

**US\$700,000,000**



*(incorporated with limited liability under the laws of the Republic of Korea)*

## **4.250% Notes due 2020**

We are offering an aggregate principal amount of US\$700,000,000 of 4.250% Notes due 2020 issued by us (the "Notes"). The Notes will be payable semi-annually in arrears on April 28 and October 28 of each year, commencing April 28, 2011 until redemption or maturity. We may not redeem the Notes in whole or in part prior to maturity except upon the occurrence of certain events related to Korean tax law as described herein. Upon the occurrence of a Change of Control, holders of the Notes will have the right to require us to repurchase all or any part of their Notes at a purchase price equal to 100% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date. See "Description of the Notes — Change of Control". The Notes will be issued only in registered form in denominations of US\$100,000 and integral multiples of US\$1,000 in excess thereof.

The Notes will be our unsecured senior obligations and will rank *pari passu* with all of our other unsecured senior indebtedness.

There is currently no market for the Notes. Approval in-principle has been received for the listing and quotation of the Notes on the Singapore Exchange Securities Trading Limited (the "Singapore Stock Exchange"). The Singapore Stock Exchange assumes no responsibility for the correctness of any statements made, opinions expressed or reports contained herein. Admission of the Notes to the Official List of the Singapore Stock Exchange is not to be taken as an indication of the merits of POSCO or the Notes. The Notes will be rated A2 by Moody's Investors Service ("Moody's") and A by Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. ("S&P"). Such ratings do not constitute a recommendation to buy, sell or hold the Notes and may be subject to revision or withdrawal at any time by such rating organizations.

The Notes initially offered and sold outside the United States in reliance on Regulation S ("Regulation S") under the United States Securities Act of 1933, as amended (the "Securities Act") (the "Unrestricted Notes"), will originally be represented by one or more unrestricted global notes (the "Unrestricted Global Notes"). Notes initially offered and sold in the United States to qualified institutional buyers ("QIBs") (as defined in Rule 144A ("Rule 144A") under the Securities Act) in reliance on Rule 144A (the "Restricted Notes") will bear the Securities Act Legend (as defined herein) and will originally be represented by one or more restricted global notes (the "Restricted Global Notes", and together with the Unrestricted Global Notes, the "Global Notes"). The Global Notes will be deposited with a custodian for and registered in the name of a nominee of The Depository Trust Company ("DTC"). Except as described herein, interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants, including Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream") and their accountholders. Definitive certificates in respect of beneficial interests in the Unrestricted Global Notes and the Restricted Global Notes will not be issued except as described herein.

**Investing in the Notes involves risks. See the section entitled "Risk Factors" beginning on page 10 of this offering circular and the section entitled "Item 3. Key Information — Item 3.D. Risk Factors" contained in our annual report on Form 20-F for the year ended December 31, 2009 (the "POSCO 2009 Annual Report on Form 20-F") attached hereto for a discussion of certain factors to be considered in connection with investing in the Notes.**

**Issue Price: 99.557%**

plus accrued interest, if any, from October 28, 2010.

Delivery of the Notes in book-entry form will be made on or about October 28, 2010.

The Notes have not been and will not be registered under the Securities Act or any state securities laws and, subject to certain exceptions, may not be offered or sold directly or indirectly within the United States or to or for the account or benefit of U.S. persons, as defined in Regulation S. The Notes may be offered for sale only (i) in the United States, to QIBs within the meaning of, and in reliance on, Rule 144A; or (ii) outside the United States to non-U.S. persons in reliance on, and in accordance with, Regulation S, in each case, in compliance with applicable laws, regulations and directives. See "Plan of Distribution — Selling Restrictions" and "Transfer Restrictions".

*Joint Bookrunners and Lead Managers*

**BNP PARIBAS**

**BofA Merrill Lynch**

**Deutsche Bank**

**Goldman Sachs International**

**Morgan Stanley**



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**We have incorporated into this offering circular and attached as an annex a copy of the POSCO 2009 Annual Report on Form 20-F which includes risk factors, our audited consolidated financial statements and disclosure concerning our business and financial condition and results of operations, as well as other matters. See “Presentation of Financial Information”. You should carefully review the entire offering circular, including the POSCO 2009 Annual Report on Form 20-F, before making an investment decision.**

**You should rely only on the information contained in this offering circular or to which we have referred you. We have not authorized anyone to provide you with information that is different. This offering circular may only be used where it is legal to sell the Notes. You should not assume that the information in this offering circular is accurate as of any date other than the date at the front of this offering circular. This offering circular is confidential. You are authorized to use this offering circular solely for the purpose of considering the purchase of the Notes described in this offering circular. You may not reproduce or distribute this offering circular in whole or in part, and you may not disclose any of the contents of this offering circular or use any information herein for any purpose other than considering a purchase of the Notes. You agree to the foregoing by accepting delivery of this offering circular.**

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IN CONNECTION WITH THIS OFFERING, GOLDMAN SACHS INTERNATIONAL OR ANY PERSON ACTING FOR OR ON BEHALF OF THE INITIAL PURCHASERS (AS DEFINED HEREIN), TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND REGULATIONS, MAY OVERALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD OF TIME AFTER THE ISSUE DATE. HOWEVER, THERE MAY BE NO OBLIGATION ON GOLDMAN SACHS INTERNATIONAL OR ITS AGENT TO DO THIS. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD. SEE "PLAN OF DISTRIBUTION".

