

**POSCO**  
**and Subsidiaries**  
**Consolidated Financial Statements**  
**December 31, 2006 and 2005**

# **POSCO and Subsidiaries**

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**December 31, 2006 and 2005**

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

<i>(in millions of Korean won)</i>	<b>2006</b>	<b>2005</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents, net of government grants (Notes 3 and 27)	₩ 936,288	₩ 653,364
Short-term financial instruments (Notes 3, 13 and 27)	867,310	760,371
Trading securities (Note 4)	2,000,647	2,610,502
Current portion of available-for-sales securities (Note 7)	13,375	90,889
Current portion of held-to-maturity securities (Note 7)	153,476	2,688
Trade accounts and notes receivable, net of allowance for doubtful accounts and present value discount (Notes 5, 13, 27 and 28)	3,491,659	3,044,720
Other accounts and notes receivable, net of allowance for doubtful accounts and present value discount (Notes 5, 27 and 28)	246,804	241,587
Inventories, net (Notes 6, 13 and 29)	4,018,205	3,792,594
Deferred income tax assets (Note 25)	118,073	131,790
Other current assets, net of allowance for doubtful accounts (Note 11)	391,116	311,831
Total current assets	12,236,953	11,640,336
Property, plant and equipment, net (Notes 8, 13, 14 and 29)	14,643,120	12,271,710
Investment securities (Notes 7, 13, 27 and 29)	3,165,055	2,815,741
Intangible assets, net (Notes 9 and 29)	557,082	453,709
Long-term loans receivable, net of allowance for doubtful accounts and present value discount (Notes 5, 27, 28 and 29)	62,295	42,040
Long-term trade accounts and notes receivable, net of allowance for doubtful accounts and present value discount (Notes 5, 27 and 29)	44,348	41,390
Deferred income tax assets (Notes 25 and 29)	266,866	39,922
Guarantee deposits (Notes 27 and 29)	60,368	49,081
Long-term financial instruments (Notes 3, 13, 27 and 29)	12,339	19,506
Other long-term assets, net of allowance for doubtful accounts and present value discount (Notes 5, 11 and 29)	100,647	133,875
Total assets	₩ 31,149,073	₩ 27,507,310

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

(in millions of Korean won)

	2006	2005
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Trade accounts and notes payable (Notes 27 and 28) ₩	1,507,227	₩ 1,145,729
Short-term borrowings (Notes 12, 27 and 28)	1,238,749	859,774
Current portion of long-term debts, net of discount on debentures issued (Notes 13 and 27)	404,412	1,057,200
Accrued expenses (Note 27)	221,936	698,062
Other accounts and notes payable (Notes 27 and 28)	290,867	194,486
Withholdings (Note 27)	133,131	101,956
Income tax payable	701,037	1,366,847
Deferred income tax liabilities (Note 25)	77,541	645
Other current liabilities (Note 16)	507,395	456,864
Total current liabilities	5,082,295	5,881,563
Long-term debts, net of current portion and discount on debentures issued (Notes 13, 27 and 28)	2,725,502	1,131,270
Accrued severance benefits, net (Note 15)	331,006	274,812
Deferred income tax liabilities (Note 25)	460,342	213,867
Other long-term liabilities (Notes 14, 16 and 21)	148,186	132,121
Total liabilities	8,747,331	7,633,633
Commitments and contingencies (Note 17)		
Shareholders' equity		
Common stock (Note 1)	482,403	482,403
Capital surplus (Note 18)	4,035,273	3,991,409
Retained earnings (Note 19)	18,863,333	16,168,892
( Net income: ₩3,314,181 million in 2006 and ₩4,022,492 million in 2005		
Losses in excess of minority interest: ₩2,568 million in 2006 and ₩22,448 million in 2005)		
Capital adjustments, net (Note 20)	(1,468,474)	(1,153,697)
	21,912,535	19,489,007
Minority interest		
Common stock	251,479	174,457
Capital surplus and retained earnings	237,728	210,213
	489,207	384,670
Total shareholders' equity	22,401,742	19,873,677
Total liabilities and shareholders' equity ₩	₩ 31,149,073	₩ 27,507,310

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

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

(in millions of Korean won, except per share amounts)

	2006	2005
<b>Sales (Notes 28 and 29)</b>	₩ 25,842,326	₩ 26,301,788
<b>Cost of goods sold (Note 28)</b>	19,896,764	18,767,195
Gross profit	5,945,562	7,534,593
<b>Selling and administrative expenses (Note 23)</b>	1,556,415	1,451,317
Operating income	4,389,147	6,083,276
<b>Non-operating income</b>		
Interest and dividend income (Note 28)	182,832	161,135
Gain on foreign currency transactions	156,722	114,615
Gain on foreign currency translation	84,269	148,857
Gain on valuation of trading securities	19,467	15,357
Gain on disposal of trading securities	67,284	59,436
Gain on disposal of property, plant and equipment	19,144	24,225
Gain on valuation of derivatives (Note 22)	1,857	1,671
Gain on derivative transactions (Note 22)	15,477	3,857
Earnings of equity method investees (Note 7)	47,147	26,095
Gain on recovery of allowance for doubtful accounts	13,776	18,591
Gain on disposal of investments	8,183	2,973
Others	133,066	210,853
	749,224	787,665
<b>Non-operating expenses</b>		
Interest expense (Note 28)	183,290	149,337
Other bad debt expense	70,370	30,146
Loss on foreign currency transactions	137,567	95,646
Loss on foreign currency translation	4,855	9,091
Losses of equity method investees (Note 7)	722	6,371
Donations (Note 24)	154,678	153,018
Loss on disposal of property, plant and equipment	54,179	42,815
Loss on valuation of derivatives (Note 22)	820	21,393
Loss on derivative transactions (Note 22)	40,363	9,000
Loss on impairment of investments	2,088	11,846
Others	204,847	854,089
	853,779	1,382,752
Net income before income tax expense and minority interest	4,284,592	5,488,189
Income tax expense (Note 25)	921,951	1,473,589
Net income before minority interest	3,362,641	4,014,600
Minority interest in income of consolidated subsidiaries	48,460	(7,892)
Net income	₩ 3,314,181	₩ 4,022,492
Basic and diluted earnings per share (Note 26) (in Korean won)	₩ 42,115	₩ 50,790

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

# POSCO and Subsidiaries

## Consolidated Statements of Changes in Shareholders' Equity

### Years Ended December 31, 2006 and 2005

<i>(in millions of Korean won)</i>		Common Stock		Capital Surplus		Retained Earnings		Capital Adjustments		Minority Interest		Total
<b>Balance as of January 1, 2005</b>	₩	482,403	₩	3,895,378	₩	12,851,118	₩	(1,150,734)	₩	307,891	₩	16,386,056
Net income for 2005		-		-		4,022,492		-		-		4,022,492
Effect of change in scope of consolidation (Note 1)		-		167		3,981		-		-		4,148
Effect of change in percentage of ownership of investees		-		(12,893)		598		-		-		(12,295)
Dividends		-		-		(680,794)		-		-		(680,794)
Change in losses in excess of minority interest (Note 19)		-		-		(22,448)		-		22,448		-
Change in treasury stock		-		108,018		-		(279,061)		-		(171,043)
Overseas operations translation adjustment		-		-		-		(11,524)		-		(11,524)
Changes in valuation gain and loss on investment securities		-		-		-		290,143		-		290,143
Effect of change in percentage of minority interest		-		-		-		-		62,223		62,223
Minority interest in income of consolidated subsidiaries		-		-		-		-		(7,892)		(7,892)
Others		-		739		(6,055)		(2,521)		-		(7,837)
<b>Balance as of December 31, 2005</b>	₩	<u>482,403</u>	₩	<u>3,991,409</u>	₩	<u>16,168,892</u>	₩	<u>(1,153,697)</u>	₩	<u>384,670</u>	₩	<u>19,873,677</u>
<b>Balance as of January 1, 2006</b>	₩	482,403	₩	3,991,409	₩	16,168,892	₩	(1,153,697)	₩	384,670	₩	19,873,677
Net income for 2006		-		-		3,314,181		-		-		3,314,181
Effect of change in scope of consolidation (Note 1)		-		(1,012)		40,649		-		-		39,637
Effect of change in percentage of ownership of investees		-		(8,645)		-		-		-		(8,645)
Dividends		-		-		(636,487)		-		-		(636,487)
Change in losses in excess of minority interest (Note 19)		-		-		(2,568)		-		2,568		-
Change in treasury stock		-		50,565		-		(711,485)		-		(660,920)
Overseas operations translation adjustment (Note 20)		-		-		-		(51,839)		-		(51,839)
Changes in valuation gain and loss on investment securities (Note 20)		-		-		-		462,912		-		462,912
Effect of change in percentage of minority interest		-		-		-		-		53,509		53,509
Minority interest in income of consolidated subsidiaries		-		-		-		-		48,460		48,460
Others		-		2,956		(21,334)		(14,365)		-		(32,743)
<b>Balance as of December 31, 2006</b>	₩	<u>482,403</u>	₩	<u>4,035,273</u>	₩	<u>18,863,333</u>	₩	<u>(1,468,474)</u>	₩	<u>489,207</u>	₩	<u>22,401,742</u>

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

**POSCO and Subsidiaries**  
**Consolidated Statements of Cash flows**  
**Years Ended December 31, 2006 and 2005**

(in millions of Korean won)

	2006	2005
<b>Cash flows from operating activities</b>		
Net income	₩ 3,314,181	₩ 4,022,492
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,782,738	1,612,556
Accrual of severance benefits	144,931	213,082
Provision for doubtful accounts, net	173,931	115,865
Gain on foreign currency translation, net	(76,453)	(138,296)
Gain on valuation of trading securities, net	(18,863)	(15,124)
Loss (gain) on valuation of derivatives, net	(1,037)	19,722
Loss on derivatives transaction, net	24,886	5,143
Gain on disposal of trading securities and investments, net	(66,507)	(58,865)
Loss on disposal of property, plant and equipment, net	35,035	18,590
Earnings of equity method investees, net	(46,425)	(19,724)
Minority interest in income of consolidated subsidiaries	48,460	(7,892)
Others	374,968	391,778
	<u>2,375,664</u>	<u>2,136,835</u>
Changes in operating assets and liabilities		
Decrease (increase) in trade accounts and notes receivable	(398,201)	45,112
Increase in inventories	(380,143)	(706,528)
Increase in other accounts and notes receivable	(30,932)	(94,499)
Increase in accrued income	(26,205)	(19,757)
Increase in advance payments	(73,034)	(83,702)
Increase in prepaid expenses	(5,009)	(1,360)
Increase (decrease) in trade accounts and notes payable	272,270	(170,131)
Increase (decrease) in other accounts and notes payable	122,673	(7,571)
Increase (decrease) in advances received	78,449	(7,888)
Increase (decrease) in accrued expenses	(459,579)	493,376
Increase (decrease) in income tax payable	(715,691)	281,240
Deferred income tax, net	(59,480)	(151,602)
Payment of severance benefits	(36,817)	(84,049)
Increase in group severance insurance deposits	(48,880)	(98,790)
Increase (decrease) in other current liabilities	5,855	(30,479)
Others	(35,515)	(58,375)
	<u>(1,790,239)</u>	<u>(695,003)</u>
Net cash provided by operating activities	<u>3,899,606</u>	<u>5,464,324</u>

**POSCO and Subsidiaries**  
**Consolidated Statements of Cash flows**  
**Years Ended December 31, 2006 and 2005**

<i>(in millions of Korean won)</i>	<b>2006</b>	<b>2005</b>
<b>Cash flows from investing activities</b>		
Disposal of trading securities	15,322,978	12,758,304
Acquisition of trading securities	(10,204,626)	(12,536,599)
Disposal of available-for-sale securities	145,990	347,987
Acquisition of available-for-sale securities	(669,732)	(620,686)
Disposal of short-term financial instruments	1,516,362	1,322,222
Acquisition of short-term financial instruments	(1,610,510)	(1,434,935)
Disposal of long-term financial instruments	113,339	1,509
Acquisition of property, plant and equipment	(3,709,422)	(3,360,537)
Disposal of property, plant and equipment	425,976	66,273
Collection of short-term loans	64,436	107,484
Short-term loans provided	(62,641)	(119,033)
Long-term loans provided	(6,388)	(33,406)
Acquisition of intangible assets	(131,575)	(81,605)
Acquisition of other investment assets	(4,443,107)	(239,211)
Others	(130,556)	77,816
Net cash used in investing activities	<u>(3,379,476)</u>	<u>(3,744,417)</u>
<b>Cash flows from financing activities</b>		
Proceeds from short-term borrowings	4,119,189	4,828,860
Proceeds from long-term debts	2,160,279	594,312
Proceeds from other long-term liabilities	15,535	497,193
Disposal of treasury stock	69,779	931,664
Repayment of current portion of long-term debts	(1,188,281)	(1,040,410)
Repayment of short-term borrowings	(3,821,014)	(4,715,293)
Repayment of long-term debts	(165,212)	(328,037)
Payment of cash dividends	(636,487)	(680,794)
Acquisition of treasury stock	(851,123)	(1,295,163)
Repayment of other long-term liabilities	(78,173)	(398,998)
Others	148,808	29,024
Net cash used in financing activities	<u>(226,700)</u>	<u>(1,577,642)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(15,245)</u>	<u>(4,425)</u>
Net increase in cash and cash equivalents from changes in consolidated subsidiaries	<u>4,364</u>	<u>33,939</u>
Net increase in cash and cash equivalents	282,549	171,779
<b>Cash and cash equivalents</b>		
Beginning of the year	653,871	482,092
End of the year	<u>₩ 936,420</u>	<u>₩ 653,871</u>

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



# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2006 and 2005

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#### 1. Consolidated Companies

General descriptions of POSCO, the controlling company, and its controlled subsidiaries (Collectively the “Company”), including POSCO Engineering & Construction Co., Ltd. (POSCO E & C) and 17 other domestic subsidiaries and 34 overseas subsidiaries, whose accounts are included in the consolidated financial statements, and 17 equity-method investees, which are excluded from the consolidation, are as follows:

##### The Controlling Company

POSCO, the controlling company, was incorporated on April 1, 1968, under the Commercial Code of the Republic of Korea, to manufacture and distribute steel rolled products and plates in the domestic and overseas markets. Annual production capacity is 30,000 thousand tons: 12,600 thousand tons at the Pohang mill and 17,400 thousand tons at the Gwangyang mill. The shares of POSCO have been listed on the Korea Stock Exchange since 1988. POSCO operates two plants and one office in Korea, and seven liaison offices overseas. POSCO operates its principal market in the domestic market in Korea and concentrates export and overseas sales in the Asia Pacific region including Japan, China and other countries.

As of December 31, 2006, POSCO’s shareholders are as follows:

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

As of December 31, 2006, the shares of POSCO are listed on the Korea Stock Exchange, and its depository receipts are listed on the New York, London and Tokyo Stock Exchanges.

