11.6	8.8	7.6	9.3
Final water discharge T-N	Coating	ppm	-	-	-	5.1	6.3
	Color	ppm	-	-	-	2.3	3.3
Chemical agent emission	Coating	kg	-	-	-	-	-
	Color	kg	4,773	4,432	6,671	4,886	-
Solid waste generated	Coating	ton	444.33	438.59	614.27	815.56	637.18
	Color	ton	886	958	1,186	1,340	1,808
Solid waste recycled (recycle rate)	Coating	ton (%)	-	-	-	-	-
	Color	ton (%)	402 (45)	390 (41)	518 (44)	775 (58)	1,273 (70)
Energy consumption	Coating	Mcal	82,656,000	86,947,200	104,361,600	152,092,800	127,987,200
	Color	Mcal	101,395,014	85,043,332	77,647,930	80,600,646	83,662,845
CO <sub>2</sub> emission	Coating	ton	-	13,863	16,541	17,400	18,550
	Color	ton	-	9,468	9,114	8,998	9,629



# POSCO-China

**POSCO-China is a holding company that oversees POSCO's subsidiaries in China. It offers financial, personnel, training, marketing and other support services to the subsidiaries.**

Established in 2003, POSCO-China is a holding company that oversees POSCO invested companies across China. It manages POSCO's interests in the subsidiaries of Dalian POSCO-CFM Coated Steel, Shunde Pohang Coated Steel and others. POSCO-China also offers financial, personnel, training, marketing and other services to the subsidiaries.

## Employees

Employees are very much valued at POSCO-China. That is why we hold councils and workshops for executives and employees on a regular basis to share views on the company's personnel policies. Recognizing the importance of training for dispatched and locally hired employees, we introduced the new recruit promotion system in February 2006 and launched such activities as presentations to promote employee assimilation and develop their competencies. We also offer comprehensive and systematic training programs so that dispatched employees can be equipped with competitive, high quality skills in a short period of time. For two days in June, HR leaders in regional offices received training on work attitude, personnel management and China's labor market trends.

## Social Contribution

Our comprehensive localization policy, launched since our first entry into the Chinese market, led to the hiring of local talents to fill most managerial positions. We are also reinvesting our local earnings within the region and are involved in various social initiatives such as scholarship and partnership programs. Since 2004, we have formed a sister school relationship with Zhenreying Elementary School near Beijing, and supplied school facilities and steel blackboards produced by Dalian POSCO-CFM Coated Steel. Joint sport meets, field trips for seniors, and scholarships for students in need are some of the ways we are gaining trust from the local stakeholders. In particular, we are an active member of POSCO TJ Park Foundation's "POSCO-Asia Fellowship" program. Since 2005, the fellowship awarded scholarships to 150 top students in Qinghua Univ, Beijing Univ, Beijing Science and Technology Univ, and Dongbei Univ.



# Zhangjiagang POSCO Stainless Steel

Zhangjiagang POSCO Stainless Steel is the third largest stainless steel producer in China. It boasts an integrated stainless steel line that encompasses steelmaking, hot rolling, cold rolling and processing stages.

Zhangjiagang POSCO Stainless Steel was set up in 1997 as the outpost for production and sales of hot rolled and cold rolled stainless steel plates in East China. In 2006, the company which has been producing stainless steel cold rolled coil with stainless steel hot rolled coil supplied by POSCO, opened the upstream process facility with annual capacity to churn out 600,000 tons of stainless steel hot rolled coil. The facility is POSCO's first integrated stainless steel line outside Korea that includes steelmaking, hot rolling, cold rolling and processing stages, and also the first to be built in China by a foreign investor. The opening of the new facility drove the company's growth into the third largest stainless steel maker in China. At the same time, POSCO's stainless crude steel production capacity rose to 2.6 million tons a year to become the world's third largest in terms of output.

Although the Chinese government is aggressively seeking to adjust overlapping investment in the steel industry, the country is seeing a surge in stainless demand alongside rapid economic development. Therefore, our investment in the full stainless steel production facility is rated as a well-timed response to the supply and demand situation in China. Moreover, POSCO's accumulated technology has enabled installation of state-of-the-art, eco-friendly equipment that saves energy, meeting China's industrial policy in accordance with its new framework of economic growth.

## Employees

The dynamic workforce of Zhangjiagang POSCO Stainless Steel includes 1,800 locally hired employees and 30 dispatched from POSCO. It is our goal to provide a workplace where employees can strive and fulfill their potential. To that end, we put emphasis on two-way communication between the upper management and employees through various meetings and seminars on a diverse range of topics including wages, promotions, training and welfare. To ensure professional growth of our people, we offer various training and development initiatives while promoting their health and safety through regular safety trainings, physical check-ups and in-house medical services. The core of our welfare principle is to take good care of our employees. Through ongoing efforts to raise employees' living standards, we are



receiving praise from local governments and communities. Our accolades include the 2006 Company of the Year for Mutual Affection Award.

## Environment

In line with our motto of "Protect the environment, love nature," Zhangjiagang POSCO Stainless Steel regularly measures areas with high pollution risks, offers environmental learning opportunities to employees, and conducts internal and external environmental inspections. We have also laid down a solid framework for environmental protection by allocating 15% of total investment for related facilities and designating over 40% of worksites as green areas. Our stringent control of possible pollutants and recycling efforts allowed us to gain a reputation as one of the most environmentally responsible steel manufacturers.