We, having made all reasonable inquiries, confirm that this offering circular contains all information with respect to us and the Notes which is material in the context of the issue and offering of the Notes, that the information contained in this offering circular is true and accurate in all material respects and is not misleading in any material respect, that the opinions and intentions expressed in this offering circular are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions, and that there are no other facts, the omission of which would, in the context of the issue and offering of the Notes, make this offering circular as a whole or any information or the expression of any opinions or intentions expressed in this offering circular misleading in any material respect. We accept responsibility accordingly. Information provided in this offering circular with respect to Korea, its political status and economy, has been derived from information published by the Korean government and other public sources, and we accept responsibility only for the accurate extraction of information from such sources.

In making an investment decision, prospective investors must rely on their own examination of us and the terms of the offering of Notes, including the merits and risks involved. We are not making any representation to any purchaser of the Notes regarding the legality of an investment in the Notes by such purchaser under any legal investment or similar laws or regulations. The contents of this offering circular should not be construed as providing legal, business, accounting or tax advice. An investor should bear the economic risk of an investment in the Notes.

This offering circular is based on the information provided by us. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Initial Purchasers as to the accuracy or completeness of the information contained in this offering circular or any other information provided by us in connection with the offering of the Notes.

No person is authorized in connection with any offering of the Notes to give any information or make any representation other than as contained in this offering circular and, if given or made, that information or representation must not be relied upon as having been authorized by us or by the Initial Purchasers. This offering circular does not constitute an offer to sell or a solicitation of an offer to buy any Notes by any person except in compliance with all applicable laws and regulations. Neither the delivery of this offering circular nor any sale made in connection with this offering circular shall under any circumstances imply that the information in this offering circular is correct as of any date subsequent to the date of this offering circular or constitute a representation that there has been no change or development reasonably likely to involve a material adverse change in our affairs since the date of this offering circular.

The distribution of this offering circular and the offering of the Notes in certain jurisdictions may be restricted by law. It may not be used for or in connection with any offer to, or solicitation by, anyone in any jurisdiction in which it is unlawful to make such an offer or solicitation. Persons into whose possession this offering circular may come are required by us and the Initial Purchasers to inform themselves about and to observe the relevant restrictions. No action is being taken in any jurisdiction to permit an offering to the general public of Notes or the distribution of this offering circular in any jurisdiction where action would be required for those purposes.

**THE NOTES HAVE NOT BEEN REGISTERED WITH THE FINANCIAL SERVICES COMMISSION OF KOREA UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT OF KOREA. ACCORDINGLY, THE NOTES HAVE NOT BEEN AND WILL NOT BE OFFERED,**

DELIVERED, OR SOLD DIRECTLY OR INDIRECTLY IN KOREA OR TO ANY RESIDENT OF KOREA (AS DEFINED IN THE FOREIGN EXCHANGE TRANSACTION LAW OF KOREA AND THE REGULATIONS THEREUNDER) OR TO OTHERS FOR RE-OFFERING OR RESALE DIRECTLY OR INDIRECTLY IN KOREA OR TO ANY RESIDENT OF KOREA EXCEPT AS OTHERWISE PERMITTED UNDER APPLICABLE KOREAN LAWS AND REGULATIONS. IN ADDITION, UNTIL THE EXPIRATION OF ONE YEAR AFTER THE ISSUANCE OF THE NOTES, THE NOTES MAY NOT BE TRANSFERRED TO ANY RESIDENT OF KOREA EXCEPT AS OTHERWISE PERMITTED BY APPLICABLE KOREAN LAWS AND REGULATIONS.

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#### **NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES**

NEITHER THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE “SEC”) NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE NOTES OR DETERMINED IF THIS OFFERING CIRCULAR IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE NOTES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND THE APPLICABLE STATE SECURITIES LAWS PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. AS A PROSPECTIVE PURCHASER, YOU SHOULD BE AWARE THAT YOU MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. PLEASE REFER TO THE SECTIONS IN THIS OFFERING CIRCULAR ENTITLED “PLAN OF DISTRIBUTION” AND “TRANSFER RESTRICTIONS”.