**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006 and 2005**

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**Consolidated Subsidiaries**

The consolidated financial statements include the accounts of POSCO and its controlled subsidiaries. The following table sets forth certain information with regard to consolidated subsidiaries as of December 31, 2006:

Subsidiaries	Primary Business	Net Assets (in millions of Korean won) <sup>1</sup>	Number of Outstanding Shares	Number of Shares			Percentage of Ownership (%)	Location	Percentage of Ownership of Subsidiaries (%)
				POSCO	Subsidiaries	Total			
Domestic									
POSCO E & C	Engineering and construction	₩ 1,106,668	30,000,000	27,281,080	-	27,281,080	90.94	Pohang	-
Posteel Co., Ltd.	Steel sales and service	293,447	18,000,000	17,155,000	-	17,155,000	95.31	Pohang	-
POSCON Co., Ltd.	Electronic control devices manufacturing	129,593	3,519,740	3,098,610	-	3,098,610	88.04	Pohang	-
Pohang Coated Steel Co., Ltd.	Coated steel manufacturing	267,016	6,000,000	4,000,000	-	4,000,000	66.67	Pohang	-
POSCO Machinery & Engineering Co., Ltd.	Steel work maintenance	51,062	1,700,000	1,700,000	-	1,700,000	100.00	Pohang	-
POSDATA Co., Ltd.	Computer hardware and software distribution	159,511	81,551,600	50,440,720	-	50,440,720	61.85	Sungnam	-
POSCO Research Institute	Economic research and consulting	23,010	3,800,000	3,800,000	-	3,800,000	100.00	Seoul	-
Seung Kwang Co., Ltd.	Athletic facilities operation	43,647	3,945,000	2,737,000	1,208,000	3,945,000	100.00	Suncheon	POSCO E & C (30.62)
POS-AC Co., Ltd.	Architecture and consulting	23,294	230,000	230,000	-	230,000	100.00	Seoul	-

**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
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Subsidiaries	Primary Business	Net Assets (in millions of Korean won) <sup>1</sup>		Number of Outstanding Shares	Number of Shares			Percentage of Ownership (%)	Location	Percentage of Ownership of Subsidiaries (%)	
					POSCO	Subsidiaries	Total				
POSCO Specialty Steel Co., Ltd. (Formerly Changwon Specialty Steel Co., Ltd.)	Specialty steel manufacturing	₩	436,303	26,000,000	26,000,000	-	26,000,000	100.00	Changwon	-	
POSCO Machinery Co., Ltd.	Machinery installation		33,135	1,000,000	1,000,000	-	1,000,000	100.00	Gwangyang	-	
POSTECH Venture Capital Corp.	Investment in venture companies		32,740	6,000,000	5,700,000	-	5,700,000	95.00	Pohang	-	
POSCO Refractories & Environment Company Ltd. (POSREC)	Manufacturing		120,342	5,907,000	3,544,200	-	3,544,200	60.00	Pohang	-	
POSCO Terminal Co., Ltd.	Distribution and warehousing		32,600	5,000,000	2,550,000	-	2,550,000	51.00	Gwangyang	-	
Posmate Co., Ltd. (Formerly Dongwoosa Service Inc.)	Facilities management		31,385	714,286	214,286	-	214,286	30.00	Seoul	-	
Samjung Packing & Aluminum Co., Ltd.	Packing materials manufacturing		68,955	3,000,000	270,000	831,756	1,101,756	36.73	Pohang	Posmate Inc. (27.73)	
POSCO Power Corp.	Generation of Electricity		489,762	40,000,000	40,000,000	-	40,000,000	100.00	Seoul	-	<sup>3</sup>
POSTECH 2006 Energy Fund	Investment in new technology		28,619	-	-	-	-	22.11	Seoul	POSTECH Venture Capital Corp. (10.53) POSCO Power Corp. (11.58)	<sup>2,3</sup>

**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006 and 2005**

Subsidiaries	Primary Business	Net Assets (in millions of Korean won) <sup>1</sup>		Number of Outstanding Shares	Number of Shares			Percentage of Ownership (%)	Location	Percentage of Ownership of Subsidiaries (%)
					POSCO	Subsidiaries	Total			
POSCO America Corporation (POSAM)	Steel trading	₩	111,614	317,806	316,051	1,755	317,806	100.00	U.S.A.	POSCAN (0.55)
POSCO Australia Pty. Ltd. (POSA)	Steel trading		88,772	761,775	761,775	-	761,775	100.00	Australia	-
POSCO Canada Ltd. (POSCAN)	Coal trading		59,582	1,099,885	-	1,099,885	1,099,885	100.00	Canada	Posteel (100.00)
POSCO Asia Co.,Ltd. (POA)	Steel trading		18,353	9,360,000	9,360,000	-	9,360,000	100.00	Hongkong	-
VSC POSCO Steel Corporation (VPS)	Steel manufacturing		11,352	-	-	-	-	40.00	Vietnam	Posteel (5.00) <sup>2</sup>
DALIAN POSCO-CFM Coated Steel Co., Ltd.	Coated steel manufacturing		12,894	-	-	-	-	55.00	China	Posteel (15.00) POSCO-China Holding Corp. (10.00) <sup>2</sup>
POS-Tianjin Coil Center Co., Ltd.	Steel service center		7,880	-	-	-	-	70.00	China	Posteel (60.00) <sup>2</sup>
POSMETAL Co., Ltd.	Steel service center		6,304	6,000	-	3,000	3,000	50.00	Japan	Posteel (50.00)
Shanghai Real Estate Development Co., Ltd.	Real estate rental		76,688	-	-	-	-	100.00	China	POSCO E & C (100.00) <sup>2</sup>
IBC Corporation	Real estate rental		21,958	-	-	-	-	60.00	Vietnam	POSCO E & C (60.00) <sup>2</sup>
POSLILAMA Steel Structure Co., Ltd.	Steel structure fabrication and sales		(14,075)	-	-	-	-	70.00	Vietnam	POSCO E & C (60.00), Posteel (10.00) <sup>2</sup>

**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006 and 2005**

Subsidiaries	Primary Business	Net Assets (in millions of Korean won) <sup>1</sup>		Number of Outstanding Shares	Number of Shares			Percentage of Ownership (%)	Location	Percentage of Ownership of Subsidiaries (%)
					POSCO	Subsidiaries	Total			
Zhangjiagang Pohang Stainless Steel Co., Ltd. (ZPSS)	Stainless steel manufacturing	₩	481,471	-	-	-	-	82.48	China	POSCO-China Holding Corp. (23.88) <sup>2</sup>
Guangdong Pohang Coated Steel Co., Ltd.	Coated steel manufacturing		18,377	-	-	-	-	95.19	China	POSCO-China Holding Corp. (11.52) <sup>2</sup>
POSCO-Thailand Co., Ltd.	Steel service center		15,247	5,941,570	2,327,288	2,136,187	4,463,475	75.12	Thailand	Posteel (35.95)
Zhangjiagang POSHA Steel Port Co., Ltd. (ZPSP)	Depot service		12,391	-	-	-	-	90.00	China	POSCO E & C (25.00), <sup>2</sup> ZPSS (65.00)
POSCO Investment Co., Ltd.	Finance		64,793	5,000,000	5,000,000	-	5,000,000	100.00	Hongkong	-
Qingdao Pohang Stainless Steel Co., Ltd.	Stainless steel manufacturing		63,728	-	-	-	-	80.00	China	POSCO-China Holding Corp. (10.00) <sup>2</sup>
POSCO (Suzhou) Automotive Processing Center Co., Ltd.	Steel service center		21,279	-	-	-	-	100.00	China	POSCO-China Holding Corp. (10.00) <sup>2</sup>
POSEC-Hawaii Inc.	Construction		15,186	24,400	-	24,400	24,400	100.00	U.S.A.	POSCO E & C (100.00)
POS-Qingdao Coil Center Co., Ltd.	Steel service center		7,876	-	-	-	-	100.00	China	Posteel (100.00) <sup>2</sup>
POS-ORE Pty. Ltd.	Iron ore mining and trading		27,994	17,500,001	-	17,500,001	17,500,001	100.00	Australia	POSA (100.00)

**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006 and 2005**

Subsidiaries	Primary Business	Net Assets (in millions of Korean won) <sup>1</sup>	Number of Outstanding Shares	Number of Shares			Percentage of Ownership (%)	Location	Percentage of Ownership of Subsidiaries (%)	
				POSCO	Subsidiaries	Total				
POSCO-China Holding Corp.	Investment	₩ 167,666	-	-	-	-	100.00	China	-	<sup>2</sup>
POSCO-JAPAN Co., Ltd.	Steel trading	49,481	90,438	90,438	-	90,438	100.00	Japan	-	
POSCO E&C (Zhangjiagang) Engineering & Consulting Co., Ltd.	Facilities manufacturing	5,104	-	-	-	-	100.00	China	POSCO E & C (100.00)	<sup>2</sup>
POS-CD Pty. Ltd.	Coal trading	9,360	12,550,000	-	12,550,000	12,550,000	100.00	Australia	POSA (100.00)	
POS-GC Pty. Ltd.	Coal trading	7,813	11,050,000	-	11,050,000	11,050,000	100.00	Australia	POSA (100.00)	
POSCO-India Private Ltd.	Coal trading	47,608	225,000,000	224,999,999	-	224,999,999	100.00	India	-	
POS-India Steel Processing Centre Pvt. Ltd.	Steel service center	13,746	65,790,858	42,764,058	-	42,764,058	65.00	India	-	
POS-NPC	Steel service center	(504)	20,000	-	18,000	18,000	90.00	Japan	POSCO-JAPAN (90.00)	<sup>3</sup>
POSCO-Foshan Steel Processing Center Co.,Ltd.	Steel service center	13,325	-	-	-	-	100.00	China	POA(40.00) POSCO-China (60.00)	<sup>2, 3</sup>
POSCAN Elkview Coal Ltd.	Coal trading	28,646	304,016	-	304,016	304,016	100.00	Canada	POSCAN (100.00)	
POS-MPC S.A. de C.V.	Steel service center	13,308	-	-	-	-	61.00	Mexico	POSAM(61.00)	<sup>2, 3</sup>

**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006 and 2005**

Subsidiaries	Primary Business	Net Assets (in millions of Korean won) <sup>1</sup>	Number of Outstanding Shares	Number of Shares			Percentage of Ownership (%)	Location	Percentage of Ownership of Subsidiaries (%)
				POSCO	Subsidiaries	Total			
Zhangjiagang Pohang Port Co., Ltd.	Raw material and steel depot service	9,743	-	-	-	-	100.00	China	ZPSS(47.30) ZPSP(27.70) POSCO-China (25.00)
POSCO-Vietnam Co., Ltd.	Cold-rolled steel manufacturing and sales	34,512	-	-	-	-	100.00	Vietnam	-

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

<sup>2</sup> No shares have been issued in accordance with the local laws and regulations.

<sup>3</sup> These subsidiaries are newly included in the consolidation.

**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006 and 2005**

**Equity-Method Investees**

The following table sets forth certain information with regard to equity-method investees as of December 31, 2006:

Investees	Primary business	Net Assets		Number of shares			Percentage of Ownership (%)	Location	Percentage of	
		(in millions of Korean won) <sup>1</sup>		POSCO	Subsidiaries	Total			Ownership of Subsidiaries (%)	
Domestic										
eNtoB Corporation	E-business	₩	20,936	560,000	180,000	740,000	23.13	Seoul	POSDATA and others (5.63)	
MIDAS Information Technology Co., Ltd.	Engineering		16,889	-	866,190	866,190	25.46	Seoul	POSCO E & C (25.46)	
Songdo New City Development Inc.	Real estate		(119,916)	-	-	-	29.90	Seoul	POSCO E&C (29.90)	3
SNNC Co., Ltd.	Fe-Cr manufacturing		38,402	3,822,000	-	3,822,000	49.00	Gwangyang	-	2
Gale International Korea, Inc.	Real estate		7,527	-	-	-	29.90	Seoul	POSCO E&C (29.90)	3
Foreign										
KOBRASCO	Steel trading		74,422	2,010,719,185	-	2,010,719,185	50.00	Brazil	-	2
Fujiura Butsuryu Center Co., Ltd.	Warehousing		2,782	-	600	600	30.00	Japan	POSCO-JAPAN (30.00)	
USS - POSCO Industries (UPI)	Steel processing		121,016	-	-	-	50.00	U.S.A.	POSAM (50.00)	2, 3
Poschrome (Proprietary) Limited	Fe-Cr manufacturing		24,253	21,675	-	21,675	25.00	Republic of South Africa	-	



**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006 and 2005**

Investees	Primary business	Net Assets		Number of shares			Percentage of Ownership (%)	Location	Percentage of Ownership of Subsidiaries (%)	
		(in millions of Korean won) <sup>1</sup>		POSCO	Subsidiaries	Total				
Guangdong Xingpu Steel Center Co., Ltd.	Steel processing	₩ 13,773	-	-	-	-	21.00	China	Posteel (10.50)	<sup>3</sup>
POS-Hyundai Steel Manufacturing India Private Ltd.	Steel processing	9,422	2,345,558	4,573,842	6,919,400	29.50		India	Posteel (19.50)	
POSCO Bioventures LP.	Investment in companies in the bio-tech industry	29,271	-	-	-	100.00		U.S.A.	POSAM (100.00)	<sup>3, 4</sup>
POSVINA Co., Ltd.	Steel manufacturing	4,305	-	-	-	50.00		Vietnam	-	<sup>2, 3</sup>
POSMMIT Steel Centre SDN BHD (POSMMIT)	Steel service center	13,064	4,200,000	-	4,200,000	30.00		Malaysia	-	
PT POSMI Steel Indonesia (POSMI)	Steel service center	8,291	1,193	3,579	4,772	37.87		Indonesia	Posteel (28.40)	<sup>2</sup>
CAML Resources Pty. Ltd.	Material Processing	55,332	-	3,239	3,239	33.34		Australia	POSA(33.34)	<sup>2</sup>
Hubei Huaerliang POSCO Silicon Science & Technology Co., Ltd.	Material Processing	10,574	-	-	-	30.00		China	POSCO-China(30.00)	<sup>3</sup>

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

<sup>2</sup> The Company owns over 30 % equity interest in KOBRASCO, UPI, POSMI, POSVINA Co., Ltd and CAML Resources Pty. Ltd. As the Company is not the major shareholder, they were excluded from consolidation.

<sup>3</sup> No shares have been issued in accordance with the local laws and regulations.

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

**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006 and 2005**

**Subsidiaries Excluded from the Consolidated Financial Statements**

Investees	Primary business	Net Assets (in millions of Korean won) <sup>1</sup>	Number of shares			Percentage of Ownership (%)	Location	Percentage of Ownership of Subsidiaries (%)	
			POSCO	Subsidiaries	Total				
Domestic									
Metapolis Co., Ltd.	Construction	₩ 38,477	-	400,500	400,500	40.05	Hwasung	POSCO E & C (40.05)	2
Aroma Soft Corp.	Software consulting, reseach, and development	6,497	-	1,004,080	1,004,080	22.35	Seoul	POSTECH Venture Capital Corp. (22.35)	2
Applied Science Corp.	Semiconductor componants manufacturing	665	-	33,870	33,870	29.97	Seoul	POSTECH Venture Capital Corp. (29.97)	2
POSBRO Co., Ltd.	WiBro Multi-Player terminals R&D and sales	395	-	1,224,000	1,224,000	51.00	Gunpo	POSDATA (51.00)	4
PHP Co., Ltd.	Rental residence construction and management	300	-	400,000	400,000	100.00	Incheon	POSCO E & C (100.00)	4
Foreign									
PT. POSNESIA Stainless Steel Industry	STS/CR	11,458	29,610,000	-	29,610,000	70.00	Indonesia	-	3
Myanmar- POSCO Steel Co., Ltd.	Steel manufacturing and sales	3,506	13,440	-	13,440	70.00	Myanmar	-	5

**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006 and 2005**

Investees	Primary business	Net Assets (in millions of Korean won) <sup>1</sup>	Number of shares			Percentage of Ownership (%)	Location	Percentage of Ownership of Subsidiaries (%)	
			POSCO	Subsidiaries	Total				
Dalian Poscon Dongbang Automatic Co., Ltd.	Facilities manufacturing	1,437	-	-	-	70.00	China	POSCON (70.00)	<sup>2</sup>
Qingdao Posco Steel Processing Co., Ltd.	Steel service center	1,321	-	-	-	100.00	China	POA (100.00)	<sup>2</sup>
VECTUS Ltd.	Transportation (transportation system, PRT)	4,219	-	3,250,000	3,250,000	100.00	U.K.	POSTEEL (76.93) POSCON (7.69) POSDATA (7.69) POSCO Machinery & Engineering (7.69)	<sup>2</sup>
Yingkou Putie Furnace Refractories Co., Ltd.	Manufacturing	132	-	-	-	25.00	China	POSREC (25.00)	<sup>2</sup>
Liaoning Rongyuan Posco Refractories Co., Ltd.	Manufacturing	4,030	-	-	-	35.00	China	POSREC (35.00)	<sup>2</sup>
POSCO E&C (Beijing) Co., Ltd.	Construdtion and engineering	6,381	-	-	-	100.00	China	POSCO E & C (100.00)	<sup>2</sup>
Zhangjiagang Pohang Refractories Co., Ltd.	Manufacturing	1,166	-	-	-	50.00	China	POSREC (50.00)	<sup>2</sup>
POSCO Engineering & Construction Nigeria, Ltd.	Construdtion and engineering	1,929	-	-	-	100.00	Nigeria	POSCO E & C (100.00)	<sup>4</sup>

**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006 and 2005**

Investees	Primary business	Net Assets (in millions of Korean won) <sup>1</sup>	Number of shares			Percentage of Ownership (%)	Location	Percentage of Ownership of Subsidiaries (%)	
			POSCO	Subsidiaries	Total				
Nickel Mining Company SAS	Fe-Cr manufacturing	57	490	-	490	49.00	New Caledonia	-	<sup>4</sup>
POSDATA-China	Computer service	193	-	-	-	100.00	China	POSDATA (100.00)	<sup>4</sup>
POS-YPC Co., Ltd	Steel manufacturing, warehousing, and shipping	(169)	-	34,000	34,000	69.40	Japan	POSCO-Japan (69.4)	<sup>4</sup>
POSK Steel (Pinghu) Processing Center Co., Ltd.	Steel manufacturing and sales	4,653	-	-	-	20.00	China	-	<sup>4</sup>

<sup>1</sup> The net assets of the Company's overseas subsidiaries are translated at the exchange rate as of the balance sheet date.