## Social Contribution

As a foreign investor, we have always valued good relationship with local communities. Although many residents were displaced during the phase 1-3 construction projects, our commitment to social contribution has garnered community-wide respect. In recognition, we received the highest honors for complying with local laws, paying taxes, protecting the environment and working tirelessly to make a difference through social contribution activities. Our community initiatives include the ZPSS scholarship program for local schools, regular donations of educational and fire prevention materials, blood drive, local event sponsorships and partnerships with charitable agencies.

## Key Indicators

Indicator	Unit	2002	2003	2004	2005	2006
Production (STS)	1,000 tons	184	241	316	335	463
Production (CGI)	1,000 tons	145	147	152	132	-
Production (Total)	1,000 tons	329	388	468	467	463
Sales volume	1,000 tons	329	385	464	457	448
Revenue	USD million	404	538	865	934	1,388
Net profit	USD million	30	16	18	△44	113
No. of employees	person	732	819	1,026	1,644	1,823
Locally hired employees	person	712	794	982	1,594	1,765
Female employees	person	-	-	200	254	267
Average training hr. per person	hour	85	54	84	127	33
No. of accidents	case	6	2	5	5	8
No. of deaths	case	0	0	1	0	0
Water usage	1,000 tons	707	1,001	1,277	1,123	2,526
Water discharge	1,000m³	-	116	429	499	380
Social contribution spending	USD 1,000	1,828	773	1,357	412	2,513





# Qingdao Pohang Stainless Steel

**Qingdao Pohang Stainless Steel produces cold-rolled stainless steel. It has an annual production capacity of 180,000 tons and offers products that are less than 3mm thick.**

Qingdao Pohang Stainless Steel Co., an 80:20 joint venture established in December 2002 between POSCO and Qingdao Steel in Shandong Province, produces cold-rolled stainless steel. The plant, which completed construction in November 2004, went into operation in April 2005 and has an annual production capacity of 180,000 tons. At present, it supplies less than 3mm thick cold-rolled stainless steel to Chinese customers.

In 2005, the first year of operation, the plant produced 130,000 tons of cold-rolled stainless steel. By the following year, its production capacity was up by 40,000 tons and products were being shipped all across China including Shandong, Jiangsu, Guangdong and three northeastern provinces (Liaoning, Jilin, and Heilongjiang). Despite the company's short history, its 400 series stainless products gained a competitive edge in China and their excellence in quality led to long-term supply contracts with China's largest electronics and elevator manufacturers.

In February 2006, a stainless steel processing base was created near the company to expand its business scope to include sophisticated surface finishing such as grinding of stainless products and mirror polishing. At the same time, the base is used as the logistics center for goods manufactured at POSCO and local subsidiaries in China. Currently, three Korean companies and two Chinese companies are housed in the base.

## Business Ethics

The Qingdao Pohang Stainless Steel Code of Conduct was proclaimed in 2005 after a training and signing ceremony. The code governs the conduct of all employees. The Code of Conduct is the backbone of sustainability management and requires all employees to act in a responsible and trustworthy manner in their relationships with stakeholders.

## Environment, Health and Safety

The company's environmental guidelines call for regular pollutant emission measurement and environmental inspection. We rigorously abide by environmental laws and regulations and set up an internal process to address any related civic complaints. Other EHS activities include safety training,

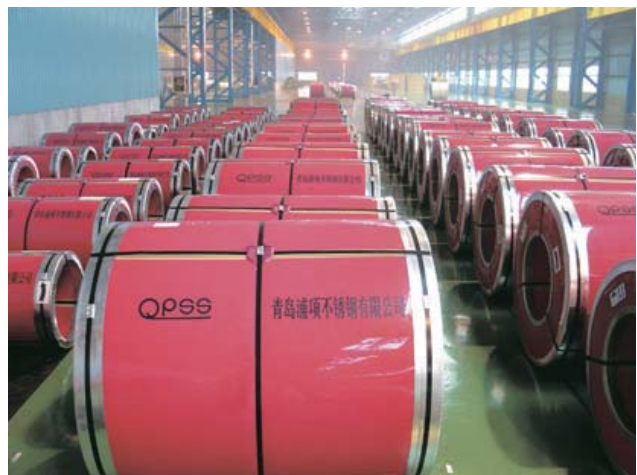
workplace environment evaluation and employee medical checkup.

## Employees

Qingdao Pohang Stainless Steel employs a total of 424 workers, including 414 people who are hired locally. As part of our personnel localization effort, the company's number one agenda, we run diverse education programs that focus on providing tools to build competencies and leadership. Outstanding employees are granted incentives that include onsite training or opportunities to visit POSCO and steel mills in Korea. To facilitate communication between management and labor, regular meetings and seminars are held on diverse topics such as corporate management and vision, safety, quality, welfare and employee training.

## Social Contribution

Our aim at Qingdao Pohang Stainless Steel is to grow with our neighbors. To that end, we have set up policies to make an impact on local communities through sisterhood ties and other activities. In August 2006 we delivered town development funds to our sister village.