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#### **NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM**

THE NOTES MAY NOT BE OFFERED OR SOLD TO ANY PERSON IN THE UNITED KINGDOM, OTHER THAN TO PERSONS WHOSE ORDINARY ACTIVITIES INVOLVE THEM IN ACQUIRING, HOLDING, MANAGING OR DISPOSING OF INVESTMENTS (AS PRINCIPAL OR AGENT) FOR THE PURPOSES OF THEIR BUSINESSES OR WHO IT IS REASONABLE TO EXPECT WILL ACQUIRE, HOLD, MANAGE OR DISPOSE OF INVESTMENTS (AS PRINCIPAL OR AGENT) FOR THE PURPOSES OF THEIR BUSINESSES OR OTHERWISE IN CIRCUMSTANCES THAT HAVE NOT RESULTED AND WILL NOT RESULT IN AN OFFER TO THE PUBLIC IN THE UNITED KINGDOM.

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#### **NOTICE TO NEW HAMPSHIRE RESIDENTS**

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

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## **CERTAIN DEFINED TERMS AND CONVENTIONS**

All references to “Korea” and the “Republic” contained in this offering circular shall mean The Republic of Korea. All references to the “Government” shall mean the government of The Republic of Korea. All references to “we”, “us” or “our” shall mean POSCO and, unless the context otherwise requires, its consolidated subsidiaries. References to “POSCO” or the “Company” shall mean POSCO, but shall not include its consolidated subsidiaries. All references to “U.S.” shall mean the United States of America.

All references to “Won” or “W” in this offering circular are to the lawful currency of Korea, all references to “Dollars”, “\$” or “US\$” are to the lawful currency of the United States of America, all references to “Yen” or “¥” are to the lawful currency of Japan and all references to “AU\$” are to the lawful currency of the Commonwealth of Australia.

All financial information, descriptions and other information in this offering circular regarding our activities, financial condition and results of operations are, unless otherwise indicated or required by context, presented on a consolidated basis.

## **ENFORCEABILITY OF CIVIL LIABILITIES**

We are a corporation with limited liability organized under the laws of Korea. All of our directors and officers and certain other persons named in this offering circular reside in Korea, and all or a significant portion of the assets of the directors and officers and certain other persons named in this offering circular and substantially all of our assets are located in Korea. As a result, it may not be possible for you to effect service of process within the United States upon such persons or to enforce against them or against us in U.S. courts judgments predicated upon the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated on the U.S. federal securities laws.

## **AVAILABLE INFORMATION**

To permit compliance with Rule 144A under the Securities Act in connection with sales of the Notes, we will be required under the Fiscal Agency Agreement to be entered into as of the closing date of this offering (the “Fiscal Agency Agreement”) between POSCO and The Bank of New York Mellon, as the fiscal agent (the “Fiscal Agent”), to furnish, upon request, to a Holder (as defined in “Description of the Notes — General”) of a Note and a prospective investor designated by such Holder, the information required to be delivered under Rule 144A(d)(4) under the Securities Act unless at the time of the request we are a reporting company under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended (the “Exchange Act”), or we are exempt from the registration requirements of Section 12(g) of the Exchange Act (and therefore are required to publish on our website, in English, certain information pursuant to Rule 12g3-2(b) under the Exchange Act). In accordance with the Fiscal Agency Agreement, the Fiscal Agent also will make available for inspection by Holders of the Notes or, in certain cases, arrange for the mailing to such Holders, certain reports or communications received from us. See “Description of the Notes — Notices”.

Copies of our articles of incorporation and the Fiscal Agency Agreement are available free of charge from the specified offices of the Fiscal Agent. We prepare audited annual financial statements and unaudited interim financial statements in accordance with generally accepted accounting principles in Korea (“Korean GAAP”), which will be available at the office of the Fiscal Agent.

## **INCORPORATION OF FORM 20-F**

We file reports, including annual reports on Form 20-F, and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. You may read and copy any materials filed with the SEC at the Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-202-551-8090. Any filings that we make electronically will be available to the public over the Internet at the SEC's website at <http://www.sec.gov>. The POSCO 2009 Annual Report on Form 20-F filed on June 25, 2010 and attached hereto is incorporated into this offering circular. The POSCO 2009 Annual Report on Form 20-F is also available free of charge from the specified offices of the Fiscal Agent during normal business hours on any weekday for so long as any Notes are outstanding.

The incorporation of the POSCO 2009 Annual Report on Form 20-F into this offering circular should not be understood to mean that any statements contained in the POSCO 2009 Annual Report on Form 20-F are true or complete as of any date subsequent to June 25, 2010.