<sup>2</sup> Total assets were less than ₩7,000 million as of December 31, 2006.

<sup>3</sup> The investee is in the process of liquidation as of December 31, 2006.

<sup>4</sup> The capital investment was less than ₩7,000 million as of December 31, 2006.

<sup>5</sup> The investee has shut down operations as of December 31, 2006.

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2006 and 2005

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#### Change in Scope of Consolidation

The consolidated financial statements now include the accounts of POS-NPC Co., Ltd. and POSCO-Foshen Steel Processing Center Co., Ltd. as their total assets exceeded ₩7,000 million as of December 31, 2005. POSTEC 2006 Energy Fund, POS-MPC S.A. de C.V., Zhangjigang Pohang Port Co., Ltd., and POSCO-Vietnam Co., Ltd. are included in the consolidated financial statements as the company made an investment to establish POSTEC 2006 Energy Fund, POS-MPC S.A. de C.V., Zhangjigang Pohang Port Co., Ltd., and POSCO-Vietnam Co., Ltd. during 2006.

As a result, the total assets, sales, shareholders' equity and net income of the consolidated financial statements as of December 31, 2006, increased by ₩1,204,151 million, ₩613,292 million, ₩705,627 million, and ₩217,190 million, respectively.

Following are the subsidiaries excluded from consolidation as of December 31, 2006.

Subsidiaries	Location	Reason
Myanmar- POSCO SteelCo., Ltd.	Myanmar	Suspension of business
Korea Energy Investment, Ltd.	Korea	Dissolution after being merged by POSCO Power Corp.
SEO MUEUN Development Inc.	Korea	Cancel of management commitment

## 2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Company in the preparation of its consolidated financial statements for December 31, 2006, are summarized below:

#### Basis of Consolidated Financial Statements Presentation

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

#### Accounting Estimates

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

# **POSCO and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **December 31, 2006 and 2005**

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#### **Application of the Statements of Korean Financial Accounting Standards**

The Korean Accounting Standards Board has published a series of Statements of Korean Financial Accounting Standards (SKFAS), which will gradually replace the existing financial accounting standards established by the Korean Financial Supervisory Commission. As SKFAS Nos. 15 through 17 became applicable to the Company on January 1, 2005, the Company adopted these standards in its financial statements covering periods beginning January 1, 2005. And as SKFAS Nos. 18 through 20 became effective for the Company on January 1, 2006, the Company adopted these standards in its financial statements for the year ended December 31, 2006.

In addition, the Company adopted early the Korea Accounting Institute's Accounting Implementation Guide 06-2 and changed its method accounting for income taxes on temporary differences in relation to investments in subsidiaries and equity method investees to comply with the new requirement. The effect was a decrease in net income for 2006 by ₩16,311 million. The financial statements as of and for the year ended December 31, 2005, have been restated to reflect the changes to conform with SKFAS No.1.

#### **Principles of Consolidation**

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

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

# **POSCO and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **December 31, 2006 and 2005**

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#### **Cash and Cash Equivalents, and Financial Instruments**

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

#### **Revenue Recognition**

Revenue from sale of products is generally recognized when significant risks and rewards are transferred to the buyer. Revenue from consulting and other services are generally recognized using the percentage-of-completion method.

#### **Allowance for Doubtful Accounts**

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

#### **Inventories**

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

For certain other subsidiaries, inventories are stated at the lower of cost or market, generally with cost being determined using the gross average method, moving-average method or first-in, first-out (FIFO) method. Individual accounting policies on inventories of POSCO and each subsidiary are enumerated on pages 32 and 33.

## **POSCO and Subsidiaries**

### **Notes to Consolidated Financial Statements**

#### **December 31, 2006 and 2005**

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#### **Investments in Securities**

The Company accounts for equity and debt securities under the provision of SKFAS No. 8, *Investments in Securities*. This statement requires investments in equity and debt securities to be classified into three categories: trading, available-for-sale and held-to-maturity.

Securities that are bought and held principally for near-term sale to generate profits from short-term price differences are classified as trading. Trading generally involves active and frequent buying and selling. Debt securities that have fixed or determinable payments and fixed maturity shall be classified as held-to-maturity only if the reporting entity has both the positive intent and ability to hold those securities to maturity. Securities that are not classified as either held-to-maturity securities or trading securities are classified into available-for-sale.

Securities are initially carried at cost, including incidental expenses, with cost being determined using the gross average method or moving-average method. Debt securities, which the Company has the intent and ability to hold to maturity, are generally carried at cost, adjusted for the amortization of discounts or premiums. Premiums and discounts on debt securities are amortized over the term of the debt using the effective interest rate method. Trading and available-for-sale securities are carried at fair value, except for non-marketable securities classified as available-for-sale securities, which are carried at cost. Non-marketable debt securities are carried at a value using the present value of future cash flows, discounted at a reasonable interest rate determined considering the credit ratings by the independent credit rating agencies.

Unrealized valuation gains or losses on trading securities are charged to current operations, and those resulting from available-for-sale securities are recorded as a capital adjustment, the accumulated amount of which shall be charged to current operations when the related securities are sold, or when an impairment loss on the securities is recognized. Impairment losses are recognized in the statement of income when the recoverable amounts are less than the acquisition costs of securities or adjusted costs of debt securities for the amortization of discounts or premiums.



# **POSCO and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **December 31, 2006 and 2005**

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#### **Investments in Affiliates**

Investments in equity securities of companies, over which the Company exercises a significant control or influence, are recorded using the equity method of accounting. Under the equity method, the Company records changes in its proportionate ownership in the book value of the investee in current operations, as capital adjustment or as adjustments to retained earnings, depending on the nature of the underlying change in the book value of the investee. The Company discontinues the equity method of accounting for investments in equity method investees when the Company's share in the accumulated losses equals the cost of the investments, and until the subsequent cumulative changes in its proportionate net income of the investees equals its cumulative proportionate net losses not recognized during the periods when the equity method was suspended. If the book value of the investee has changed due to the capital increase of the investee, net losses not recognized in the prior periods are reflected in equity method investment securities as an adjustment to retained earnings.

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

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

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

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

# **POSCO and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **December 31, 2006 and 2005**

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#### **Property, Plant and Equipment**

Property, plant and equipment are stated at cost, net of accumulated depreciation, except for certain assets subject to upward revaluations in accordance with the Asset Revaluation Law. Individual depreciation methods for property, plant and equipment of POSCO and each subsidiary are enumerated on pages 32 and 33. Depreciation is computed using the straight-line method or declining-balance method over the estimated useful lives of the assets, as follows:

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

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

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

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2006 and 2005

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#### Intangible Assets

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

	Estimated useful lives
Goodwill	5 years
Negative goodwill	5-10 years
Intellectual property rights	5-10 years
Port facilities usage rights	1-75 years <sup>2</sup>
Land usage rights	20-50 years <sup>2</sup>
Deferred development expenses	<sup>1</sup>
Long term power capacity rights	contract term
Other intangible assets	2-25 years

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

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

As of December 31, 2006, port facilities usage rights are related to the quay and inventory yard donated by POSCO in April 1987 to the local bureaus of the Maritime Affairs and Fisheries in Kwangyang, Pohang, Pyoungtaek and Masan. The Company recognized the electricity supply contract, entered into with Korea Electric Power Corporation by POSCO Power Corp., as an identifiable intangible asset. The fair value of the contract rights is recorded as long-term electricity supply contract rights as of the balance sheet date.

# **POSCO and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **December 31, 2006 and 2005**

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#### **Discounts on Debentures**

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

#### **Government Grants**

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

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

#### **Valuation of Assets and Liabilities at Present Value**

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

#### **Restructuring of Receivables**

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

#### **Accrued Severance Benefits**

Employees and directors with at least one year of service are entitled to receive a lump-sum payment upon termination of their employment, based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment as of the balance sheet date. In addition, in accordance with the applicable laws and regulations, POSAM and 33 other overseas subsidiaries recorded the amount, which would be payable to employees at the time of termination, as accrued severance benefits.

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

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

# **POSCO and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **December 31, 2006 and 2005**

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#### **Derivative Instruments**

The Company enters into derivative transactions to hedge against financial risks. Derivatives are required to be recorded on the balance sheets at fair value and classified into: cash flow hedges, fair market value hedges and transactions entered into for nontrading purposes that do not qualify for hedge accounting treatment or otherwise hedge accounting treatment is not applied. When derivatives qualify for cash flow hedges, unrealized holding gains and losses of the derivatives are recorded as capital adjustments in the balance sheet and recognized in the statement of earnings when the hedged item affects earnings. When derivatives qualify for fair market value hedge, unrealized holding gains and losses of the derivatives as well as the changes in the fair value of the hedged items are recorded in the statement of income. If the contract expires, the gains and losses from fair value hedge transactions are charged to earnings and the gains and losses from cash flow hedge transaction are offset against the gains and losses from hedged transactions.

#### **Lease Transactions**

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

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

#### **Foreign Currency Translation**

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

#### **Translation of Foreign Operations**

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

#### **Income Taxes**

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

## **POSCO and Subsidiaries**

### **Notes to Consolidated Financial Statements**

#### **December 31, 2006 and 2005**

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income tax expense under applicable tax regulations and the change in the balance of deferred income tax assets and liabilities during the year.

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

#### **Impairment of Assets**

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

#### **Capitalization of Financing Expenses**

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

#### **Contingent Liabilities**

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

#### **Sale of Receivables**

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

#### **Treasury Stock**

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

**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
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**Stock Appreciation Rights**

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

**Basic Earnings Per Share and Basic Ordinary Income Per Share**

Basic earnings per share is computed by dividing net income allocated to common stock by the weighted average number of common shares outstanding during the year. Basic ordinary income per share is computed by dividing ordinary income allocated to common stock as adjusted by extraordinary gains or losses and net of related income taxes, by the weighted average number of common shares outstanding during the year.

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**Cost determination methods for Inventories and Depreciation methods for Property, Plant and Equipment of POSCO and its Controlled Subsidiaries follow:**

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



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<b>Company</b>	<b>Inventories <sup>1</sup></b>	<b>Depreciation of property, plant and equipment</b>
POS-Qingdao Coil Center Co., Ltd.	Moving-average method	Straight-line method
POSCO-China Holding Corp.	N/A	"
POS-ORE Pty. Ltd.	"	"
POSCO-Japan Co., Ltd.	Gross average method	"
POSEC-Hawaii Inc.	N/A	"
POSCO E&C (Zhangjiagang) Engineering & Consulting Co., Ltd.	"	"
POS-GC Pty. Ltd.	Gross average method	"
POS-CD Pty. Ltd.	"	"
POSCO-India Private Ltd.	N/A	"
POS-India Steel Processing Centre Pvt. Ltd.	"	"
POS-NPC Co., Ltd.	Moving-average method	"
POSCO-Foshan Steel Processing Center Co., Ltd.	Specific identification method	"
POSCAN Elkview Coal Ltd.	N/A	N/A
POS-MPC S.A. de C.V.	"	Straight-line method
Zhangjiagang Pohang Port Co., Ltd.	"	"
POSCO-Vietnam Co., Ltd.	"	"

<sup>1</sup> Specific identification method is used for materials-in-transit.

**POSCO and Subsidiaries**  
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**3. Cash and Cash Equivalents, and Financial Instruments**

Cash and cash equivalents, and short-term and long-term financial instruments as of December 31, 2006 and 2005, consist of the following:

<i>(in millions of Korean won)</i>	<b>Annual Interest Rate (%)</b>		<b>2006</b>		<b>2005</b>
<b>Cash and cash equivalents</b>					
Cash on hand and bank deposits	0.00 ~ 1.00	₩	19,925	₩	13,498
Checking accounts	-		4,123		5,801
Corporate bank deposits	0.00 ~ 4.00		18,541		10,470
Time deposits in foreign currency and others	0.00 ~ 5.29		567,333		348,844
Maintained by overseas affiliates	0.00 ~ 6.00		326,498		275,258
			936,420		653,871
Less : Government grants			(132)		(507)
		₩	936,288	₩	653,364
<b>Short-term financial instruments</b>					
Time deposits	3.00 ~ 5.00	₩	473,710	₩	86,750
Installment accounts	4.00 ~ 5.00		1,534		1,169
Specified money in trust	-		20,447		23,753
Certificates of deposit	3.00 ~ 5.14		199,000		129,500
Commercial papers	4.00 ~ 5.00		20,220		34,805
Others	3.00 ~ 5.05		127,591		475,431
Maintained by overseas affiliates	3.00 ~ 5.00		24,808		8,963
		₩	867,310	₩	760,371
<b>Long-term financial instruments</b>					
Installment accounts	4.00-5.00	₩	11,212	₩	12,041
Guarantee deposits for opening accounts	-		116		104
Others	0.00-4.00		1,011		7,361
		₩	12,339	₩	19,506

As of December 31, 2006, the Company's financial assets amounting to ₩18,138 million (2005: ₩17,037 million) are pledged as collaterals and accordingly, withdrawal of such financial assets is restricted. The financial assets pledged as collaterals include short-term financial instruments and long-term financial instruments amounting to ₩5,565million (2005: ₩9,172 million) and ₩8,013million (2005: ₩2,921 million), respectively, in relation to performance guarantee deposits, short-term borrowings and long-term debts, and others; short-term financial instruments amounting to ₩4,444million (2005: ₩4,840 million) in relation to government-appropriated projects; and long-term financial instruments amounting to ₩116 million (2005: ₩104 million) in relation to maintaining deposits for opening checking accounts (Note 13).

**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
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**4. Trading Securities**

Trading securities as of December 31, 2006 and 2005 are as follows:

<i>(in millions of Korean won)</i>	<b>2006</b>	<b>2005</b>
Beneficiary certificates	₩ 1,985,888	₩ 2,161,453
Corporate bond	14,118	-
Mutual fund	641	449,049
	<u>₩ 2,000,647</u>	<u>₩ 2,610,502</u>

**5. Accounts and Notes Receivable, and Others**

Accounts and notes receivable, and their allowance for doubtful accounts and present value discounts as of December 31, 2006 and 2005, are as follows:

<i>(in millions of Korean won)</i>	<b>2006</b>	<b>2005</b>
Trade accounts and notes receivable	₩ 3,723,033	₩ 3,188,928
Less: Allowance for doubtful accounts	(231,215)	(144,060)
Present value discount	(159)	(148)
	<u>₩ 3,491,659</u>	<u>₩ 3,044,720</u>
Other accounts and notes receivable	₩ 285,919	₩ 312,218
Less: Allowance for doubtful accounts	(38,573)	(70,556)
Present value discount	(542)	(75)
	<u>₩ 246,804</u>	<u>₩ 241,587</u>
Long-term loans receivable	₩ 62,814	₩ 42,333
Less: Allowance for doubtful accounts	(469)	(264)
Present value discount	(50)	(29)
	<u>₩ 62,295</u>	<u>₩ 42,040</u>
Long-term trade accounts and notes receivable	₩ 57,567	₩ 55,771
Less: Allowance for doubtful accounts	(9,901)	(12,133)
Present value discount	(3,318)	(2,248)
	<u>₩ 44,348</u>	<u>₩ 41,390</u>

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

<i>(in millions of Korean won)</i>	Face Value	Present Value Discount	Book Value	Maturity Date	Discount Rate (%)
Other accounts receivable					
Tawryu Construction Co., Ltd.	₩ 19,418	₩ 542	₩ 18,876	2007	5.00
Long-term loans receivable					
Oh Sehwan and others	₩ 305	₩ 50	₩ 255	2017	7.50
Short-term and long-term trade accounts receivable					
BNG Steel Co., Ltd. <sup>1</sup>	₩ 37,218	₩ 5,687	₩ 31,531	2008~2009	8.60
Others	₩ 31,441	₩ 3,477	₩ 27,964	2011~2014	3.00~7.50
	₩ 68,659	₩ 9,164	₩ 59,495		
Other long-term assets					
Softpartk Co., Ltd.	₩ 198	₩ 43	₩ 155	2009	6.50
Others	₩ 254	₩ 69	₩ 185	2008-2018	6.50-7.50
	₩ 452	₩ 112	₩ 340		

<sup>1</sup> The company recognizes allowance for bad debts on present value discounts incurred from restructured receivables under work-out plans.