## Key Indicators

Indicator	Unit	2004	2005	2006
Production	1,000 tons	2.0	129.8	171.9
Sales	1,000 tons	1.5	122.3	175.2
Revenue	USD million	4.4	270.0	455.6
Net profit	USD million	△2.1	△20.6	28.3
No. of employees	person	433	438	424
Locally hired employees	person	422	427	414
Female employees	person	23	23	25
No. of accidents	case	0	2	2
No. of deaths	case	0	0	0
Lost-time injury frequency rate		0	2.00	2.29
Water usage	m <sup>3</sup>	-	296,926	240,659
Water discharge	m <sup>3</sup>	-	200,119	146,184
Final discharge COD	ppm	-	26.00	27.55
Solid waste generated	1,000 tons	-	2.22	1.84
Energy consumption	cal	-	46.3×10 <sup>12</sup>	50.3×10 <sup>12</sup>
	joule	-	194.3×10 <sup>12</sup>	211.6×10 <sup>12</sup>
Social contribution spending	USD 1,000	2.7	1.0	17.7



# POSCO-India

**POSCO-India was established to build a 12 million ton integrated steel mill. It will play a pivotal role in POSCO's global operations.**

POSCO-India was established in Paradip, Orissa, a province in the northeastern part of India, to build a 12 million ton integrated steel mill. The USD 12 million India project is POSCO's largest overseas investment. The project includes construction of an integrated steel mill, development of a 600,000-ton iron ore mine and related infrastructure. Under the four-phase expansion plan, we will first construct a 4 million ton steelworks and ramp up production to 4 million tons before ultimately expanding capacity to 12 million tons.

With its 1.1 billion-population, India is an enormous market with huge growth potential among developing nations. In particular, the country's steel consumption per capita stands at a mere 39kg, well below the level of China's 270kg and the United States' 400kg. Thus, India's steel industry is expected to grow dramatically. POSCO tapped into the vast opportunities India offers early on with the aim to secure a foundation for sustainable

growth by building the world's most competitive steel mill.

## Project Progress

### Steelworks Construction

POSCO-India obtained the greenlight from the government of Orissa to purchase a 4,004 acre ground to construct the steelworks in November 2005. We are currently in the midst of purchasing the land. Presently, we have secured 1,135 acres of national land and are engaged in ongoing discussions with the Orissa State Government to buy the remaining public and private-held property.

We are awaiting final approval from the central government on issues such as the environmental impact evaluation and lifting of a designated coastal protection area in order to build a harbor. Preparation for construction of the steelworks is at the closing stage. Only the town hearing remains as the central government has completed the review of the environmental impact evaluation.

### Development of Iron Ore Mine

POSCO applied for prospecting licenses (PL) to exclusively develop iron ore mines in three regions to the Orissa State Government in September 2005. The following May, we applied for mining leases (ML) for two areas where explorations have been underway by a government-certified agency. In December 2006, the Orissa government completed its recommendation to



the central government for one region for which we have applied for PL.

With the central government's PL approval expected soon, we are gearing up for full-scale exploration. A mining exploration consulting firm from Australia with advanced prospecting tools has been selected to draw up relevant exploration plans.

### Building Infrastructure

In January 2006, the central government granted POSCO-India the rights to use railways, crucial in transporting major raw materials such as iron ore. In October of the same year, we acquired a 10% stake in Haridaspur-Paradip Rail Co., Ltd. The move was aimed at obtaining priority rights to use a new railway that directly connects inland to the prospective steelworks site in Paradip.

The provincial government authorized the use of water needed for supplying power for steelworks construction and its operation. The site was also designated as a Special Economic Zone (approval in principle), which makes it eligible for various tax benefits for a maximum 15 years. Tax breaks include a 50% to 100% reduction on corporate tax and full exemption from tariffs and consumer tax levied on raw materials.

### Relocation

There have been delays in the relocation of local residents and land purchase due to opposition from some of the locals. Our approach to handling this issue has been to understand the circumstances and customs of the local community. Progress is being made thanks to support from the provincial government and POSCO-India's efforts to engage the local residents. A relocation committee has been formed comprising government representatives, local politicians, NGOs and local residents. The committee will draw up a relocation plan based on the government of Orissa's Resettlement and Rehabilitation Policy adopted in May 2006.

To ensure that the relocation and land purchase proceed smoothly, POSCO-India has opened an office in Kujang, the administrative center of the site for our steelworks. An exhibition hall has been opened so that local residents affected can gain a clear understanding of our project. The exhibition hall provides a wide array of information on POSCO and our project in India, including compensation for displacement and job opportunities and training.

### Social Contribution

From early on, POSCO-India has been firmly committed to mutual growth with local communities and took action in the areas of

healthcare, education and welfare of residents well before the construction of steelworks began.

In 2006, we provided free surgery to 30 harelip patients. In early 2007, we supported a polio medical camp and helped 84 patients receive surgery. Our other community initiatives include installing streetlights around town communal facilities, donating goods to flood victims and providing medical equipment to local hospitals. In November, we gave USD 200,000 to the Habitat for Humanity-sponsored "Jimmy Carter Work Project 2006" to build 100 houses for those without homes in India. POSCO volunteer corps and POSCO-India employees donated their time to take part in the project. POSCO is joining the India-Builds campaign to construct 25 homes in the Orissa area starting in 2007.

To help local residents gain economic independence, we launched a vocational training program. A total of 56 people were selected and are undergoing a 6-month course in two separate batches. POSCO-India plans to expand job training opportunities for residents living around the plant site.