## **PRESENTATION OF FINANCIAL INFORMATION**

This offering circular contains our unaudited non-consolidated financial statements as of December 31, 2009 and June 30, 2010 and for the six months ended June 30, 2009 and 2010. Our non-consolidated income statements include our share of the results of operations of our subsidiaries using the equity method of accounting, which is further explained in note 7 of the notes to our non-consolidated financial statements. The POSCO 2009 Annual Report on Form 20-F, which is attached as an annex and incorporated into this offering circular, contains our audited consolidated financial statements as of December 31, 2009 and 2008 and for the years ended December 31, 2009, 2008 and 2007. Our financial statements are prepared in accordance with Korean GAAP, which differs in certain significant respects from generally accepted accounting principles in the United States ("U.S. GAAP"). See "Risk Factors — Risks relating to the Company — Korean GAAP differs in significant respects from accounting standards applicable in certain other countries, including U.S. GAAP", the POSCO 2009 Annual Report on Form 20-F under the sections entitled "Item 5. Operating and Financial Review and Prospects — Item 5.B. Liquidity and Capital Resources — U.S. GAAP Reconciliation" and "— Recent Accounting Pronouncements in U.S. GAAP", and note 31 of the notes to our consolidated financial statements contained in the POSCO 2009 Annual Report on Form 20-F.

## **FORWARD-LOOKING STATEMENTS**

This offering circular contains certain "forward-looking statements" that are based on our current expectations, assumptions, estimates and projections about us and our industry. The forward-looking statements are subject to various risks and uncertainties. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "anticipate", "believe", "estimate", "expect", "intend", "target", "seek", "aim", "contemplate", "project", "plan", "goal", "should" and similar expressions or the negatives thereof. Those statements include, among other things, the discussions of our business strategy and expectations concerning our market position, future operations, cash flows, margins, profitability, liquidity and capital resources. We caution you that reliance on any forward-looking statement involves risks and uncertainties, and that although we believe that the assumptions on which our forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and, as a result, the forward-looking statements based on those assumptions could be incorrect. The uncertainties in this regard include, but are not limited to, those identified in the risk factors discussed elsewhere in this offering circular. See the section entitled "Risk Factors" beginning on page 10 of this offering circular and the section entitled "Item 3. Key Information — Item 3.D. Risk Factors" contained in the POSCO 2009 Annual Report on Form 20-F. In light of these and other uncertainties, you should not conclude that we will necessarily achieve any plans and objectives or projected financial results referred to in any of the forward-looking statements. We do not undertake to release the results of any revisions of these forward-looking statements to reflect future events or circumstances, except as required by law.

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## SUMMARY

*You should read the following summary as an introduction to and in conjunction with the more detailed information about us and our consolidated financial statements contained in the POSCO 2009 Annual Report on Form 20-F attached hereto and incorporated into this offering circular.*

### The Company

We are the largest fully integrated steel producer in Korea, and one of the largest steel producers in the world, based on annual crude steel production. On a non-consolidated basis, we produced approximately 16.6 million tons of crude steel in the first half of 2010 and approximately 13.3 million tons in the first half of 2009, all of which were produced at Pohang Works and Gwangyang Works. On a consolidated basis, we produced approximately 31.7 million tons of crude steel in 2009 and approximately 34.7 million tons in 2008, a substantial portion of which was produced at Pohang Works and Gwangyang Works. Currently, Pohang Works has 15.0 million tons of annual crude steel and stainless steel production capacity, and Gwangyang Works has an annual crude steel production capacity of 18.0 million tons. We believe Pohang Works and Gwangyang Works are two of the most technologically advanced integrated steel facilities in the world. We manufacture and sell a diversified line of steel products, including hot rolled and cold rolled products, plates, wire rods, silicon steel sheets and stainless steel products, and we are able to meet a broad range of customer needs from manufacturing industries that consume steel, including automotive, shipbuilding, home appliance, engineering and machinery industries.

We sell primarily to the Korean market. Domestic sales accounted for 66.9% of our total sales volume of steel products in the first half of 2010 on a non-consolidated basis and 62.6% of our total sales volume of steel products in 2009 on a consolidated basis. We believe that we had an overall market share of approximately 37.8% of the total sales volume of steel products sold in Korea in the first half of 2010 on a non-consolidated basis and approximately 42.8% of the total sales volume of steel products sold in Korea in 2009 on a consolidated basis. Our export sales and overseas sales to customers abroad accounted for 33.1% of our total sales volume of steel products in the first half of 2010 on a non-consolidated basis and 37.4% of our total sales volume of steel products in 2009 on a consolidated basis. Our major export market is Asia, with China accounting for 21.3%, Japan 19.5% and the rest of Asia 22.8% of our total steel export sales volume in the first half of 2010 on a non-consolidated basis and China accounting for 33.8%, Japan 10.9% and the rest of Asia 21.1% of our total steel export sales volume in 2009 on a consolidated basis.