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

## 6. Inventories

Inventories as of December 31, 2006 and 2005, consist of the following:

<i>(in millions of Korean won)</i>	2006	2005
Finished goods, net	₩ 844,790	₩ 724,930
By-products	30,795	3,326
Semi-finished goods, net	800,754	790,251
Raw materials, net	1,113,870	1,103,373
Fuel and materials	395,331	296,444
Materials-in-transit	716,271	645,441
Others, net	116,394	228,829
	₩ 4,018,205	₩ 3,792,594

**POSCO and Subsidiaries**  
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**7. Investment Securities**

Long-term portion of investment securities as of December 31, 2006 and 2005, consist of the following:

<i>(in millions of Korean won)</i>	<b>2006</b>	<b>2005</b>
Available-for-sale securities	₩ 2,848,226	₩ 2,090,079
Held-to-maturity securities	110,326	241,474
Equity-method investments	206,503	484,188
	<u>₩ 3,165,055</u>	<u>₩ 2,815,741</u>

**Available-For-Sale Securities**

Available for sale securities as of December 31, 2006 and 2005 consist of the following:

<i>(in millions of Korean won)</i>	<b>2006</b>	<b>2005</b>
Current portion of available-for-sale securities		
Investments in bonds	<u>₩ 13,375</u>	<u>₩ 90,889</u>
Available-for-sale securities		
Marketable equity securities	2,337,984	1,647,770
Non-marketable equity securities	459,188	384,466
Investments in bonds	35,581	41,292
Equity investments	15,473	16,551
	<u>2,848,226</u>	<u>2,090,079</u>
	<u>₩ 2,861,601</u>	<u>₩ 2,180,968</u>

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Investments in marketable equity securities as of December 31, 2006 and 2005, are as follows:

<i>(in millions of Korean won)</i>	2006				2005	
	Number of Shares	Percentage of Ownership (%)	Acquisition Cost	Book Value <sup>1</sup>	Book Value	
Hanil Iron & Steel Co., Ltd.	206,798	10.14	₩ 2,413	₩ 4,435	₩	3,846
HI Steel Co., Ltd.	135,357	9.95	1,609	2,166		2,166
Munbae Steel Co., Ltd.	1,849,380	9.02	3,588	2,395		2,904
Hana Bank	4,663,776	2.26	29,998	228,058		213,333
SK Telecom Co., Ltd. <sup>2</sup>	4,195,552	5.17	1,187,162	931,735		874,827
Dong Yang Steel Pipe Co., Ltd.	1,564,250	2.45	3,911	1,025		1,095
Nippon Steel Corporation	208,876,000	3.07	548,108	1,117,010		534,152
Korea Line Corp.	217,373	2.17	8,067	10,760		5,608
Others			21,149	40,400		9,839
			₩ 1,806,005	₩ 2,337,984	₩	1,647,770

<sup>1</sup> Marketable equity securities are stated at fair market value and the difference between the acquisition cost and the fair market value is accounted for as a capital adjustment and minority interest accounts in the consolidated balance sheets.

<sup>2</sup> The 1,853,981 SK Telecom Co., Ltd. shares have been placed as a collateral for exchangeable bonds (Note 13).

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2006 and 2005

Investments in non-marketable equity securities as of December 31, 2006 and 2005, are as follows:

(in millions of Korean won)	2006				2005	
	Number of Shares	Percentage of Ownership (%)	Acquisition Cost	Book Value	Book Value	Book Value
Hankung Shinmun Co., Ltd.	28,728	0.15	₩ 309	₩ 309	₩ 309	309
Keo Yang Shipping Co., Ltd.	150,000	0.88	780	780	780	780
Jeonnam Pro Football Co., Ltd.	19,799	13.20	99	99	99	99
Dae Kyeong Special Steel Co., Ltd.	1,786,000	19.00	8,930	8,930	8,930	8,930
The Korea Metal Journal Co., Ltd.	2,000	2.67	20	20	20	20
Pohang Steelers Co., Ltd.	40,000	16.67	200	200	200	200
Kihyup Technology Banking Corp.	600,000	10.34	3,000	3,000	3,000	3,000
Poshome Co., Ltd.	10,000	3.69	50	50	50	50
LG Powercom Corporation <sup>1</sup>	7,500,000	5.00	246,000	106,845	86,258	86,258
The Seoul Shinmun Co., Ltd.	1,614,000	19.40	7,479	-	-	-
ESCO Professionals, Ltd.	4,210	7.02	21	21	21	21
TFS Global Co., Ltd.	5,290	8.82	26	26	26	26
The Siam United Steel	11,071,000	12.30	34,658	34,658	26,640	26,640
Global Unity Ltd.	70,649	13.33	710	710	710	710
PT. POSNESIA Stainless Steel Industry <sup>4</sup>	29,610,000	70.00	9,474	1,567	1,567	1,567
BX STEEL POSCO Cold Rolled Sheet Co., Ltd. <sup>2</sup>	-	10.00	26,803	26,803	26,803	26,803
CTA Co., Ltd.	73,390	14.68	37	37	37	37
Woori DCI Co., Ltd.	5,653	18.84	28	28	28	28
RCC Co., Ltd.	9,053	18.11	45	45	45	45
Myanmar- POSCO Steel Co., Ltd. <sup>3</sup>	13,440	70.00	2,192	3,717	-	-
Nickel Mining Company SAS <sup>4</sup>	490	49.00	28	28	-	-
Wuhan Excellent Steel Center <sup>2</sup>	-	5.00	432	432	-	-
POSK Steel (Pinghu) Processing Center Co., Ltd. <sup>2,4</sup>	-	20.00	928	928	-	-
Incheon International Airport Railroad Co., Ltd.	22,101,940	12.00	110,510	110,510	103,048	103,048
Busan-Gimhae Light Rail Transit Co., Ltd.	2,028,600	14.00	17,954	17,954	9,555	9,555
Seoul Metro Line Nine Corporation	1,516,045	10.00	8,515	8,515	15,160	15,160
Hankuk Leisure Co., Ltd.	839,964	16.42	8,476	8,476	8,476	8,476
Vectus Limited <sup>4</sup>	3,250,000	100.00	6,241	4,219	4,633	4,633
POSCO-Foshan Steel Processing Center Co., Ltd. <sup>2</sup>	-	-	-	-	5,001	5,001
Others	-	-	228,284	120,281	83,070	83,070
			₩ 722,229	₩ 459,188	₩ 384,466	384,466

<sup>1</sup> The fair value of LG Powercom Corporation was based on the valuation report of a public rating services company. Investments without an objective fair value were recorded as acquisition costs, except for LG Powercom Corporation.

<sup>2</sup> No shares have been issued in accordance with the local laws or regulations.

<sup>3</sup> Myanmar- POSCO Steel Co., Ltd. is reclassified from equity-method investments into available-for-sale securities due to non-operations for year 2006.

<sup>4</sup> Investees in the process of liquidation, or in possession of total assets less than ₩7,000 million as of December 31, 2006, were excluded from the equity method investments.

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Available-for-sale securities are stated at fair market value, and the difference between the acquisition cost and fair market value is accounted for in the capital adjustment account. The movements of such differences for the years ended December 31, 2006 and 2005, are as follows:

(in millions of Korean won)	2006			2005		
	Beginning Balance	Increase (Decrease)	Ending Balance	Beginning Balance	Increase (Decrease)	Ending Balance
<b>Marketable equity securities</b>						
Hanil Iron & Steel Co., Ltd.	₩ 1,039	₩ 428	₩ 1,467	₩ 689	₩ 350	₩ 1,039
HISsteel Co., Ltd.	404	-	404	139	265	404
Moonbae Steel Co., Ltd.	(496)	(369)	(865)	(1,221)	725	(496)
Hana Financial Group Inc.	132,918	10,676	143,594	89,136	43,782	132,918
Korea Investment Corporation	-	-	-	(453)	453	-
SK Telecom Co., Ltd.	(352,910)	167,725	(185,185)	(495,027)	142,117	(352,910)
Samjung Packing & Aluminum Co., Ltd.	-	-	-	(770)	770	-
Dong Yang Steel Pipe Co., Ltd.	(2,041)	(51)	(2,092)	(3,410)	1,369	(2,041)
Nippon Steel Corporation	180,562	231,891	412,453	90,547	90,015	180,562
Korea Line Corporation	(1,783)	3,735	1,952	(372)	(1,411)	(1,783)
Others	3,221	15,424	18,645	10	3,211	3,221
	<u>(39,086)</u>	<u>429,459</u>	<u>390,373</u>	<u>(320,732)</u>	<u>281,646</u>	<u>(39,086)</u>
<b>Non-marketable equity securities</b>						
LG Powercom Corporation	(115,813)	14,926	(100,887)	(169,875)	54,062	(115,813)
Others	670	(1,288)	(618)	8,102	(7,432)	670
	<u>(115,143)</u>	<u>13,638</u>	<u>(101,505)</u>	<u>(161,773)</u>	<u>46,630</u>	<u>(115,143)</u>
	<u>₩ (154,229)</u>	<u>₩ 443,097</u>	<u>₩ 288,868</u>	<u>₩ (482,505)</u>	<u>₩ 328,276</u>	<u>₩ (154,229)</u>



**POSCO and Subsidiaries**  
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Investments in bonds as of December 31, 2006 and 2005, are as follows:

(in millions of Korean won)	Maturity	2006		2005
		Acquisition Cost	Book Value	Book Value
Government bonds	Less than 1 year	₩ -	₩ -	₩ 90,889
	1-5 years	1	1	63
	5-10 years	-	-	-
Others	Less than 1 year	13,375	13,375	-
	1-5 years	49,372	35,580	41,229
		62,748	48,956	132,181
Less: Current portion		(13,375)	(13,375)	(90,889)
		₩ 49,373	₩ 35,581	₩ 41,292

Equity investments as of December 31, 2006 and 2005, are as follows:

(in millions of Korean won)	2006		2005
	Acquisition Cost	Book Value	Book Value
Contractor financial fund	₩ 12,284	₩ 12,284	₩ 12,167
Software financial fund and others	3,171	3,189	4,384
	₩ 15,455	₩ 15,473	₩ 16,551

**Held-To-Maturity Securities**

Held-to-maturity securities as of December 31, 2006 and 2005, are as follows:

		2006		2005
(in millions of Korean won)	Maturity	Acquisition Cost	Book Value	Book Value
Current portion of held-to-maturity securities				
Government bonds	Less than 1 year	₩ 153,411	₩ 153,476	₩ 2,688
Held-to-maturity securities				
Government bonds	1~5 years	79,646	79,854	211,051
	5~10 years	30,333	30,472	30,423
		109,979	110,326	241,474
		₩ 263,390	₩ 263,802	₩ 244,162

The Company provided national treasury bonds, amounting to ₩29,570 million, and certain government and municipal bonds, amounting to ₩1,764 million, to the Gyeongsangbuk-do provincial office as a performance guarantee in relation to the development of a waste disposal area.

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2006 and 2005

#### Equity-Method Investments

Equity-method investees as of December 31, 2006 and 2005, are as follows:

(in millions of Korean won)	Number of shares owned	Percentage of ownership	Acquisition cost	Net asset <sup>1</sup>	Book value	
					2006	2005
KOBRASCO	2,010,719,185	50.00	₩ 32,950	₩ 37,211	₩ 32,622	₩ 30,268
Fujiura Butsuryu Center Co., Ltd.	600	30.00	632	835	835	824
USS-POSCO Industries <sup>2</sup>	-	50.00	234,293	60,508	49,380	61,707
Poschrome (Proprietary) Limited	21,675	25.00	4,859	6,063	4,826	6,153
Guangdong Xingpu Steel Center Co., Ltd. <sup>2</sup>	-	21.00	1,852	2,892	2,487	2,985
POS-Hyundai Steel Manufacturing						
India Private Limited.	6,919,400	29.50	3,136	2,780	2,780	2,229
eNtoB Corporation	740,000	23.13	3,700	4,842	4,399	4,188
POSVINA Co., Ltd. <sup>2</sup>	-	50.00	1,527	2,153	2,066	1,593
Posmmat Steel Centre Sdn Bhd	4,200,000	30.00	2,308	3,919	3,891	3,212
PT POSMI Steel Indonesia	4,772	37.87	1,467	3,140	3,205	1,746
MIDAS Information Technology Co., Ltd.	866,190	25.46	433	4,300	4,292	3,226
Posco Power Co., Ltd. <sup>3</sup>	-	0.00	-	-	-	290,255
CAML Resources Pty Ltd	3,239	33.34	40,388	18,448	37,717	38,673
POSCO Bioventures. LP <sup>2</sup>	-	100.00	43,691	29,271	33,931	33,717
Songdo New City Development Inc. <sup>2,4</sup>	-	29.90	6,674	(35,855)	-	-
Hubei Huaerliang POSCO Silicon						
Science & Technology Co., Ltd. <sup>2</sup>	-	30.00	3,236	3,172	3,186	3,412
SNNC Co., Ltd.	3,822,000	49.00	19,110	18,817	18,816	-
Gale International Korea, Inc. <sup>2</sup>	-	29.90	21	2,251	2,070	-
			₩ 400,277	₩ 164,747	₩ 206,503	₩ 484,188

<sup>1</sup> Due to the delay in the closing of December 31, 2006 accounts and the settlement of closing differences, the equity method of accounting is applied based on the most recent available December 31, 2006 financial information, which has not been audited or reviewed.

<sup>2</sup> No shares have been issued in accordance with the local laws and regulations.

<sup>3</sup> POSCO Power Corp. is included in the scope of consolidation as a consolidated subsidiary and excluded from the equity-method investments.

<sup>4</sup> Unrecorded changes in equity interest in Songdo New City Development Inc. amounted to a negative ₩42,529 million.