In October, POSCO TJ Park Foundation signed a POSCO-India Fellowship agreement with Utkal University, Biju Patnaik University of Technology and Kalinga Institute of Industrial Technology in Orissa in October 2006 and awarded scholarships to 65 meritorious students. In January 2007, the foundation signed an agreement with Delhi and Nehru universities. Thirty students received scholarships granted under the agreement.

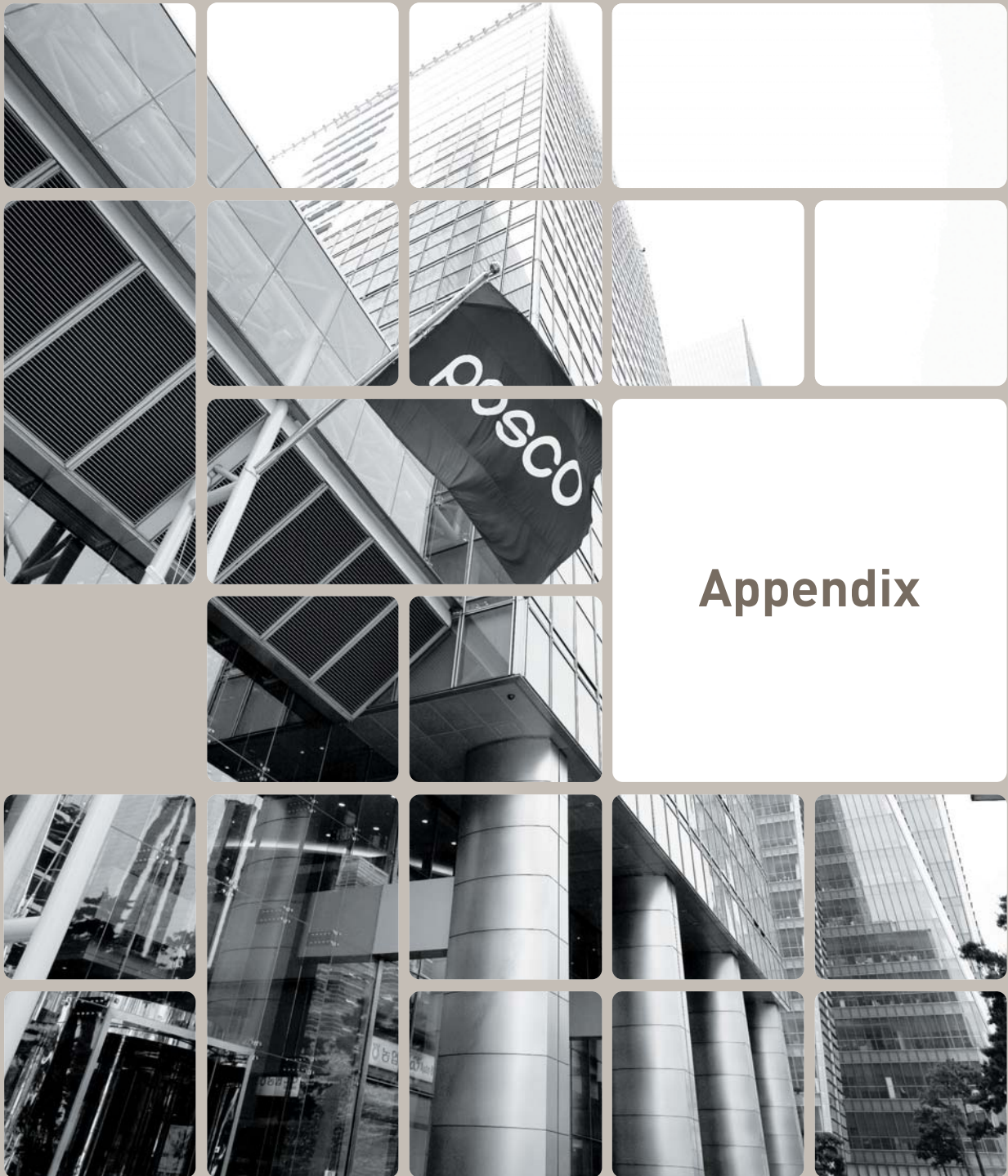
### Business Ethics

On August 25, 2006, POSCO-India introduced its Code of Conduct for employees and pledged to adhere to global ethical practices to mark the first anniversary of its founding. All POSCO-India employees signed the pledge to abide by the Code of Conduct which reflects the company's uncompromising commitment to integrity and discipline in all functions of operation.

### Employees

As of February 2007, POSCO-India has a total of 85 employees, of which 57 are locally hired. We invite employees to take active part in issues that directly affect them through regular employee seminars where they discuss topics that range from progress of key projects, company's vision, welfare and job training. In addition, high-quality learning program is provided to boost job competencies of our local employees and introduce them to the POSCO corporate culture as well as Korean culture. At the same time, we regularly hold Oriya language classes and lectures conducted by outside speakers for employees dispatched from Korea in an effort to enhance their understanding of the local culture.