We also engage in businesses that complement our steel manufacturing operations as well as carefully seek out promising investment opportunities to diversify our businesses both vertically and horizontally, in part to prepare for the eventual maturation of the Korean steel market. POSCO E&C, our consolidated subsidiary in which we hold an 89.5% interest, is one of the leading engineering and construction companies in Korea that primarily engages in the planning, design and construction of industrial plants and architectural works and civil engineering. POSCO Power Corporation, our consolidated subsidiary in which we hold an 85.7% interest, is the largest private power generation company in Korea. On September 20, 2010, we acquired a 68.15% interest in Daewoo International Corporation ("Daewoo International") for Won 3.37 trillion. Daewoo International is a global trading company that primarily engages in trading of steel and raw materials as well as investing in energy development projects. Daewoo International has invested in a portfolio of energy exploration and production projects, including oil and gas projects located in Peru, Oman, Vietnam, Myanmar, Uzbekistan and Russia, as well as mineral projects located in Australia, Bolivia and Madagascar. Daewoo International also holds a 24% interest in Kyobo Life Insurance, Korea's third largest life insurance company in terms of market share in 2009.

On a non-consolidated basis under Korean GAAP, we generated sales of Won 14,882 billion and net income of Won 2,633 billion in the first half of 2010, compared to sales of Won 12,815 billion and net income of Won 755 billion in the first half of 2009. On a non-consolidated basis under Korean GAAP, we had total assets of Won 44,475 billion and total shareholders' equity of Won 33,016 billion as of June 30,

2010, compared to total assets of Won 39,993 billion and total shareholders' equity of Won 30,951 billion as of December 31, 2009.

On a consolidated basis under Korean GAAP, we generated sales of Won 36,855 billion and net income of Won 3,242 billion in 2009, compared to sales of Won 41,743 billion and net income of Won 4,350 billion in 2008. On a consolidated basis under Korean GAAP, we had total assets of Won 50,312 billion and total shareholders' equity of Won 31,664 billion as of December 31, 2009, compared to total assets of Won 46,961 billion and total shareholders' equity of Won 28,344 billion as of December 31, 2008.

## **Business Strategy**

Leveraging on our success during the past four decades, our goal is to strengthen our position as one of the leading steel producers in the world and strive to rank among the top three global steel companies in technology leadership, operational excellence and production capacity. In recent years, the global steel industry has undergone significant consolidation, resulting in the emergence of steel companies with expanded production capacity. We seek to achieve continued global excellence in this era of consolidation through a renewed emphasis on growth and innovation. Over the next decade, we seek to expand our position as a global company by adding significant production bases outside Korea. We also intend to secure growth by further solidifying our market position in the steel sector, while allocating additional resources into businesses that we believe will offer us greater potential returns and serve as our new growth engines, such as the engineering and construction, energy and information and technology businesses.

We seek to strengthen our competitiveness and pursue growth through the following core business strategies:

### ***Continue to Seek Growth Opportunities in the Steel Sector***

We carefully seek out promising investment opportunities abroad, primarily in China, India, Southeast Asia and Mexico, in part to prepare for the eventual maturation of the Korean steel market. We believe that China, India, Southeast Asia and Mexico will continue to offer substantial growth opportunities, and we plan to selectively seek investment opportunities and expand our production base in these countries.

For example, we are in the process of obtaining regulatory approvals from the Indian Government for the construction of an integrated steel mill and the development of iron ore mines in Orissa State. In Vietnam, we completed the construction of a plant in September 2009 with an annual production capacity of 1.2 million tons of cold rolled products and commenced commercial production in October 2009. In Mexico, we completed the construction of a plant in August 2009 with an annual production capacity of 0.4 million tons of cold rolled products and commenced commercial production in June 2009 to produce automotive steel sheets to supply automotive manufacturers in Mexico, Southeastern United States and South America.

We are also building a global distribution network of supply chain management centers to provide processing and logistics services and more effectively respond to changes in consumer trends in the global steel market. In 2009, we operated 42 supply chain management centers worldwide that recorded aggregate sales of 2.6 million tons of steel products. We plan to continue expanding our global network of supply chain management centers. In Korea, we plan to continue to expand our production facilities and upgrade our facilities that utilize advanced manufacturing technologies, and we plan to enhance the quality of our products through continued modernization and rationalization of our facilities.

### ***Maintain Technology Leadership***

As part of our strategy, we have identified core products that we plan to further develop, such as premium automotive steel sheets, silicon steel and API-grade steel, and we will continue to invest in developing innovative products that offer the greatest potential returns and enhance the overall quality of our products. In order to increase our competitiveness, we plan to make additional investments in the

development of new manufacturing technologies, such as FINEX, strip casting, endless rolling and environment-friendly manufacturing processes. We will continue to refine FINEX, a low cost, environmentally friendly steel manufacturing process that optimizes our production capacity by utilizing non-agglomerated iron ore fines and using non-coking coal as an energy source and a reducing agent. We believe that FINEX offers considerable environmental and economic advantages through elimination of major sources of pollution such as sintering and coking plants, as well as reducing operating and raw material costs. We also plan to accelerate development of other advanced technologies, such as strip casting that directly casts coils from liquid steel and a rolling process that rolls hot rolled coils up to 40 slabs at a time. We plan to further devote additional resources to our research and development efforts and increase the proportion of our sales of higher margin, higher value-added products.