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2006 and 2005

Details of equity method valuation for December 31, 2006 and 2005, are as follows:

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

<i>(in millions of Korean won)</i>	January 1, 2005	Earnings (Losses) of Equity Method Investees	Other Increase (Decrease) <sup>1</sup>	December 31, 2005
KOBRASCO	₩ 11,203	₩ 17,663	₩ 1,402	₩ 30,268
Fujiura Butsuryu Center Co., Ltd.	648	296	(120)	824
USS-POSCO Industries	65,084	(517)	(2,860)	61,707
Suzhou Dongshin Color Metal Sheet Co., Ltd.	3,361	(60)	(3,301)	-
Poschrome (Proprietary) Limited	7,000	1,303	(2,150)	6,153
Guangdong Xingpu Steel Center Co., Ltd.	3,094	(89)	(20)	2,985
POS-Hyundai Steel Manufacturing India Private Limited.	2,276	357	(404)	2,229
eNtoB Corporation	3,762	426	-	4,188
POSVINA Co.,Ltd.	3,145	(789)	(763)	1,593
POSMIT Steel Centre Sdn Bhd	3,015	317	(120)	3,212
PT POSMI Steel Indonesia	1,599	173	(26)	1,746
POSCO Bioventures LP.	33,221	(4,103)	4,598	33,716
MIDAS Information Technology Co., Ltd.	2,646	667	(86)	3,227
Seoul Metro Line Nine Corporation	2,152	-	(2,152)	-
Posco Power Co., Ltd.	-	(811)	291,066	290,255
CAML Resources Pty Ltd	-	4,863	33,810	38,673
Hubei Huaerliang POSCO Silicon Science & Technology Co., Ltd.	-	28	3,384	3,412
	₩ 142,206	₩ 19,724	₩ 322,258	₩ 484,188

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

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2006 and 2005

Details on the elimination of unrealized gain or loss from inter-company transactions for December 31, 2006 and 2005 are as follows:

(in millions of Korean won)

	2006			2005		
	Current Assets	Property, Plant and Equipment, and Intangible Assets	Total	Current Assets	Property, Plant and Equipment, and Intangible Assets	Total
KOBRASCO	₩ 5,370	₩ -	₩ 5,370	₩ (7,997)	₩ -	₩ (7,997)
Fujiura Butsuryu Center Co., Ltd.	18	-	18	(6)	-	(6)
USS-POSCO Industries	1,433	-	1,433	(12,562)	-	(12,562)
Poschrome (Proprietary) Limited	(63)	-	(63)	(371)	-	(371)
Guangdong Xingpu Steel Center Co., Ltd.	(358)	-	(358)	39	-	39
eNtoB Corporation	37	(6)	31	(149)	(65)	(214)
POSVINA Co., Ltd.	777	-	777	(531)	-	(531)
Posmmi Steel Centre Sdn Bhd	306	-	306	(143)	-	(143)
PT POSMI Steel Indonesia	(57)	-	(57)	115	-	115
MIDAS Information Technology Co., Ltd.	-	(8)	(8)	-	-	-
	₩ 7,463	₩ (14)	₩ 7,449	₩ (21,605)	₩ (65)	₩ (21,670)

Details of differences between the initial purchase price and the Company's initial proportionate ownership in the book value of the investee are as follows:

(in millions of Korean won)

	January 1, 2006	Increase (Decrease)	Amortization (Recovery)	December 31, 2006
POSMIT Steel Centre Sdn Bhd	₩ 39	₩ -	₩ 20	₩ 19
PT POSMI Steel Indonesia	354	49	182	221
CAML Resources Pty. Ltd.	25,042	-	5,763	19,279
Posco Power Co., Ltd.	65,804	(62,148)	3,656	-
	₩ 91,239	₩ (62,099)	₩ 9,621	₩ 19,519

Summary of financial information on equity-method investees as of and for December 31, 2006, is as follows:

(in millions of Korean won)

	Total Assets	Total Liabilities	Sales	Net Income (Loss)
KOBRASCO	₩ 179,347	₩ 104,925	₩ 332,507	₩ 32,923
Fujiura Butsuryu Center Co., Ltd.	15,886	13,104	17,924	289
USS-POSCO Industries	442,407	321,391	989,269	14,071
Poschrome (Proprietary) Limited	31,882	7,629	33,574	6,310
Guangdong Xingpu Steel Center Co., Ltd.	38,939	25,166	70,730	300
POS-Hyundai Steel Manufacturing India Private Limited.	18,715	9,293	67,780	2,296
eNtoB Corporation	62,033	41,097	322,192	984
POSVINA Co., Ltd.	5,668	1,363	18,859	230
Posmmi Steel Centre Sdn Bhd	37,025	23,961	48,504	1,566
PT POSMI Steel Indonesia	42,606	34,315	48,667	234
MIDAS Information Technology Co., Ltd.	21,445	4,556	17,708	4,682
CAML Resources Pty Ltd	102,949	47,617	102,229	20,973
POSCO Bioventures. LP	29,271	-	19	938
Songdo New City Development Inc.2, 4 Ltd.	914,973	1,034,889	152,068	(52,489)
	21,232	10,658	15,421	(168)
SNNC Co., Ltd.	38,584	182	-	(513)
Gale International Korea, Inc.	11,834	4,307	20,731	7,210
	₩ 2,014,796	₩ 1,684,453	₩ 2,258,182	₩ 39,836

**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006 and 2005**

**8. Property, Plant and Equipment**

Property, plant and equipment as of December 31, 2006 and 2005, consist of the following:

*(in millions of Korean won)*

	2006	2005
Buildings and structures	₩ 6,308,204	₩ 5,755,154
Machinery and equipment	24,280,940	21,333,817
Vehicles	201,878	176,715
Tools	402,294	404,094
Furniture and fixtures	257,624	231,263
	<u>31,450,940</u>	<u>27,901,043</u>
Less: Accumulated depreciation	(20,804,990)	(19,312,119)
Less: Accumulated impairment loss	-	(2,786)
	<u>10,645,950</u>	<u>8,586,138</u>
Land	1,311,755	1,203,300
Less: Accumulated impairment loss	-	(565)
	<u>1,311,755</u>	<u>1,202,735</u>
Construction-in-progress	2,685,415	2,566,454
Less: Accumulated impairment loss	-	(83,617)
	<u>2,685,415</u>	<u>2,482,837</u>
	<u>₩ 14,643,120</u>	<u>₩ 12,271,710</u>

The value of land based on the posted price issued by the Korean tax authority amounted to ₩3,320,047 million as of December 31, 2006 (2005: ₩3,087,656 million).

As of December 31, 2006, property, plant and equipment are insured against fire and other casualty losses for up to ₩9,728,538 million (2005: ₩4,783,546 million). In addition, the Company carries general insurance for vehicles and accident compensation insurance for its employees.

In accordance with the Asset Revaluation Law, POSCO and certain subsidiaries revalued a substantial portion of their property, plant and equipment and increased the related amount of assets by ₩3,942 billion as of December 31, 2000, the latest revaluation date. The revaluation surplus amounting to ₩3,234 billion, net of related tax and transfers to capital stock, was credited to capital surplus, a component of shareholders' equity (Note 18).

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

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2006 and 2005

property, plant and equipment held for sale amounted to ₩63,932 million and are classified as other investment assets as of December 31, 2006.

The Company expensed the construction in progress of FINEX No.1 amounting to ₩3,346,112 million.

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

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

The changes in the carrying value of property, plant and equipment for December 31, 2005, were as follows:

<i>(in millions of Korean won)</i>	<b>Beginning Balance</b>	<b>Acquisition<sup>1</sup></b>	<b>Disposal</b>	<b>Depreciation<sup>3</sup></b>	<b>Others<sup>2</sup></b>	<b>Elimination of Intercompany Transactions</b>	<b>Ending Balance</b>
Land	₩ 1,108,817	₩ 95,381	₩ 14,110	₩ -	₩ 12,655	₩ (9)	₩ 1,202,734
Buildings	2,199,308	261,371	27,150	161,172	(8,578)	5,055	2,268,834
Structures	889,437	425,886	5,666	89,966	26,178	421	1,246,290
Machinery and equipment	3,851,869	2,274,621	28,596	1,235,562	(12,228)	16,736	4,866,840
Vehicles	35,624	9,554	1,120	13,997	425	(57)	30,429
Tools	98,294	50,999	304	48,055	697	(63)	101,568
Furniture and fixtures	57,064	38,328	1,113	23,197	261	833	72,176
Construction-in-progress	2,199,878	3,618,271	131,909	-	(2,945,299)	(258,102)	2,482,839
	<u>₩ 10,440,291</u>	<u>₩ 6,774,411</u>	<u>₩ 209,968</u>	<u>₩ 1,571,949</u>	<u>₩ (2,925,889)</u>	<u>₩ (235,186)</u>	<u>₩ 12,271,710</u>

<sup>1</sup> Includes asset transfer from construction-in-progress.

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

<sup>3</sup> Includes depreciation expense of idle property.

**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006 and 2005**

**9. Intangible Assets**

Intangible assets, net of accumulated amortization, as of December 31, 2006 and 2005, consist of the following:

(in millions of Korean won)

	2006	2005
Goodwill	₩ 90,105	₩ -
Negative goodwill	(1,388)	(1,794)
Intellectual property rights	1,221	1,394
Land usage rights	23,439	43,422
Development costs	67,862	47,299
Port facilities usage rights	112,102	127,258
Long-term electricity supply contract rights	68,544	-
Other intangible assets <sup>1</sup>	195,197	236,130
	<u>₩ 557,082</u>	<u>₩ 453,709</u>

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

The changes in the carrying value of intangible assets during 2006 are as follows:

(in millions of Korean won)	Beginning Balance	Acquisition	Disposal	Amortization (Recovery)	Others <sup>1</sup>	Elimination of Intercompany Transactions	Ending Balance
Goodwill	₩ -	₩ -	₩ -	₩ 9,983	₩ 100,088	₩ -	₩ 90,105
Negative goodwill	(1,794)	-	-	(406)	-	-	(1,388)
Intellectual property rights	1,394	50	9	230	16	-	1,221
Land usage rights	43,422	2,503	21,571	195	(720)	-	23,439
Development costs	47,299	3,527	418	5,025	22,870	(391)	67,862
Port facilities usage rights	127,258	3,272	-	18,429	1	-	112,102
Long-term electricity supply contract rights	-	73,559	-	5,015	-	-	68,544
Other intangible assets	236,130	58,057	650	66,340	(25,969)	(6,031)	195,197
	<u>₩ 453,709</u>	<u>₩ 140,968</u>	<u>₩ 22,648</u>	<u>₩ 104,811</u>	<u>₩ 96,286</u>	<u>₩ (6,422)</u>	<u>₩ 557,082</u>

The changes in the carrying value of intangible assets during 2005 were as follows:

(in millions of Korean won)	Beginning Balance	Acquisition	Disposal	Amortization (Recovery)	Others <sup>1</sup>	Elimination of Intercompany Transactions	Ending Balance
Negative goodwill	₩ (457)	₩ (2,031)	₩ -	₩ (694)	₩ -	₩ -	₩ (1,794)
Intellectual property rights	485	1,159	-	186	(64)	-	1,394
Land usage rights	32,416	10,053	192	(2,653)	(1,508)	-	43,422
Development costs	32,591	29,381	-	13,021	(1,770)	118	47,299
Port facilities usage rights	146,396	595	-	19,732	(1)	-	127,258
Other intangible assets	284,884	134,709	89,635	95,845	(857)	2,874	236,130
	<u>₩ 496,315</u>	<u>₩ 173,866</u>	<u>₩ 89,827</u>	<u>₩ 125,437</u>	<u>₩ (4,200)</u>	<u>₩ 2,992</u>	<u>₩ 453,709</u>

<sup>1</sup> Includes impairment loss, transfers of an asset, adjustments arising from foreign currency translations and changes in consolidation scope, and others.

**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006 and 2005**

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**10. Research and Development Costs, and Others**

For the year ended December 31, 2006, the Company expensed research and development costs amounting to ₩325,040 million (2005: ₩318,347 million), charging ₩271,005 million (2005: ₩265,802 million) to cost of goods sold, and ₩54,035 million (2005: ₩52,545 million) to selling and administrative expenses.

**11. Other Assets**

Other assets as of December 31, 2006 and 2005, consist of the following:

*(in millions of Korean won)*

	<b>2006</b>	<b>2005</b>
<b>Other current assets</b>		
Short-term loans receivable (Notes 27 and 28)	₩ 34,071	₩ 42,665
Accrued income	74,037	45,517
Advance payments	263,623	199,580
Prepaid expenses	18,285	15,724
Others	53,533	40,727
	<u>443,549</u>	<u>344,213</u>
Less: Allowance for doubtful accounts	(52,433)	(32,382)
	<u>₩ 391,116</u>	<u>₩ 311,831</u>
<b>Other long-term assets</b>		
Other investment assets (Notes 5, 8 and 29)	₩ 135,405	₩ 139,320
Less: Allowance for doubtful accounts	(34,646)	(3,714)
Present value discount	(112)	(1,731)
	<u>₩ 100,647</u>	<u>₩ 133,875</u>



**POSCO and Subsidiaries**  
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**December 31, 2006 and 2005**

**12. Short-Term Borrowings**

Short-term borrowings as of December 31, 2006 and 2005, consist of the following:

*(in millions of Korean won)*

<b>Financial Institutions</b>	<b>Annual Interest Rate (%)</b>	<b>2006</b>	<b>2005</b>
<b>Won currency borrowings</b>			
Shinhan Bank and others	3.83-5.00	₩ 111,394	₩ 216,150
		<u>111,394</u>	<u>216,150</u>
<b>Foreign currency borrowings</b>			
Yamaguchi Bank and others	1.00-5.00	24,029	13,716
Shinhan Bank and others	1.00-6.00	1,103,326	629,908
		<u>1,127,355</u>	<u>643,624</u>
		₩ 1,238,749	₩ 859,774

**13. Long-Term Debts**

Current portion of long-term debts as of December 31, 2006 and 2005, consist of the following:

*(in millions of Korean won)*

<b>Financial Institutions</b>	<b>Annual Interest Rate (%)</b>	<b>2006</b>	<b>2005</b>
<b>Debentures</b>			
Domestic and foreign debentures	1.84-8.00	₩ 231,100	₩ 991,609
Less: Discount on debentures issued		(203)	(1,083)
		<u>230,897</u>	<u>990,526</u>
<b>Won currency borrowings</b>			
Korea Exchange Bank and others	1.00-5.70	1,885	26,731
<b>Foreign currency borrowings</b>			
Development Bank of Japan and others	1.00-4.60	162,485	28,202
		<u>164,370</u>	<u>54,933</u>
<b>Loans from foreign financial institutions</b>			
Sumitomo Bank and others	2.00 LIBOR + 0.80	8,797	9,065
<b>Lease obligation</b>			
HP Financial Services	5.00	348	2,676
		<u>₩ 404,412</u>	<u>₩ 1,057,200</u>

**POSCO and Subsidiaries**  
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**December 31, 2006 and 2005**

Debentures as of December 31, 2006 and 2005, are as follow:

<i>(in millions of Korean won)</i>	<b>Annual Interest Rate</b>		<b>2006</b>		<b>2005</b>
Domestic debentures	4.66 - 5.00	₩	1,467,653	₩	562,060
Yankee Bonds	-		-		263,547
Samurai Bonds	2.05		390,915		258,012
Euro Bonds	5.88		278,880		-
Exchangeable bonds <sup>1</sup>	-		403,596		443,970
			<u>2,541,044</u>		<u>1,527,589</u>
Less: Current portion			(231,100)		(991,609)
Discount on debentures issued			(13,144)		(2,697)
		₩	<u>2,296,800</u>	₩	<u>533,283</u>

Long-term borrowings as of December 31, 2006 and 2005, are as follows:

<i>(in millions of Korean won)</i>	<b>Annual Interest Rate (%)</b>		<b>2006</b>		<b>2005</b>
<b>Financial Institutions</b>					
<b>Won currency borrowings</b>					
The Korea Development Bank and others	1.00-6.00	₩	77,951	₩	212,890
Less: Current portion			<u>(1,885)</u>		<u>(26,731)</u>
			<u>76,066</u>		<u>186,159</u>
<b>Foreign currency borrowings</b>					
Development Bank of Japan and others	1.00-7.00		488,672		403,926
Less: Current portion			<u>(162,485)</u>		<u>(28,202)</u>
			<u>326,187</u>		<u>375,724</u>
<b>Loans from foreign financial institutions</b>					
Sumitomo Bank and others	2.00				
	LIBOR + 0.80		35,246		45,169
Less: Current portion			<u>(8,797)</u>		<u>(9,065)</u>
			<u>26,449</u>		<u>36,104</u>
		₩	<u>428,702</u>	₩	<u>597,987</u>

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

<sup>1</sup> POSCO issued exchangeable bonds on August 20, 2003. They are exchangeable with 15,267,837 SK Telecom Co., Ltd. American Depositary Receipts (ADRs).

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2006 and 2005

Details of exchangeable bonds as of December 31, 2006, are as follows:

Issuance date:	August 20, 2003
Maturity date:	August 20, 2008 (full amount of principal is repaid if not exercised)
Rate:	Interest rate of zero percent
Face value:	JPY 51,622,000,000
Issuance price:	JPY 51,880,110,000
Exchangeable price:	JPY 3,094/ADR
Exercise call period:	Commencing ten business days following the issuance date until ten business days prior to maturity date
Exercise put period:	Exactly three years following the payment date

On August 20, 2003, POSCO sold its 15,267,837 SK Telecom Co., Ltd. ADRs to Zeus (Cayman), a tax-exempted subsidiary formed under the laws of Cayman Islands. Zeus issued zero-coupon, exchangeable bonds amounting to JPY51,622 million which are fully and unconditionally guaranteed by POSCO and due in 2008. POSCO may elect to pay the holder cash in lieu of delivering SK Telecom Co., Ltd. ADRs (the "Cash Settlement Option"). The number of ADRs the holder is entitled to receive will be calculated by dividing the aggregate principal amount of the Notes to be exchanged by the exchangeable price. Under the Cash Settlement Option, such holder is entitled to receive the cash equivalent of the market value of ADRs upon exercise. These bonds are non-interest bearing and are exchangeable with SK Telecom Co., Ltd. ADRs at the option of the bondholder. The transaction between the POSCO and Zeus is deemed a borrowing transaction under the Korean generally accepted accounting principles. In 2005 and 2006, in compliance with the terms of the exchangeable bonds, the dividends earned by Zeus from the SK Telecom Co., Ltd. ADRs were used to purchase additional 1,417,998 ADRs which brought down the exchangeable bond price to JPY3,094/ADR.