## Appendix

- 76** Major Performance Indicators
- 77** Reporting Procedure
- 78** Assurance Report
- 80** GRI Content Index
- 83** Glossary
- 85** Reader Feedback Survey



# Major Performance Indicators

Category	Indicator	Unit	2004	2005	2006
Economy	Production	Ten thousand tons	3,020	3,050	3,005
	Sales	KRW billion	19,792	21,695	20,043
	Operating profit	KRW billion	5,054	5,912	3,892
	Net income	KRW billion	3,826	3,995	3,207
	Purchasing cost	KRW billion	10,715	11,570	11,387
	Dividend	KRW billion	644.4	638.4	621.1
	Interest expenses	KRW billion	143.8	88.3	78.8
	Wage	KRW billion	1,276.6	1,446.9	1,141.8
	Pension	KRW billion	47.1	47.8	41.7
	Tax	KRW billion	911.0	1,585.2	1,396.7
	Donation	KRW billion	154.1	139.0	135.3
Society	No. of employees	person	19,377	19,004	17,523
	Employ engagement	%	65	68	73
	Training hour per employee	hour	322	366	333
	No. of injuries (POSCO)	case	21	9	14
	No. of injuries (contractors)	case	11	9	9
	Lost-time injury frequency rate (POSCO)	-	0.53	0.24	0.40
	Lost-time injury frequency rate (contractors)	-	0.33	0.23	0.18
	Injury rate	-	0.10	0.05	0.08
	Customer satisfaction	-	78.0	82.1	79.0
	Social contribution spending	KRW billion	108.6	80.8	86.3
Environment	POSEPI	-	131	135	142
	Dust *	kg/T-S	0.22	0.24	0.24
	SOx *	kg/T-S	0.91	0.91	0.94
	NOx *	kg/T-S	1.49	1.41	1.44
	Water use	m <sup>3</sup> /T-S	3.78	3.76	4.00
	Effluent discharge	m <sup>3</sup> /T-S	1.51	1.61	1.54
	Effluent COD	mg/l	6	5	5
	Effluent T-N	mg/l	20	21	15
	Byproduct volume	Ten thousand tons	1,839	1,889	1,963
	Byproduct recycling rate	%	98.8	98.3	98.5
	CO <sub>2</sub> emissions per ton of crude steel	T-CO <sub>2</sub>	2.09	2.06	2.13

\* Dust, SOx, NOx data are as of 2002, 2004 and 2006.

# Reporting Procedure

The sustainability report aims to provide a full account of POSCO's sustainability activities and performances from the economic, environmental and social perspectives. Through balanced and transparent reporting, we aim to earn stakeholder trust while internally reviewing our sustainability management to identify areas for improvement. To this end, we have standardized reporting procedures and made continuous efforts to make improvements in the course of issuing our fourth annual sustainability report.

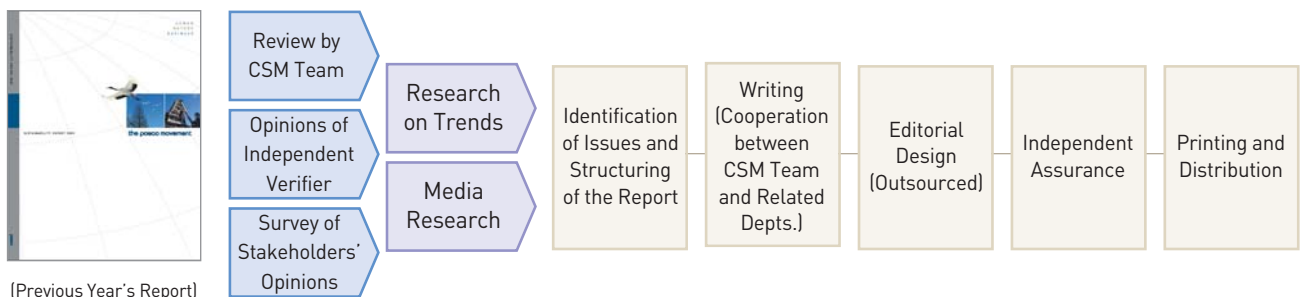
In order to accurately reflect our operations and to ensure creditability and quality, this report was prepared using the Global Reporting Initiative (GRI) guidelines and a set of our own independent guidelines. These guidelines provide a framework for the purpose and significance of the POSCO Sustainability Report, and present principles and guidance for reporting processes. The guidelines also outline core content covered in the report as well as performance criteria and indicators.

POSCO's CSM Team under the Business Innovation Department supervised report preparation. The CSM Team decided on contents and coordinated with relevant departments to compile the report. An outside firm was commissioned for translation, designing and printing of the report. In choosing information to be included in the report, we referred to third party recommendation from last year, stakeholder opinions and views gathered via website polls as well as company related issues covered in media, in addition to conducting internal surveys on external trends and benchmarking other exemplary cases.

This report highlights two key issues: POSCO's actions on climate change, one the of most pressing global issues, and our mutual cooperation with small to mid-sized enterprises, an area of particular interest in Korea and in which POSCO is considered a role model. Reflecting demand for expanded scope of reporting on subsidiaries, we increased the number of affiliate companies covered in the report and exerted efforts to raise content quality. The report covers six affiliates selected for their size, relevance to sustainability and stakeholder interest. Due to difficulties in integrating subsidiaries' and POSCO's sustainability related data, we have compiled a separate section, as in the previous report.

For greater credibility, this report was verified by a third party, KPMG. Experts from the Netherlands and Korea reviewed related processes in Pohang and Gwangyang Works and Seoul Office, interviewed people in charge and collected supporting material. Based on professional knowledge and previous verification experience on POSCO, KPMG presented its recommendation for improvements which will be reflected in our future reporting following CSM Team's review.