### ***Pursue Cost-Cutting through Operational and Process Innovations***

We seek to achieve cost reductions in this era of increasing raw material costs through our company-wide process for innovation and enhancing efficiency of operations. We believe that strategic cost cutting measures through utilization of efficient production methods and management discipline will strengthen our corporate competitiveness. After implementation of Six Sigma innovations in recent years, we are now implementing the Quick Six Sigma program, a customized program that we believe will enhance our corporate culture that rewards innovative ideas at all stages of our operations and enable us to benchmark successful innovations to all relevant processes within the company. We will also strive to invest more in human resources development to nurture employees who are capable of working in the global environment.

### ***Secure Procurement of Raw Materials through Strategic Investments***

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

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

We will continue to selectively seek opportunities in growth industries to diversify our businesses both vertically and horizontally. New businesses not related to our steel operations in which we intend to focus our diversification include power generation, alternative energy development and information and technology.

POSCO Power Corporation, our consolidated subsidiary in which we hold an 85.7% interest that is the largest private power generation company in Korea, completed construction of a fuel cell manufacturing plant with an annual production capacity of 50 megawatts in Pohang in 2008 with the objective of enhancing the company's ability to meet the growing demands for clean and renewable energy. Through POSCO ICT Co., Ltd., a 72.5%-owned subsidiary, we also engage in information and technology consulting services as well as automation and system integration engineering services. POSCO E&C, our consolidated subsidiary in which we hold an 89.5% interest, is one of the leading engineering and construction companies in Korea that primarily engages in the planning, design and construction of industrial plants and architectural works and civil engineering. On September 20, 2010, we acquired a 68.15% interest in Daewoo International for Won 3.37 trillion. Daewoo International is a global trading company that primarily engages in trading of steel and raw materials as well as investing in energy development projects. We will continue to selectively seek opportunities to identify new growth engines and diversify our operations.

## Selected Financial Data

The selected financial data presented below should be read in conjunction with our financial statements and related notes thereto and the section entitled “Item 5. Operating Results” and other historical financial information contained in the POSCO 2009 Annual Report on Form 20-F.

The selected non-consolidated financial data as of December 31, 2009 and June 30, 2010 and for the six months ended June 30, 2009 and 2010 set forth below have been derived from our unaudited non-consolidated interim financial statements and related notes included elsewhere in this offering circular. The selected consolidated financial data as of December 31, 2008 and 2009 and for the years ended December 31, 2008 and 2009 set forth below have been derived from our consolidated financial statements contained in the POSCO 2009 Annual Report on Form 20-F included elsewhere in this offering circular. The selected consolidated financial data for the year ended December 31, 2007 set forth below has been derived from our consolidated financial statements contained in the POSCO 2009 Annual Report on Form 20-F, which have been audited by Samil PricewaterhouseCoopers, Korean member firm of PricewaterhouseCoopers.

Our financial statements are prepared in accordance with Korean GAAP, which differ in significant respects from U.S. GAAP. See “Risk Factors — Risks Relating to the Company — Korean GAAP differs in significant respects from accounting standards applicable in certain other countries, including U.S. GAAP”, the POSCO 2009 Annual Report on Form 20-F under the sections entitled “Item 5. Operating and Financial Review and Prospects — Item 5.B. Liquidity and Capital Resources — U.S. GAAP Reconciliation” and “— Recent Accounting Pronouncements in U.S. GAAP” and note 31 of the notes to our consolidated financial statements contained in the POSCO 2009 Annual Report on Form 20-F.

### Non-consolidated Financial Data

#### *Non-consolidated Income Statement Data:*

	For the Six Months Ended June 30,	
	2009	2010
	(In billions of Won, except per share data)	
<b>Korean GAAP:</b>		
Sales .....	₩12,815	₩14,882
Cost of goods sold .....	11,709	10,889
Gross profit .....	1,107	3,993
Selling and administrative expenses .....	563	710
Operating profit .....	543	3,283
Non-operating income (expense), net .....	311	(76)
Income before income taxes .....	855	3,207
Income tax expense .....	100	574
Net income .....	755	2,633
Basic earnings per share of common stock(1) .....	9,861	34,186

**Non-consolidated Balance Sheet Data:**

	As of December 31, 2009	As of June 30, 2010
	(In billions of Won)	
<b>Korean GAAP:</b>		
Working capital(2) . . . . .	₩10,232	₩10,256
Property, plant and equipment, net . . . . .	16,646	17,636
Total assets(3) . . . . .	39,993	44,475
Long-term debt(4)(5)(6) . . . . .	5,682	5,308
Total shareholders' equity . . . . .	30,951	33,016

(1) See note 22 of notes to our non-consolidated interim financial statements attached hereto.