Contractual maturities of long-term debts outstanding as of December 31, 2006, are as follows:

(in millions of Korean won)

Period	Debentures	Won Currency Borrowings	Foreign Currency Borrowings	Loans from Foreign Financial Institutions	Total
2008	₩ 433,646	₩ 3,825	₩ 29,304	₩ 8,797	₩ 475,572
2009	336,756	5,282	72,547	8,797	423,382
2010	-	4,288	189,892	4,787	198,967
Thereafter	1,539,542	62,671	34,444	4,068	1,640,725
	₩ 2,309,944	₩ 76,066	₩ 326,187	₩ 26,449	₩ 2,738,646

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2006 and 2005

Details of assets pledged as collaterals for short-term borrowings and long-term debts, as well as for performance guarantee, as of December 31, 2006 and 2005, are as follows:

<i>(in millions of Korean won)</i>		<b>Beneficiaries</b>		<b>2006</b>	<b>2005</b>
Land	Shinhan Bank and others	₩	74,198	₩	43,005
Buildings and structures	The Korea Development Bank and others		134,531		42,304
Machinery and equipment	Mizuho Bank and others		461,413		28
Cash and cash equivalents	Mizuho Bank and others		-		12,041
Short-term and long-term financial instruments	The Korea Development Bank		5,600		4,650
Inventories	Korea First Bank		-		195,000
Trade accounts and notes receivable	Mizuho Bank and others		44,445		40,630
Available-for-sale securities	Exchangeable bond creditor		410,796		333,366
Held-to-maturity securities	Gyeongsangbuk-do provincial office		31,334		31,298
		₩	1,162,317	₩	702,322

Details of loans from foreign financial institutions guaranteed by financial institutions as of December 31, 2006 and 2005, are as follows:

<i>(in millions of Korean won )</i>	<b>2006</b>		<b>2005</b>	
	<b>Foreign Currency</b>	<b>Won Equivalent</b>	<b>Foreign Currency</b>	<b>Won Equivalent</b>
<b>Financial Institutions</b>				
The Korea Development Bank	EUR 6,062,451	₩ 7,410	EUR 6,389,136	₩ 7,668

As of December 31, 2006, subsidiaries are provided with guarantees amounting to ₩229,826 million from Seoul Guarantee Insurance Company for their contract commitments.

**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006 and 2005**

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**14. Capital Lease and Operating Lease Agreements**

**Capital Lease**

As of December 31, 2006, the Company acquired certain tools and vehicles under capital lease agreements, with acquisition cost amounting to ₩2,242million. The assets and liabilities under the capital leases are recognized at the present value of the minimum lease payments over the lease terms. The Company's depreciation expense, with respect to the above lease agreements, for December 31, 2006, amounted to ₩561 million.

Future minimum lease payments under capital lease agreements are as follows:

*(in millions of Korean won)*

<b>Period</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2007	₩ 334	₩ 4	₩ 338

**Operating Lease**

As of December 31, 2006, the Company acquired certain tools and equipment under operating lease agreements with Macquarie Capital Korea Co., Ltd. The Company's lease expenses, with respect to the above lease agreements, amounted to ₩6,737 million for December 31, 2006.

Future lease payments under the above lease agreements are as follows:

*(in millions of Korean won)*

<b>Period</b>	<b>Amount</b>
2007	₩ 4,183
2008	883
2009	138
2010	1
	₩ 5,205

**POSCO and Subsidiaries**  
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**15. Accrued Severance Benefits**

The changes in accrued severance benefits for December 31, 2006, are as follows:

<i>(in millions of Korean won)</i>	<b>Beginning Balance</b>		<b>Increase</b>		<b>Decrease</b>		<b>Adjustments <sup>1</sup></b>		<b>Ending Balance</b>
Accrued severance benefits	₩	723,954	₩	144,602	₩	41,048	₩	6,539	₩ 834,047
National Pension Fund		(2,515)		-		(218)		(87)	(2,384)
Group severance insurance deposits		(446,627)		(113,682)		(63,507)		(3,855)	(500,657)
	₩	<u>274,812</u>	₩	<u>30,920</u>	₩	<u>(22,677)</u>	₩	<u>2,597</u>	<u>₩ 331,006</u>

The changes in accrued severance benefits for December 31, 2005, were as follows:

<i>(in millions of Korean won)</i>	<b>Beginning Balance</b>		<b>Increase</b>		<b>Decrease</b>		<b>Adjustments <sup>1</sup></b>		<b>Ending Balance</b>
Accrued severance benefits	₩	561,980	₩	216,344	₩	84,623	₩	30,253	₩ 723,954
National Pension Fund		(1,825)		-		(399)		(1,089)	(2,515)
Group severance insurance deposits		(329,788)		(123,676)		(22,726)		(15,889)	(446,627)
	₩	<u>230,367</u>	₩	<u>92,668</u>	₩	<u>61,498</u>	₩	<u>13,275</u>	<u>₩ 274,812</u>

<sup>1</sup> Includes foreign currency adjustments, changes in consolidation scope and others.

**16. Other Liabilities**

Other liabilities as of December 31, 2006 and 2005, consist of the following:

<i>(in millions of Korean won)</i>	<b>2006</b>		<b>2005</b>	
<b>Other current liabilities</b>				
Advances received	₩	405,450	₩	334,166
Unearned revenue		2,648		3,164
Others		99,297		119,534
	₩	<u>507,395</u>	₩	<u>456,864</u>
<b>Other long-term liabilities</b>				
Reserve for allowance	₩	22,427	₩	17,524
Others (Notes 14 and 21)		125,759		114,596
	₩	<u>148,186</u>	₩	<u>132,120</u>

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2006 and 2005

#### 17. Commitments and Contingencies

As of December 31, 2006, contingent liabilities for outstanding guarantees provided for the repayment of loans of affiliated companies are as follows:

Grantors	Entity Being Guaranteed	Financial Institution	Amount Guaranteed <sup>1</sup>	Won Equivalent (in millions)
POSCO	POSCO Investment Co., Ltd.	Bank of Tokyo-Mitsubishi UFJ, Ltd.	US\$ 56,845,654	₩ 52,844
	Zhangjiagang Pohang Stainless Steel Co., Ltd.	Bank of China and others	329,925,000	306,698
	BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	Industrial & Commercial Bank of China	33,023,068	30,698
POSCO E&C	IBC Corporation	The Korea Development Bank and others	47,000,000	43,691
	Shanghai Real Estate Development Co., Ltd.	Woori Bank and others	20,000,000	18,592
	POSLILAMA Steel Structure Co., Ltd.	The Export-Import Bank of Korea and others	43,000,000	39,973
	POSCO E&C (Beijing) Co., Ltd.	Korea Exchange Bank	4,446,000	4,146
POSCO Investment Co., Ltd.	Qingdao Pohang Stainless Steel Co., Ltd.	Bank of Tokyo-Mitsubishi UFJ, Ltd.	56,000,000	52,058
	POSVINA Co., Ltd.	Shinhan Bank	1,500,000	1,394
	POSCO(Guangdong) Coated Steel Co.,Ltd	Bank of Tokyo-Mitsubishi UFJ, Ltd.	15,000,000	13,944
	POS-MPC S.A. de C.V.	Bank of Tokyo-Mitsubishi UFJ, Ltd.	6,600,000	6,135
POSCO-Japan Co., Ltd.	Fujiura Butsuryu Center Co., Ltd.	Nippon Life Insurance Company and others	JPY 950,000,000	7,427
	POS-NPC Co., Ltd.	Mizuho Bank and others	2,600,000,000	20,328
				₩ 597,928

<sup>1</sup> Currencies other than US\$ or JPY are translated into US\$ amounts.

As of December 31, 2005, contingent liabilities for outstanding guarantees provided for the payment of loans of affiliated companies amounted to ₩561,493 million.

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2006 and 2005

As of December 31, 2006, contingent liabilities for outstanding guarantees provided to non-affiliated companies for the repayment of loans are as follows:

Grantors	Entity Being Guaranteed	Financial Institution	Amount Guaranteed <sup>1</sup>	Won Equivalent (in millions)
POSCO	DC Chemical Co., Ltd.	E1 Co., Ltd.	₩ 961	961
	The Siam United Steel Co., Ltd.	Japan Bank for International Cooperation	US\$ 10,241,684	9,521
	Zeus	Related creditors	JPY 51,622,000,000	403,596
POSCO E&C	Daejeon Energy System Co., Ltd.	Woori Bank	₩ 23,900	23,900
	Pan Pacific Corp	Korea Exchange Bank	12,508	12,508
	Ioncity Co.,Ltd	Samsung Life Insurance Co., Ltd.	2,400	2,400
Others			22,953	22,953
				₩ 475,839

The Company has provided the completion guarantees for Samsung Corporation amounting to ₩1,391,110 million while Samsung Corporation provides the completion guarantees or payment guarantees on customers' borrowings on behalf of the Company amounting to ₩1,096,265 million as of December 31, 2006. Also, the Company has provided the guarantee of debts for Jungwoo Construction and 21 other companies amounting to ₩954,544 million. In addition, the Company provides a guarantee for Eco-Town Corporation, an investee, amounting to ₩143,260 million for its debts.

The Company provided an allowance for bad debts on the trade receivables and short-term loans receivable amounting to ₩35,771 million from Keumseki Co, Ltd. due to its bankruptcy. The Company provided payment guarantee for Keumseki Co, Ltd.'s borrowing amounting to ₩60,555 million and recognized ₩41,300 million as allowance for loss on payment guarantee based on Keumseki Co, Ltd.'s poor financial condition.

The Company maintains escrow account of ₩226,918 million under its name based on the operation agreements with customers in certain construction contracts. The Company does not record this escrow account in its books but maintains as a memo account to reflect economic substance in which the ownership belongs to the customers.

As of December 31, 2005, contingent liabilities for outstanding guarantees provided to non-affiliated companies for the repayment for loans amounted to ₩508,837 million.



# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2006 and 2005

As of December 31, 2006, the Company and certain subsidiaries are defendants in legal actions arising from the normal course of business. Details as follows :

Company	Plaintiff	Amount	Description
POSCO	Songdo Construction Co.,Ltd. And others	2,728	15 lawsuits including claim for operation damages due to loss of the sands beach
	Gu ja eun and other 19	7,363	Claim for refund of Sindorim Posvill Bldg land sale amount
	Hwang jae ho and others	6,140	Lawsuit filed on construction of residents-only sports complex in Songdo Firstworld
POSCO E & C	Choi ki hyo and other 378	963	Claim for damages by Starcity
	Kookmin Bank	1,223	Claim for damages by Sindorim Posvill Bldg
	Korea Construction Financial Co.,	6,692	Claim filed by Daesung Construction
	Metal Industry Co.,Ltd.	US\$1,246,535	Claim for damages due to breach of contract (second trial won, plaintiff appeals)
Poosteel Co., Ltd.	Duetsch Brauhaus Co.,Ltd.	700	Claim for damages due to breach of lease agreement (lost the first trial, filed an appeal)
POSCO Research Institute	An hong sik	100	Lawsuit claiming for excessive profits (lost the first trial, motion for a new trial in process)
	Wang dong wha	CNY 2,502,236	Labor dispute on additional wages and compensation for damages (first public trial on going)
POSCO Specialty Steel Co., Ltd.	BNG Steel Co., Ltd.	21,329	Counteraction against claim on restructured receivables regarding undertaking of BNG Steel's asset
POSCO Refractories & Environment Company Ltd. (POSREC)	Kim Choong il	224	Claim for damages(second trial won, filed an appeal to the Supreme Court)
POSCON Co., Ltd.	DIBO TECH CO.,LTD.	787	Claim for confirmation of the existence of receivables

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

POSCO entered into long-term contracts to purchase iron ore, coal, nickel, chrome and stainless steel scrap. These contracts generally have terms of five to ten years and provide for periodic price adjustments to the market price. As of December 31, 2006, 462 million tons of iron ore and 120 million tons of coal remained to be purchased under such long-term contracts.

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

On July 1, 2005, POSCO entered into an agreement with Tangguh Liquefied Natural Gas (LNG) Consortium in Indonesia regarding the commitment to purchase 550 thousand tons of LNG annually for 20 years commencing in May 2006.

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

As of December 31, 2006, POSCO has bank overdraft agreements of up to ₩320,000 million with Woori Bank and other six banks. In addition, the Company entered into a credit purchase loan agreement with Industrial Bank of Korea and seven other banks for credit lines of up to ₩250,000 million and short-term borrowing agreement of up to ₩190,000 million with Woori Bank and other two banks. The Company has an agreement with Woori Bank and others to open letters of credit, documents against acceptance and documents against payment amounting to US\$ 1,100 million and to borrow US\$ 250 million in foreign short-term borrowings. The accounts receivables in foreign currency sold to financial institutions and outstanding as of December 31, 2006, amount to US \$ 158 million for which the Company is contingently liable upon the issuers'

## **POSCO and Subsidiaries**

### **Notes to Consolidated Financial Statements**

#### **December 31, 2006 and 2005**

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default. In addition, POSCO has provided two blank promissory notes to Korea Resources Corp. as collateral for long term debt.

As of December 31, 2006, POSCO E & C has bank overdraft agreements of up to ₩20,000 million with Woori Bank and other banks, and has a daily bank overdraft of up to ₩20,000 million with Woori Bank. In addition, the Company entered into a credit purchase loan agreement with Woori Bank and another bank for credit lines of up to ₩110,000 million, and short-term borrowing agreement of up to ₩334,200 million with Woori Bank and others. POSCO E & C has provided eight blank promissory notes and 18 other notes, approximately amounting to ₩212,013 million, to other financial institutions as collaterals for agreements and outstanding loans. POSCO E&C has provided seven blank checks and one other check, approximately amounting to ₩2,500 million as collaterals for agreements and outstanding loans as of December 31, 2006.

As of December 31, 2006, Posteel Co., Ltd. has entered into local and foreign credit agreements, of up to ₩630,351 million and with Hana Bank and other banks of which ₩455,966 million remain unused. In addition, Posteel Co., Ltd. has an unsettled document against acceptance amounting to JPY 864 million and US\$72 million, and an unsettled document against payment and usance balances in relation to exports amounting to US\$4,823,480 and US\$18,681 respectively.

As of December 31, 2006, POSCON Co., Ltd. has credit purchase loan agreements with Shinhan Bank and other banks for credit lines of up to ₩6,000 million and revolving loan agreements of up to ₩45,000 million. In addition, POSCON Co., Ltd. has entered into agreements with Kookmin Bank and other banks for opening letters of credit in relation to trade of up to US\$14 million.

As of December 31, 2006, Pohang Coated Steel Co., Ltd. has provided a blank promissory note to Korea Zinc Company Ltd. as a guarantee for the repayment of loan. In addition, Pohang Coated Steel Co., Ltd. has entered into agreements to discount its trade accounts receivable with Shinhan Bank and other banks for amount of up to ₩2,000 million. In addition, Pohang Coated Steel Co., Ltd. has local credit loan agreements, credit purchase loan agreements and letters of credit in relation to trade of up to ₩29,000 million and JPY 500 million with Shinhan Bank. Pohang Coated Steel Co., Ltd. has entered into an agreement with the Export and Import Bank of Korea for export financing up to ₩50,000 million.

As of December 31, 2006, POSDATA Co., Ltd. has provided a blank promissory note to HP Financial Services for an outstanding lease agreement. In addition, the company has a foreign currency loan agreement with Korea Exchange Bank of up to US\$ 10 million and POSDATA Co., Ltd. entered into loan on bills agreements of up to ₩103,600 million with Shinhan Bank and other banks as of December 31, 2006.