The report will be distributed to employees, BOD members, financial institutions, private organizations, government agencies, research centers and business associations on our mailing list. A copy of the Sustainability Report can be ordered via phone and the internet. We also welcome stakeholders' feedback through various channels including mail, internet and phone. In addition, POSCO is looking to develop a more workable communication solution with stakeholders.



# Assurance Report

## INTRODUCTION

We have been engaged by POSCO to review specified information in the POSCO Sustainability Report 2006 (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 2006 Non-Consolidated Financial Statements of POSCO;

limited assurance on whether:

- the data on the total Dioxin emission and Benefit sharing for Pohang and Gwangyang works for the year 2006 are reliable;
- the information in the following sections of The Report is fairly stated:
  - Environmental Management (pages 28 to 35);
  - Climate Change and Energy (pages 36 to 43);
  - Win-win Cooperation with SMEs (pages 48 to 51);
  - Social Contribution (pages 52 to 58).

'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 2006.

## 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 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 2006 listed below, with the audited 2006 Non-Consolidated Financial Statements of POSCO.

- Sales, Operating income, Net income and Shareholders' equity on page 17;
- Interest expense, Interest income, Net interest expenses and Income tax expense on page 19;

Based on the above, the data on financial performance, as specified above are properly derived from the 2006 Non-Consolidated Financial Statements of POSCO, for which the independent auditors issued an unqualified audit opinion dated February 12, 2007.

#### Dioxins and Benefit Sharing

For the reliability of the data on dioxins and Benefit sharing for Pohang and Gwangyang works for the year 2006 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 dioxins and Benefit sharing for Pohang and Gwangyang works for the year 2006 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, Environmental management (pages 28 to 35), Climate change and energy (pages 36 to 43), Win-win cooperation with SMEs (pages 48 to 51) and Social contribution (pages 52 to 58) does not appear to be unfairly stated.

#### COMMENTARY

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

POSCO has included additional information on the sustainability performance of its subsidiaries in the sustainability report. We recommend POSCO to make clear in the sustainability report over which subsidiaries it exercises managerial rights, include the performance for these subsidiaries in the scope of the overall sustainability performance data of POSCO, and develop reporting criteria to support the reporting process. Furthermore we recommend POSCO to further structure the process for identifying the material issues in the sustainability report and describe the process and outcomes in the next sustainability report.

Seoul, 11 June 2007



Kyo Tae Kim, CPA  
KPMG Samjong Accounting Corporation



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



# GRI Content Index

GRI Index	Indicators	Page
<b>1</b>	<b>Strategy and Analysis</b>	
1.1	Statement from the most senior decision-maker of the organization (e.g., CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and its strategy	2, 3
1.2	Description of key impacts, risks, and opportunities	2, 3, 6, 7, 8
<b>2</b>	<b>Organizational Profile</b>	
2.1	Name of the organization	4
2.2	Primary brands, products, and/or services	4, 17, 18
2.3	Operational structure of the organization, including main divisions, operating companies subsidiaries, and joint ventures	4
2.4	Location of organization's headquarters	4
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	4, 60, 61
2.6	Nature of ownership and legal form	11
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)	17, 18
2.8	Scale of the reporting organization	4, 17, 22
2.9	Significant changes during the reporting period regarding size, structure, or ownership	n/a
2.10	Awards received in the reporting period	7, 12–14, 27, 41, 46, 48
<b>3</b>	<b>Report Parameters</b>	
3.1	Reporting period (e.g., fiscal/calendar year) for information provided	C2
3.2	Date of most recent previous report (if any)	C2
3.3	Reporting cycle (annual, biennial, etc.)	C2
3.4	Contact point for questions regarding the report or its contents	C3
3.5	Process for defining report content	C2, 77
3.6	Boundary of the report	C2
3.7	State any specific limitations on the scope or boundary of the report	C2
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations	C2, 61
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report	*
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement	*
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report	C2, 77
3.12	Table identifying the location of the Standard Disclosures in the report	80–82
3.13	Policy and current practice with regard to seeking external assurance for the report	C2, 78, 79
<b>4</b>	<b>Governance, Commitments, and Engagement</b>	
4.1	Governance structure of the organization	11
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	11
4.3	For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members	11
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	11
4.5	Linkage between compensation for members of the highest governance body, senior managers, executives, and the organization's performance	12
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	11, 12
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental, and social topics	11

\* Shown as notes at the appropriate charts or tables in the report

GRI Index	Indicators	Page
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation	4, 46
4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance	12
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance	12
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization	–
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses	C2
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organizations	40
4.14	List of stakeholder groups engaged by the organization	10
4.15	Basis for identification and selection of stakeholders with whom to engage	10
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	10
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting	10, 23, 44
<b>Economic Performance</b>		
EC1	Direct economic value generated and distributed	16–19
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	36, 40
EC3	Coverage of the organization's defined benefit plan obligations	24
EC4	Significant financial assistance received from government	19
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation	45, 46
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation	70, 72
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	58, 74
<b>Environment Performance</b>		
EN1	Materials used by weight or volume	18
EN2	Percentage of materials used that are recycled input materials	34
EN3	Direct energy consumption by primary energy source	38
EN4	Indirect energy consumption by primary source	–
EN8	Total water withdrawal by source	34
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	30
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	30
EN16	Total direct and indirect greenhouse gas emissions by weight	37, 38
EN17	Other relevant indirect greenhouse gas emissions by weight	38
EN19	Emissions of ozone-depleting substances by weight	32
EN20	NOx, SOx, and other significant air emissions by type and weight	33
EN21	Total water discharge by quality and destination	34
EN22	Total weight of waste by type and disposal method	34, 35
EN23	Total number and volume of significant spills	33
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	31