(2) Current assets minus current liabilities.

(3) Reflects revaluations of assets permitted under Korean law.

(4) Net of current portion and discount on debentures issued.

(5) For information regarding swap transactions entered into by us, see note 17 of the notes to our non-consolidated interim financial statements attached hereto.

(6) 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. See note 2 of the notes to our non-consolidated interim financial statements attached hereto.

**Consolidated Financial Data**

**Consolidated Income Statement Data:**

	For the Year Ended December 31,		
	2007	2008	2009
	(In billions of Won, except per share data)		
<b>Korean GAAP:</b>			
Sales(1). . . . .	₩31,608	₩41,743	₩36,855
Cost of goods sold(2) . . . . .	24,903	32,562	31,037
Gross profit . . . . .	6,705	9,180	5,818
Selling and administrative expenses . . . . .	1,785	2,006	1,949
Operating income . . . . .	4,920	7,174	3,868
Non-operating expense, net. . . . .	21	1,078	129
Net income before income tax expense and net income (loss) of consolidated subsidiaries before acquisition . . . . .	4,899	6,096	3,739
Income tax expense . . . . .	1,274	1,734	536
Net income . . . . .	3,678	4,350	3,242
Net income attributable to controlling interest . . . . .	3,559	4,379	3,218
Net income (loss) attributable to non controlling interest . . . . .	119	(29)	24
Basic and diluted earnings per share of common stock(3) . . . . .	46,854	58,002	41,982
<b>U.S. GAAP(4):</b>			
Net income . . . . .	₩ 3,677	₩ 4,084	₩ 3,609
Basic and diluted earnings per share of common stock . . . . .	46,938	54,387	46,534

**Consolidated Balance Sheet Data:**

	As of December 31,	
	2008	2009
	(In billions of Won)	
<b>Korean GAAP:</b>		
Working capital(5). . . . .	₩11,188	₩11,359
Property, plant and equipment, net(6) . . . . .	18,069	21,840
Total assets(6) . . . . .	46,961	50,312
Long-term debt(7)(8)(9) . . . . .	6,896	8,230
Total shareholders' equity(6). . . . .	28,344	31,664
<b>U.S. GAAP(4):</b>		
Total shareholders' equity . . . . .	₩28,419	₩32,057

- (1) Includes sales by our consolidated sales subsidiaries of steel products purchased by such subsidiaries from third parties, including trading companies to which we sell steel products.
- (2) Includes purchases of steel products by our consolidated subsidiaries from third parties, including trading companies to which we sell steel products.
- (3) See note 26 of the notes to our consolidated financial statements contained in the POSCO 2009 Annual Report on Form 20-F for method of calculation.
- (4) A description of the material differences between Korean GAAP and U.S. GAAP as well as a reconciliation to U.S. GAAP are discussed in detail in note 31 of the notes to our consolidated financial statements contained in the POSCO 2009 Annual Report on Form 20-F.
- (5) Current assets minus current liabilities.
- (6) Reflects revaluations of assets permitted under Korean law.
- (7) Net of current portion and discount on debentures issued.
- (8) For information regarding swap transactions entered into by us, see the POSCO 2009 Annual Report on Form 20-F under the section entitled "Item 5. Operating and Financial Review and Prospects — Item 5.A. Operating Results — Exchange Rate Fluctuations" and note 23 of the notes to our consolidated financial statements contained in the POSCO 2009 Annual Report on Form 20-F.
- (9) 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. See notes 2 and 28 of the notes to our consolidated financial statements contained in the POSCO 2009 Annual Report on Form 20-F.



## The Offering

*Terms used in this summary and not otherwise defined shall have the meanings given to them in “Description of the Notes”.*