As of December 31, 2006, POSCO Machinery & Engineering Co., Ltd. has entered into a bank overdraft agreement of up to ₩2,000 million with Shinhan Bank, local credit loan agreements of up to ₩6,000 million and credit purchase loan agreements of up to ₩9,000 million with Shinhan Bank and other banks. In addition, POSCO Machinery & Engineering Co., Ltd. has entered into an agreement with Shinhan Bank for opening letters of credit in relation to trade of up to US\$3 million and GBP 1,907,400.

## **POSCO and Subsidiaries**

### **Notes to Consolidated Financial Statements**

#### **December 31, 2006 and 2005**

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As of December 31, 2006, POS-AC Co., Ltd. has a bank overdraft agreement with Woori Bank amounting to ₩1,000 million and a loan agreement. In addition, POS-AC Co., Ltd. has entered into an agreement with Woori Bank amounting to ₩1,000 million in relation to discount of commercial bills.

As of December 31, 2006, POSCO Specialty Steel Co., Ltd. has a loan agreement, secured by trade accounts receivable, of up to ₩150,000 million with Woori Bank. As of December 31, 2006, the Company has used ₩55,425 million of this loan agreement, consisting of trade payables of ₩37,254 million, and non-trade payables of ₩18,171 million. In addition POSCO Specialty Steel Co., Ltd. has agreements with Woori Bank and seven other banks for opening letters of credit of up to US\$73 million and ₩31,000 million and has a loan agreement of up to ₩115,000 million.

As of December 31, 2006, POSCO Machinery Co., Ltd. has a loan agreement, secured by trade accounts receivables, of up to ₩6,000 million and ₩4,000 million with Woori Bank and Korean Industry Banks, respectively. POSCO Machinery Co., Ltd. has a working capital loan agreement of up to ₩3,272 million with Woori Bank. In addition, POSCO Machinery Co., Ltd. has entered into an agreement with Korea Exchange Bank for opening letters of credit of up to US\$3 million. POSCO Machinery Co., Ltd. also has entered into a performance guarantee contract of up to ₩10,000 million with Kwangju Bank. In addition, the price of the transferred accounts receivables to financial institutions by discount of commercial bills is ₩200 million. The total transfer price amounted to ₩199,847,000, and the loss on sale of accounts receivable disposal amounted to ₩153,000. As of December 31, 2006, there are no discounts of notes receivables.

As of December 31, 2006, POSCO America Corp. has loan agreements of up to US\$85 million with Bank of America and other banks.

As of December 31, 2006, POSCO Asia Co., Ltd. has loan agreements of up to US\$160 million with Bank of America and other banks.

As of December 31, 2006, POS-Tianjin Coil Center Co., Ltd. has loan agreements of up to CNY 21,864,360 and US\$5 million with HSBC.

As of December 31, 2006, POSMETAL Co., Ltd. has loan agreements of up to JPY 4,300 million with the Bank of Fukuoka and other banks.

As of December 31, 2006, Zhangjiagang Pohang Stainless Steel Co., Ltd. has loan agreements of up to CNY 1,178 million and US\$330 million with Bank of China and other banks.

As of December 31, 2006, POSCO Refractories & Environment Company Ltd. (POSREC) has a bank overdraft agreement of up to ₩3,000 million each with Pusan Bank and Woori Bank. In addition, POSREC has entered into agreements of up to US\$5 million and ₩5,000 million with Pusan Bank and Citibank Korea, respectively, for opening letters of credit.

As of December 31, 2006, POSMATE Co., Ltd. has provided a blank promissory note to Hyundai Motor Service as a guarantee for the maintenance of vehicles. In addition, POSMATE Co., Ltd. has a bank overdraft agreements of up to ₩3,000 million with Woori Bank.

# POSCO and Subsidiaries

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As of December 31, 2006, Samjung Packing & Aluminum Co., Ltd. has a bank overdraft agreement of up to ₩1,000 million with Woori Bank, and purchase loan agreements of up to ₩45,000 million with Woori Bank and other banks. In addition, Samjung Packing & Aluminum Co., Ltd. has entered into agreements of up to US\$40 million with Woori Bank and other banks for opening letters of credit in relation to trade. The accounts receivables in foreign currency sold to financial institutions and outstanding as of December 31, 2006, amount to ₩4,549 million, for which the Company is contingently liable upon the issuers' default. In addition, Samjung Packing & Aluminum Co., Ltd. has loan agreements for energy equipments of up to ₩1,000 million with Woori Bank.

As of December 31, 2006, POSCO-Japan has bank overdraft agreements for working capital of up to JPY 46,557,463,442 with MIZUHO bank and other banks.

### 18. Capital Surplus

Capital surplus as of December 31, 2006 and 2005, consist of the following:

<i>(in millions of Korean won)</i>	2006	2005
Additional paid-in capital	₩ 462,810	₩ 463,825
Revaluation surplus	3,233,730	3,233,730
Others	338,733	293,854
	<u>₩ 4,035,273</u>	<u>₩ 3,991,409</u>

### 19. Retained Earnings

Retained earnings as of December 31, 2006 and 2005, consist of the following:

<i>(in millions of Korean won)</i>	2006	2005
<b>Appropriated</b>		
Legal reserve	₩ 241,201	₩ 241,201
Appropriated retained earnings for business stabilization	918,300	918,300
Other legal reserve	1,383,333	1,303,333
Voluntary reserve	12,926,733	9,735,199
	<u>15,469,567</u>	<u>12,198,033</u>
<b>Unappropriated</b>	3,393,766	3,970,859
	<u>₩ 18,863,333</u>	<u>₩ 16,168,892</u>

#### Legal Reserve

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

#### Other Legal Reserve

Pursuant to the Special Tax Treatment Control Law, the Company appropriates retained earnings

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2006 and 2005

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

#### Voluntary Reserve

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

#### Additional Losses of Minority Interest

The accumulated deficit of POSLILAMA Steel Structure Co., Ltd and POS-NPC Co., Ltd., affiliates included in the consolidated financial statements, resulted in losses in excess of minority interest amounting to ₩5,561 million for December 31, 2006 (2005: ₩42,766 million). The additional losses are deducted from the consolidated retained earnings to be charged to the Controlling Company. The Company plans to add any profits resulting from POSLILAMA Steel Structure Co., Ltd. and POS-NPC Co., Ltd. to the Controlling Company's equity until they recover the amount of losses in excess of minority interest.

#### Dividends

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

<b>Number of outstanding shares</b>	<b>2006</b>	<b>2005</b>
Number of shares	87,186,835	87,186,835
Number of treasury stock	9,593,893	7,032,554
Number of outstanding shares	77,592,942	80,154,281
<b>Interim cash dividends</b> <i>(in millions of Korean won)</i>	<b>2006</b>	<b>2005</b>
Number of outstanding shares	77,780,460	78,759,934
Dividend ratio	40%	40%
Dividend amount	₩ 155,561	₩ 157,520
<b>Year-end cash dividends</b> <i>(in millions of Korean won)</i>	<b>2006</b>	<b>2005</b>
Number of outstanding shares	77,592,942	80,154,281
Dividend ratio	120%	120%
Dividend amount	₩ 465,558	₩ 480,926

# POSCO and Subsidiaries

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

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

## 20. Capital Adjustments

Capital adjustments as of December 31, 2006 and 2005 consist of the following:

(in millions of Korean won)

	2006	2005
Treasury stock	₩ (1,670,690)	₩ (959,205)
Cumulative foreign currency translation adjustment	(47,452)	4,386
Valuation loss on investment securities and others	249,668	(198,878)
	<u>₩ (1,468,474)</u>	<u>₩ (1,153,697)</u>

As of December 31, 2006, the Company holds 9,593,893 shares of its own common stock amounting to ₩1,670,690 million.

The voting rights of treasury stock are restricted in accordance with the Korean Commercial Code of the Republic of Korea. In addition, the Company sold 910,360 shares of its treasury stock to the association of employee stock ownership on July 26, 2006, as approved by the Board of Directors on July 21, 2006, and the difference between the fair value and the proceeds from the sale was recognized as welfare expense.

## 21. Stock Appreciation Rights

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

	1 <sup>st</sup> Grant	2 <sup>nd</sup> Grant	3 <sup>rd</sup> Grant	4 <sup>th</sup> Grant	5 <sup>th</sup> Grant	6 <sup>th</sup> Grant
<b>Before the modifications<sup>1</sup></b>						
Number of shares	498,000 shares	60,000 shares	22,000 shares	141,500 shares	218,600 shares	90,000 shares
Exercise price	₩ 98,400 per share	₩ 135,800 per share	₩ 115,600 per share	₩ 102,900 per share	₩ 151,700 per share	₩ 194,900 per share
<b>After the modifications<sup>1</sup></b>						
Grant date	July 23, 2001	April 27, 2002	September 18, 2002	April 26, 2003	July 23, 2004	April 28, 2005
Exercise price	₩ 98,900 per share	₩ 136,400 per share	₩ 116,100 per share	₩ 102,900 per share	₩ 151,700 per share	₩ 194,900 per share
Number of shares granted	453,576 shares	55,896 shares	20,495 shares	135,897 shares	214,228 shares	90,000 shares
Number of shares cancelled	19,409 shares	-	-	-	-	-
Number of shares exercised	377,745 shares	32,741 shares	4,931 shares	74,931 shares	-	-
Number of shares outstanding	56,422 shares	23,155 shares	15,564 shares	60,966 shares	214,228 shares	90,000 shares
Exercise period	July 24, 2003 - July 23, 2008	April 28, 2004 - April 27, 2009	Sept. 19, 2004 - Sept. 18 2009	April 27, 2005 - April 26, 2010	July 24, 2006 - July 23, 2011	April 29, 2007 - April 28, 2012

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2006 and 2005

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

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

The compensation costs for stock appreciation rights granted to executives recognized for the year ended December 31, 2006, and for the future periods are as follows:

<i>(in millions of Korean won)</i>		1 <sup>st</sup> Grant		2 <sup>nd</sup> Grant		3 <sup>rd</sup> Grant		4 <sup>th</sup> Grant		5 <sup>th</sup> Grant		6 <sup>th</sup> Grant		Total
Prior period	₩	39,645	₩	3,749	₩	1,732	₩	13,235	₩	11,440	₩	917	₩	70,718
Current period		7,315		3,070		1,537		6,556		23,720		7,687		49,885
Future period		-		-		-		-		-		935		935
	₩	46,960	₩	6,819	₩	3,269	₩	19,791	₩	35,160	₩	9,539	₩	121,538

## 22. Derivatives

The Company has entered into cross currency swap agreements to reduce interest rates and currency risks and currency forward contracts with financial institutions to hedge the fluctuation risk of future cash flows. The gains and losses on currency swap and currency forward contracts for December 31, 2006, and related contracts outstanding as of December 31, 2006, are as follows:

<i>(in millions of Korean won)</i>									
Company	Type of Transaction	Purpose of Transaction	Financial Institutions	Valuation Gain	Valuation Loss	Transaction Gain	Transaction Loss		
POSCO	Currency forward	Trading	SC Korea First Bank and others	₩	-	₩	-	₩	779
	Nickel future	"	Sempra Metal Ltd.		-		-		11,491
POSCO E&C	Currency forward	"	Citibank Korea and others		1		791		732
Posteel Co.,Ltd.	"	"	Hana bank and others		-		-		37
Pohang Coated Steel Co.,Ltd.	"	"	Shinhan Bank		-		-		1,258
	Option	"	"		1,856		12		1,734
POSDATA	Currency forward	Cash flow hedge	Korea Exchange Bank		-		-		53
POSCO Specialty Steel Co.,Ltd.	"	Fair market value hedge	SC Korea First Bank		-		17		190
POSCO Power Co.,Ltd.	SWAP	Trading	Korea Development Bank and others		-		-		10,694
				₩	1,857	₩	820	₩	15,477
								₩	40,363

# POSCO and Subsidiaries

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

(in millions of Korean won)

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



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**23. Selling and Administrative Expenses**

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

<i>(in millions of Korean won)</i>		<b>2006</b>		<b>2005</b>
Transportation and storage	₩	539,589	₩	492,921
Salaries		183,943		168,746
Welfare		111,666		116,542
Depreciation and amortization		72,983		60,742
Fees and charges		62,610		122,204
Advertising		87,666		98,158
Research and development expenses		54,035		52,545
Severance benefits		26,109		29,475
Sales commissions		42,644		23,409
Travel		21,468		18,808
Rent		16,313		16,345
Repairs		8,846		14,736
Training		18,496		17,367
Office supplies		6,957		7,654
Provision for doubtful accounts		117,337		104,310
Meeting		9,368		9,680
Taxes and public dues		18,936		14,914
Vehicle expenses		2,941		2,155
Membership fees		7,273		8,876
Sales promotions		22,471		5,745
Entertainment		7,904		7,315
Others		116,860		58,670
	₩	<u>1,556,415</u>	₩	<u>1,451,317</u>

**24. Donations**

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

<i>(in millions of Korean won)</i>		<b>2006</b>		<b>2005</b>
POSCO Educational Foundation	₩	33,000	₩	33,000
Employee benefit welfare		59,400		69,960
Others		62,278		50,058
	₩	<u>154,678</u>	₩	<u>153,018</u>

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**25. Income Taxes**

Income tax expense for December 31, 2006 and 2005, consists of the following:

<i>(in millions of Korean won)</i>	<b>2006</b>	<b>2005</b>
Current income taxes	₩ 691,315	₩ 1,547,761
Deferred income taxes	230,636	(74,172)
	<u>₩ 921,951</u>	<u>₩ 1,473,589</u>

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

<i>(in millions of Korean won)</i>	<b>2006</b>	<b>2005</b>
Net income before income tax expense	₩ 4,284,592	₩ 5,488,189
Statutory tax rate (%)	27.5	27.5
Income tax expense computed at statutory rate	1,178,260	1,509,252
Tax credit	(113,093)	(78,290)
Others, net	(143,216)	42,627
Income tax expense	<u>₩ 921,951</u>	<u>₩ 1,473,589</u>
Effective rate (%)	<u>21.52</u>	<u>26.85</u>

The financial statements for the year ended December 31, 2006, reflect the early adoption of the Korea Accounting Institute's opinion on the Korean Accounting Statement Implementation 06-2, 'Accounting treatment for taxable temporary differences associated with investments in subsidiaries, associates, and interest in joint ventures'. The financial statements as of and for the year ended December 31, 2005, have been restated to reflect the changes to conform with SKFAS No. 1.

The effects of the change in accounting policy for the year ended December 31, 2006 and the adjustments for the year ended December 31, 2005, are as follows:

<i>(in millions of Korean won)</i>	<b>2006</b>		
	Before adjustment	Adjustment	After adjustment
Deferred income tax liabilities <sup>1</sup>	₩ 450,955	₩ 9,387	₩ 460,342
Minority interest	491,133	(1,926)	489,207
Income tax expense	903,714	18,237	921,951
Net income before minority interest	3,380,878	(18,237)	3,362,641
Minority interest in income of consolidated subsidiaries	50,385	(1,925)	48,460
Net income	3,330,492	(16,311)	3,314,181

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2006 and 2005

(in millions of Korean won)

	2005		
	Before adjustment	Adjustment	After adjustment
Deferred income tax liabilities <sup>1</sup>	₩ 220,628	₩ (6,761)	₩ 213,867
Capital adjustments	(1,151,609)	(2,088)	(1,153,697)
Minority interest	386,766	(2,096)	384,670
Income tax expense	1,482,438	(8,849)	1,473,589
Net income before minority interest	4,005,751	8,849	4,014,600
Minority interest in income of consolidated subsidiaries	(5,796)	(2,096)	(7,892)
Net income	4,011,547	10,945	4,022,492
Basic and diluted earnings per share	50,652 ₩/share		50,790 ₩/share

<sup>1</sup> Part of deferred tax liabilities is classified as non-current liabilities.

## 26. Earnings Per Share

Basic earnings per share is computed by dividing net income allocated to common stock by the weighted average number of common shares outstanding during the year. Basic ordinary income per share is computed by dividing ordinary income allocated to common stock as adjusted by extraordinary gains or losses and net of related income taxes, by the weighted average number of common shares outstanding during the year.