# GRI Content Index

GRI Index	Indicators	Page
EN27	Percentage of products sold and their packaging materials that are reclaimed by category	34
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	30
<b>Labor Practices &amp; Decent Work Performance</b>		
LA1	Total workforce by employment type, employment contract, and region	22
LA2	Total number and rate of employee turnover by age group, gender, and region	22
LA4	Percentage of employees covered by collective bargaining agreements	23
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by region	20–21
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	21
LA10	Average hours of training per year per employee by employee category	25
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	11, 22
LA14	Ratio of basic salary of men to women by employee category	–
<b>Human Rights Performance</b>		
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	–
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	–
HR4	Total number of incidents of discrimination and actions taken	*
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights	23, 61, 63, 67, 69
HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor	*
<b>Society Performance</b>		
S01	Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting	52–58
S02	Percentage and total number of business units analyzed for risks related to corruption	13
S03	Percentage of employees trained in organization's anti-corruption policies and procedures	13
S04	Actions taken in response to incidents of corruption	13
S05	Public policy positions and participation in public policy development and lobbying	n/a
S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	n/a
<b>Product Responsibility Performance</b>		
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	–
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements	31
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	14
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	n/a

\* POSCO observes rules and regulations stipulated by ILO and Korean government which prohibit discrimination, child labor, and forced labor.

# Glossary

## **ADR (American Depository Receipts)**

American Depository Receipts (ADR) refers to certificates issued in the US representing the right to ownership of shares in non-US companies. ADRs allow investors to conveniently invest in foreign securities without difficulties that may arise from cross-boarder transactions.

## **BAT (Best Available Technology)**

The application of most advanced methods, systems and techniques in calculating social expenses stemming from environmental pollution or in environmental regulation policies such as toxic material discharge facility installation or emission limit standards.

## **CDM (Clean Development Mechanism)**

CDM is an arrangement allowing industrialized countries with a greenhouse gas reduction commitment to invest in emission reducing projects in developing countries. It enables industrialized countries to attain their greenhouse gas reduction goals while supporting developing countries' sustainable development. Globally proposed CDM projects include renewable energy development, thermal efficiency and processes improvement and reforestation.

## **CDP (Carbon Disclosure Project)**

CDP represents an efficient process whereby many institutional investors collectively sign a single global request for disclosure of information on Greenhouse Gas Emissions. The 2006 CDP 4 information request was signed by 225 institutional investors and sent to 2,180 companies worldwide.

## **CDQ (Coke Dry Quenching)**

CDQ facility cools the red-hot coke from coke ovens using nitrogen gas. The facility recovers the heat from the coke and makes steam, which is used to run generators

## **COD (Chemical Oxygen Demand)**

COD is a measure of water quality. An oxidizing agent is used to oxidize organic compounds to carbon dioxide. COD is expressed in milligrams per liter (mg/l ) or parts per million (ppm), which indicates the mass of oxygen consumed per liter of oxidizing solution.

## **GRI (Global Reporting Initiative)**

GRI develops and disseminates globally applicable Sustainability Reporting Guidelines. It comprises representatives from various sectors including business, research, civic groups and investors. The GRI is a collaborating center of the United Nations Environment Programme and works in cooperation with the United Nations Global Compact. The third version of the GRI guidelines, referred to as G3, was released in October 2006.

## **LCA (Life Cycle Assessment)**

LCA assesses the environmental impact of a product throughout its lifespan from raw material purchase and production to use and disposal. Among those included in the evaluation are energy and raw material input and pollutants.

## **LDAR (Leak Detection and Repair)**

Measures taken to reduce the emission of pollutants from fugitive emission sources. They include activities and systems related to regular monitoring and repair of potential leak points.



# Glossary

## **MSDS (Material Safety Data Sheets)**

MSDS contains information on the hazards and safety measures of chemical materials. Its purpose is to satisfy workers' rights to be informed and to prevent industrial accidents. The MSDS policy states that MSDS be attached to all chemical materials throughout their distribution.

## **PM10**

Fine dust with a diameter below 10 $\mu$ m composed of particulate matter present in the air.

## **POPs (Persistent Organic Pollutants)**

Organic chemical compounds that do not break down in nature and accumulate in plants and animals through the food web. They pose a risk to human health including disruption of the immune system and damage to the central nervous system. POPs are usually generated during industrial production and waste incineration. The major POPs include pesticides such as DDT and aldrin, industrial chemicals such as polychlorinated biphenyls (PCB), hexachlorobenzene (insecticide), dioxin and furans. The Stockholm Convention on Persistent Organic Pollutants (POPs), which regulates 12 POPs and entered into force in May 2004, has been ratified by more than 50 countries.

## **PSSM (POSCO Six Sigma Model)**

POSCO's "unique working method" adapted to the company. PSSM aims to create a virtuous cycle of continuous improvement, learning and execution through active participation of all employees and management. It is comprised of identifying problems, carrying out improvement measures, adhering to standards and learning activities. It also covers supplementary activities such as issuing directives, reporting, meetings and education.