	2006	2005
Number of Shares Issued <sup>1</sup> (I)	87,186,835	87,186,835
Accumulated Number of Treasury Shares <sup>2</sup>	3,099,818,765	2,915,877,434
Number of Days Outstanding	365	365
Weighted-Average Number of Treasury Shares (II)	8,492,654	7,988,705
Weighted-Average Number of Common Shares ((I)-(II))	78,694,181	79,198,130

<sup>1</sup> No change for the year ended December 31, 2006.

<sup>2</sup> Frequent changes due to acquisition and disposal of treasury stocks for the year ended December 31, 2006.

For the computation of weighted average number of common shares outstanding, the weighted-average number of treasury shares was excluded.

Ordinary income per share for the years ended December 31, 2006 and 2005, are calculated as follows:

(in millions of Korean won,  
except per share amounts)

	2006	2005
Net ordinary income	₩ 3,314,181	₩ 4,022,492
Weighted-average number of common shares outstanding	78,694,181	79,198,130
Basic ordinary income and earnings per share	₩ 42,115	₩ 50,790

Ordinary income per share is identical to net income per share, since there is no extraordinary item.

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2006 and 2005

#### Diluted Earnings Per Share

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

#### 27. Assets and Liabilities Denominated in Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies as of December 31, 2006 and 2005, are as follows:

(in millions of Korean won)	2006		2005	
	Foreign Currency <sup>3</sup>	Won Equivalent	Won Equivalent	
<b>Assets</b>				
Cash and cash equivalents <sup>1</sup>	US\$ 310,532,020	₩ 288,671	₩ 320,964	
	JPY 2,813,798	22	275	
	Overseas subsidiaries (US\$) 323,083,993	300,339	284,221	
Trade accounts and notes receivable	US\$ 232,664,898	216,285	552,622	
	JPY 2,358,376,350	18,438	31,912	
	EUR 7,491,962	9,157	4,346	
	Overseas subsidiaries (US\$) 464,123,798	431,449	244,741	
Other accounts and notes receivable	US\$ 30,132,257	28,011	10,066	
	JPY 16,987,193	133	336	
	Overseas subsidiaries (US\$) 67,780,423	63,009	18,526	
Short-term and long-term loans receivable	Overseas subsidiaries (US\$) 41,075,306	38,184	19,302	
Long-term trade accounts and notes receivable	Overseas subsidiaries (US\$) -	-	71	
Investment securities <sup>2</sup>	Overseas subsidiaries (US\$) 43,628,434	40,557	37,502	
Guarantee deposits	US\$ 162,449	151	332	
	EUR 34,458	42	-	
	Overseas subsidiaries (US\$) 25,657,296	23,851	1,306	
		₩ 1,458,299	₩ 1,526,522	

**POSCO and Subsidiaries**  
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(in millions of Korean won)	2006		2005	
	Foreign Currency <sup>3</sup>	Won Equivalent	Won Equivalent	
<b>Liabilities</b>				
Trade accounts and notes payable	US\$ 52,627,051	₩ 48,922	₩ 782,304	
	JPY 1,687,520,861	13,194	19,564	
	EUR 3,161,589	3,864	13,215	
	Overseas subsidiaries (US\$) 338,829,755	314,976	72,520	
Other accounts and notes payable	US\$ 18,616,545	17,306	7,599	
	JPY 809,139,661	6,326	2,624	
	EUR 5,887,443	7,196	4,937	
	Overseas subsidiaries (US\$) 42,430,861	39,444	362	
Accrued expenses	US\$ 94,066	87	8,591	
	Overseas subsidiaries (US\$) 16,160,872	15,023	18,785	
Short-term borrowings	US\$ 15,180,781	14,112	10,424	
	Overseas subsidiaries (US\$) 1,181,389,845	1,098,220	633,200	
Withholdings	US\$ 22,211	21	5,025	
	EUR 301,745	369	6,796	
	Overseas subsidiaries (US\$) 3,067,691	2,852	8,058	
Debentures <sup>2,4</sup>	US\$ 300,000,000	278,880	263,547	
	JPY 101,622,000,000	794,512	701,982	
Loans from foreign financial institutions <sup>4</sup>	US\$ 34,288,961	31,875	-	
	JPY 576,000,000	4,503	24,109	
	Overseas subsidiaries (US\$) 311,756,670	289,809	379,817	
Foreign currency loans <sup>4</sup>	US\$ 14,918,501	13,868	19,430	
	EUR 17,490,732	21,378	25,739	
		₩ 3,016,737	₩ 3,008,628	

<sup>1</sup> Includes cash and cash equivalents, short-term financial instruments and long-term financial instruments.

<sup>2</sup> Presented at face value.

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

<sup>4</sup> Includes current portion of long-term debts.

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

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#### 28. Related Party Transactions

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

(in millions of Korean won)	Sales and others <sup>1</sup>		Purchases and others <sup>1</sup>		Receivables <sup>2</sup>		Payables <sup>2</sup>	
	2006	2005	2006	2005	2006	2005	2006	2005
POSCO E&C	₩ 12,134	₩ 3,758	₩ 1,618,205	₩ 1,732,462	₩ 7,933	₩ 53	₩ 77,678	₩ 193,856
Possteel Co., Ltd.	966,254	1,030,276	93,315	86,005	69,539	111,790	3,198	1,760
POSCON Co., Ltd.	177	131	219,602	235,232	1	1	18,016	28,638
Pohang Steel Co., Ltd.	367,443	426,007	853	1,105	41,029	33,896	94	66
POSCO Machinery & Engineering Co., Ltd.	1,908	92	125,996	160,787	4	4	13,211	14,449
POSDATA Co., Ltd.	2,290	1,009	175,046	182,149	1	43	26,639	26,709
POSCO Research Institute	-	-	18,553	14,350	-	-	3,766	2,674
Seung Kwang Co., Ltd.	-	-	6	110	2,034	2,063	-	-
POS-AC Co., Ltd.	732	566	30,546	29,554	-	1	1,177	888
POSCO Specialty Steel Co., Ltd.	2,844	3,440	70,299	53,618	-	1,231	3,103	2,119
POSCO Machinery Co., Ltd.	1,929	121	76,189	107,648	30	1	11,203	9,863
POSTECH Venture Capital Co., Ltd.	77	63	-	-	-	-	-	53
POSCO Refractories & Environment (POSREC)	166	261	211,122	195,329	9	17	23,742	23,774
POSCO Terminal Co., Ltd.	26,627	8,891	538	332	1,394	1,501	34	34
POSMATE Co., Ltd.	1,156	1,064	34,837	40,191	-	1	4,703	5,328
Samjung Packing & Aluminum Co., Ltd.	15,458	16,086	217,771	297,290	1,019	1,465	18,659	23,410
Pohang Steel America Corporation (POSAM)	84,227	97,920	277	-	401	9	-	-
POSCO Australia Pty. Ltd. (POSA)	17,821	10,163	2,235	31,305	-	618	-	-
POSCO Canada Ltd. (POSCAN)	-	-	91,502	102,841	13	-	14,166	5,726
POSCO Asia Co., Ltd. (POA)	440,078	552,694	73,353	130,871	20,827	8,749	1,277	6,931
Zhangjiagang Pohang Stainless Steel Co., Ltd.	487,037	723,522	-	-	6	175,415	-	-
POSCO Thailand Co., Ltd.	61	12,320	-	-	-	94	-	-
Qingdao Pohang Stainless Steel Co., Ltd.	271,080	273,395	81	-	4,305	93,814	-	-
POSCO (SUZHOU) Automotive Processing Center Co., Ltd.	-	3,277	-	-	-	-	-	-
POSCO-China Holding Corp.	-	-	471	905	-	-	-	-
POS-QINGDAO Coil Center	5,653	2,143	-	-	1,702	248	-	-
POSCO-Japan Co., Ltd.	566,208	544,636	75,170	75,604	20,685	19,599	5,428	1,542
POS-India Steel Processing Centre Pvt. Ltd.	4,323	-	-	-	1,010	-	-	-
	<u>₩ 3,275,683</u>	<u>₩ 3,711,835</u>	<u>₩ 3,135,967</u>	<u>₩ 3,477,688</u>	<u>₩ 171,942</u>	<u>₩ 450,613</u>	<u>₩ 226,094</u>	<u>₩ 347,820</u>

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

<sup>2</sup> Receivables include trade accounts, other accounts receivable and others; payables include trade accounts, other accounts payable and others.

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2006 and 2005

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

(in millions of Korean won)	Sales and others <sup>1</sup>		Purchases and others <sup>1</sup>		Receivables <sup>2</sup>		Payables <sup>2</sup>	
	2006	2005	2006	2005	2006	2005	2006	2005
<b>Equity method investees</b>								
KOBRASCO	₩	-	₩	-	₩	141,859	₩	202,262
POSCHROME		-		-		35,009		45,043
eNtoB Corporation		-		-		134,703		170,258
POSVINA		2,684		11,239		-		1,100
Posmmit Steel Centre SDN BHD (POS-MMIT)		3,971		10,229		-		29
USS - POSCO Industries (UPI)		356,190		312,377		-		-
Guangdong Xingpu Steel Center Co., Ltd.		10,295		-		-		2,337
	₩	373,140	₩	333,845	₩	311,571	₩	417,563
						2,337		1,129
						-		11,654
						-		7,048

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

<sup>2</sup> Receivables include trade accounts, other accounts receivable and others; payables include trade accounts, other accounts payable and others.

Eliminations of intercompany revenues and expenses for the years ended December 31, 2006 and 2005, are as follows:

(in millions of Korean won)	Revenues			Expenses	
	2006	2005		2006	2005
Sales	₩ 7,670,446	₩ 8,293,069	Cost of goods sold	₩ 7,332,282	₩ 8,094,089
Interest income	694	1,322	Interest expense	3,912	3,778
			Selling and administrative expenses	259,038	156,157
Rental income	1,273	1,014	Others	85,288	44,455
Others	8,107	3,074			
	₩ 7,680,520	₩ 8,298,479		₩ 7,680,520	₩ 8,298,479

# POSCO and Subsidiaries

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Eliminations of significant intercompany receivables and payables as of December 31, 2006 and 2005, are as follows:

<i>(in millions of Korean won)</i>	<b>2006</b>		<b>2005</b>		<b>2006</b>		<b>2005</b>	
Trade accounts and notes receivable	₩	709,207	₩	1,046,732	Trade accounts and notes payable	₩	494,980	₩ 728,395
Short-term loans receivable		41,642		36,310	Short-term borrowings		71,630	28,064
Other accounts and notes receivable		8,431		5,415	Other accounts and notes payable		173,648	269,287
Long-term loans receivable		56,613		37,359	Long-term debts		25,121	23,557
Other assets		113,497		208,316	Other liabilities		164,011	284,829
	₩	<u>929,390</u>	₩	<u>1,334,132</u>		₩	<u>929,390</u>	₩ <u>1,334,132</u>

## 29. Segment and Regional Information

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

<i>(in millions of Korean won)</i>	Steel		Engineering and construction		Trading		Others		Consolidation Adjustment		Consolidated	
<b>Statement of income</b>												
External customers	₩	23,727,533	₩	3,752,233	₩	3,046,127	₩	2,986,879	₩	(7,670,446)	₩	25,842,326
Less: Inter-segment		3,984,759		1,631,547		632,841		1,421,299		7,670,446		-
Net sales	₩	19,742,774	₩	2,120,686	₩	2,413,286	₩	1,565,580	₩	-	₩	25,842,326
Operating profit	₩	4,078,997	₩	282,489	₩	24,202	₩	252,283	₩	(248,824)	₩	4,389,147
Depreciation and others		1,699,537		7,185		5,738		131,712		(110,222)		1,733,950
<b>Balance sheet</b>												
Inventories	₩	3,550,674	₩	225,378	₩	127,600	₩	217,963	₩	(103,410)	₩	4,018,205
Investments		5,867,366		434,047		276,560		527,388		(3,393,443)		3,711,918
Property, plant and equipment		14,075,709		75,712		201,797		1,358,874		(1,068,972)		14,643,120
Intangible assets		258,874		25,889		430		125,147		146,742		557,082



# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2006 and 2005

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

<i>(in millions of Korean won)</i>		Steel	Engineering and construction	Trading	Others	Consolidation Adjustment	Consolidated
<b>Statement of income</b>							
External customers	₩	24,886,534	₩ 3,993,961	₩ 3,373,587	₩ 2,340,775	₩ (8,293,069)	₩ 26,301,788
Less: Inter-segment		3,974,711	1,845,747	990,742	1,481,869	8,293,069	-
Net sales	₩	20,911,823	₩ 2,148,214	₩ 2,382,845	₩ 858,906	₩ -	₩ 26,301,788
Operating profit	₩	5,879,972	₩ 244,910	₩ 24,453	₩ 190,378	₩ (256,437)	₩ 6,083,276
Depreciation and others		1,591,312	6,787	6,797	62,022	(179,800)	1,487,118
<b>Balance sheet</b>							
Inventories	₩	3,275,723	₩ 205,622	₩ 102,569	₩ 314,233	₩ (105,553)	₩ 3,792,594
Investments		4,662,747	348,143	273,938	468,074	(2,611,346)	3,141,556
Property, plant and equipment		12,223,681	63,747	213,681	571,320	(800,719)	12,271,710
Intangible assets		326,780	26,712	505	110,527	(10,815)	453,709

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

<i>(in millions of Korean won)</i>		<b>Sales<sup>1</sup></b>		<b>Non-Current Assets</b>	
Customer Location		<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Korea	₩	17,250,163	₩ 18,566,060	₩ 21,262,819	₩ 17,614,231
Japan		1,311,685	1,371,510	76,753	72,177
China		3,070,422	3,117,909	1,390,187	1,204,250
Asia/Pacific, excluding Japan and China		1,486,331	1,502,205	168,180	113,167
North America		610,240	550,331	217,758	188,345
Others		2,113,485	1,193,773	111,986	97,684
Consolidation adjustments		-	-	(4,315,563)	(3,422,880)
	₩	25,842,326	₩ 26,301,788	₩ 18,912,120	₩ 15,866,974

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

**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006 and 2005**

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

*(in millions of Korean won)*

	<b>2006</b>	
	<b>Non-financial Institution</b>	<b>Financial Institution</b>
<b>Assets</b>		
Current assets	₩ 12,161,686	₩ 75,267
Non-current assets	18,776,636	135,485
Investment assets	3,576,481	135,438
Property, plant and equipment	14,643,073	47
Intangible assets	557,082	-
Total assets	₩ 30,938,322	₩ 210,752
<b>Liabilities</b>		
Current liabilities	₩ 4,994,825	₩ 87,471
Non-current liabilities	3,664,895	141
Total liabilities	8,659,719	87,612
<b>Shareholders' equity</b>		
Common stock	373,716	108,687
Capital surplus	4,035,273	-
Retained earnings	18,839,242	24,091
Capital adjustments	(1,458,837)	(9,638)
Minority interest	489,208	-
Total shareholders' equity	22,278,602	123,140
Total liabilities and shareholders' equity	₩ 30,938,322	₩ 210,752

**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006 and 2005**

Condensed consolidated statements of income for the year ended December 31, 2006, categorized by types of business are as follows:

*(in millions of Korean won)*

	<b>2006</b>				
	<b>Non-financial Institution</b>			<b>Financial Institution</b>	
Sales	₩	25,832,162	₩	10,164	
Cost of goods sold		19,891,544		5,220	
Selling and administrative expenses		1,553,868		2,547	
Operating income		4,386,750		2,397	
Non-operating income		743,537		5,687	
Non-operating expenses		851,338		2,441	
Net income before income tax expense and minority interest		4,278,949		5,643	
Income tax expense		921,382		569	
Net income before minority interest		3,357,567		5,074	
Minority interest in income of consolidated subsidiaries		(48,460)		-	
Net income	₩	3,309,107	₩	5,074	

**30. Operating Results for the Final Interim Period**

Significant operating results for the three-month periods ended December 31, 2006 and 2005, are as follows:

*(in millions of Korean won,  
except per share amount)*

	<b>2006</b>		<b>2005</b>	
	<b>(unaudited)</b>		<b>(unaudited)</b>	
Sales	₩	7,363,295	₩	6,353,114
Cost of sales		5,651,442		5,004,931
Operating income		1,238,385		1,108,800
Net income		1,051,779		377,935
Ordinary income per share		13,531		4,792
Net income per share		13,531		4,792