## **QSS (Quick Six Sigma)**

Activities intended to uncover hidden value by identifying and removing waste factors at work sites.

## **RAI chart (Responsible, Accountable, Informed)**

RAI chart clearly defines individual roles and responsibilities within each department.

## **Slag**

By-product formed in smelting metals or ores, and other metallurgical or combustion processes. In steelmaking process, it floats on top of a molten pool of iron, minimizing reoxidation on the surface. There are blast furnace slag and steel slag. Slag can be used in cement, concrete, as road base material and fertilizer.

## **SS (Suspended Solids)**

Materials with particle size of less than 2mm that do not dissolve in water.

## **TCO (Total Cost of Ownership) evaluation**

A method of selecting suppliers based on the total direct and indirect costs of a product throughout its lifespan.

## **TRT (Top-gas pressure Recovery Turbine)**

Gas pressure from blast furnaces is used to turn turbines and generate power.

# Reader Feedback Survey

Thank you for your interest in POSCO's 2006 Sustainability Report. We value the opinions of our readers and request that you fill out this questionnaire. Your feedback will be incorporated to improve our future sustainability reports.

1. Which of the following applies to you?

- |  |  |   |                                     |
|--|--|---|-------------------------------------|
| <input type="checkbox"/> POSCO Customer    | <input type="checkbox"/> POSCO Employee    | <input type="checkbox"/> POSCO Supplier/Outsourcing Partner |                                     |
| <input type="checkbox"/> POSCO Shareholder | <input type="checkbox"/> Research/Academia | <input type="checkbox"/> Citizens' Group                    | <input type="checkbox"/> Media      |
| <input type="checkbox"/> CSR Personnel     | <input type="checkbox"/> Local Resident    | <input type="checkbox"/> Student                            | <input type="checkbox"/> Government |
|  |  | <input type="checkbox"/> Other: _____                       |                                     |

2. What are your major areas of interest? (Multiple answers possible)

- |   |  |  |  |
|---|--|--|--|
| <input type="checkbox"/> POSCO overview           | <input type="checkbox"/> POSCO's sustainability management | <input type="checkbox"/> Corporate governance      | <input type="checkbox"/> Business ethics |
| <input type="checkbox"/> Fair trade               | <input type="checkbox"/> Economic impact                   | <input type="checkbox"/> Safety and health         | <input type="checkbox"/> Employees       |
| <input type="checkbox"/> Environmental management |  | <input type="checkbox"/> Energy and climate change | <input type="checkbox"/> Customer firms  |
| <input type="checkbox"/> Supply network           | <input type="checkbox"/> Win-win cooperation with SMEs     | <input type="checkbox"/> Social contribution       | <input type="checkbox"/> Subsidiaries    |
| <input type="checkbox"/> Other:                   |  |  |  |

3. Does this report adequately convey information that meets your needs?

- |                                       |                                |                                  |                                   |  |
|---------------------------------------|--------------------------------|----------------------------------|-----------------------------------|--|
| <input type="checkbox"/> Highly agree | <input type="checkbox"/> Agree | <input type="checkbox"/> Neutral | <input type="checkbox"/> Disagree | <input type="checkbox"/> Highly disagree |
|---------------------------------------|--------------------------------|----------------------------------|-----------------------------------|--|

4. If your answer to question No.3 was "disagree" or "highly disagree," what information would you like to see included in the report?

.....

.....

5. Is this report structured in a way that is easy to follow?

- |                                       |                                |                                  |                                   |  |
|---------------------------------------|--------------------------------|----------------------------------|-----------------------------------|--|
| <input type="checkbox"/> Highly agree | <input type="checkbox"/> Agree | <input type="checkbox"/> Neutral | <input type="checkbox"/> Disagree | <input type="checkbox"/> Highly disagree |
|---------------------------------------|--------------------------------|----------------------------------|-----------------------------------|--|

6. If your answer to question No.5 was "disagree" or "highly disagree," which areas need improvement?

.....

.....

7. If you have further comments about POSCO's sustainability management and reporting, please feel free to add them here.

.....

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Please return the survey by post or fax to:

CSM Team, Business Innovation Department, POSCO POSCO Center, 892 Daechi 4-dong Gangnam-gu, Seoul 135-777, Korea Fax: +82-2-3457-1940
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# POSCO'S Previous Reports on Sustainability Management

## Reports on Activities and Performances of POSCO's Sustainability 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 1994 ~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 Contribution Report 2003, 2006

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.

# Contact

We welcome any comments or inquiries about the POSCO Sustainability Report.

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Please visit our website at [www.posco.com](http://www.posco.com) for more information and to view or download PDF editions of this or previous sustainability reports, environmental reports and annual reports.

## E-MAIL ADDRESSES FOR OTHER INQUIRIES

Corporation/PR	<a href="mailto:webmaster@posco.com">webmaster@posco.com</a>
Business ethics	<a href="mailto:ethics@posco.com">ethics@posco.com</a>
IR	<a href="mailto:ir@posco.com">ir@posco.com</a>
Employment	<a href="mailto:hrteam@posco.com">hrteam@posco.com</a>
Sales	<a href="mailto:marketing@posco.com">marketing@posco.com</a>
MRO procurement	<a href="mailto:procurement@posco.com">procurement@posco.com</a>

## 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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