Issuer . . . . .	POSCO
Notes offered . . . . .	US\$700,000,000 4.250% Notes due 2020.
Maturity . . . . .	October 28, 2020.
Issue Price . . . . .	99.557%
Interest Payment Dates . . . . .	April 28 and October 28 of each year, commencing April 28, 2011.
Ranking of the Notes . . . . .	The Notes will be unsecured and will be the direct, unconditional and unsubordinated general obligations of the Company and will rank <i>pari passu</i> among themselves without any preference of one over the other by reason of priority of date of issue or otherwise and at least equally with all other outstanding unsecured and unsubordinated general obligations of the Company (subject to certain statutory exceptions under the laws of Korea).
Denomination; Form . . . . .	The Notes will be denominated in principal amounts of US\$100,000 and integral multiples of US\$1,000 in excess thereof. Notes sold to QIBs pursuant to Rule 144A and to non-U.S. persons pursuant to Regulation S will be evidenced by separate Global Notes, in fully registered form without coupons, and deposited with a custodian for and registered in the name of a nominee of DTC. The Notes will be issued in book-entry form.
Certain Covenants . . . . .	The Notes contain certain limitations on the creation, incurrence, issuance or assumption or the guarantee by the Company or certain of its subsidiaries of certain debt secured by any mortgage, charge, pledge, or other security interest on certain properties or assets of the Company or those of such subsidiaries. The Notes also contain certain limitations on sale and leaseback transactions by the Company or certain of its subsidiaries. See “Description of the Notes — Certain Covenants”.
Optional Tax Redemption . . . . .	The Company may, at its option, redeem the Notes, in whole but not in part, at their principal amount plus accrued interest to the date fixed for redemption, if the Company has or would become obligated to pay Additional Amounts in respect of certain Korean taxes imposed in respect of payments of principal of or interest on the Notes. See “Description of the Notes — Optional Tax Redemption”.
Change of Control . . . . .	If a Change of Control occurs, holders of the Notes have the right to require the Company to repurchase all or any part of their Notes at a purchase price equal to 100% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date. See “Description of the Notes — Change of Control”.

Use of Proceeds . . . . .	The aggregate net proceeds from the offering of the Notes are expected to be approximately US\$693 million, after deducting underwriting commissions and certain out-of-pocket expenses relating to the offering. The net proceeds from the offering will be used for capital expenditures, purchase of raw materials and other general corporate purposes.
Rating of the Notes . . . . .	The Notes will be rated A2 by Moody's and A by S&P. Such ratings do not constitute a recommendation to buy, sell or hold the Notes and may be subject to revision or withdrawal at any time by such rating organizations. Each such rating should be evaluated independently of any other rating of the Notes.
Listing and Trading . . . . .	Approval in-principle has been received for the listing and quotation of the Notes on the Singapore Stock Exchange. The Notes will be traded on the Singapore Stock Exchange in a minimum board lot size of US\$200,000 for so long as the Notes are listed on the Singapore Stock Exchange.
Lock-up . . . . .	The Company has agreed that it will not issue, offer, sell or contract to sell, or announce the offering of, any Dollar- or Euro-denominated debt securities issued or guaranteed by it (other than the Notes), without the prior written consent of the Initial Purchasers for a period of 30 days following the date of the Purchase Agreement (as defined below). For the avoidance of doubt, the Company may, during such period, issue, offer, sell or contract to sell, or announce the offering of, any debt securities issued or guaranteed by the Company other than Dollar- or Euro-denominated debt securities. See "Plan of Distribution".
Further Issues . . . . .	Subject to the lock-up provisions, the Company may from time to time, without the consent of the existing holders of the Notes, create and issue additional notes under the Fiscal Agency Agreement having the same terms and conditions as the Notes in all respects except for issue date and issue price. Additional notes issued in this manner may be consolidated with and form a single series with the Notes outstanding at the time of such further issuance.
Selling Restrictions . . . . .	There are certain restrictions on the offer, sale and transfer of the Notes in the United States, the United Kingdom, Hong Kong, Singapore, Japan and Korea. See "Plan of Distribution — Selling Restrictions".
Transfer Restrictions . . . . .	The Notes have not been and will not be registered under the Securities Act or any state securities laws and, subject to certain exceptions, may not be offered or sold directly or indirectly within the United States or to or for the account or benefit of U.S. persons, as defined in Regulation S. The Notes may be offered for sale only (i) in the United States, to QIBs within the meaning of, and in reliance on, Rule 144A or another available exemption from, or in a transaction not subject to, the registration requirements of the Securities Act; or (ii) outside the United States to non-U.S. persons in reliance on, and in accordance with, Regulation S, in each case, in compliance with applicable



laws, regulations and directives. See “Plan of Distribution — Selling Restrictions” and “Transfer Restrictions”.

Governing Law . . . . . The Notes and the Fiscal Agency Agreement will be governed by New York law.

Risk Factors . . . . . See the section entitled “Risk Factors” beginning on page 10 of this offering circular, the section entitled “Item 3. Key Information — Item 3.D. Risk Factors” contained in the POSCO 2009 Annual Report on Form 20-F attached hereto, and the other information in this offering circular for a discussion of factors you should carefully consider before deciding to invest in the Notes.

Security Codes . . . . .		
	<u>Restricted Notes</u>	<u>Unrestricted Notes</u>
CUSIP	693483 AB5	Y70750 AN7
ISIN	US693483AB54	USY70750AN78
Common Code	055197075	055197121

## RISK FACTORS

*An investment in the Notes involves various risks and uncertainties. If you are considering purchasing the Notes, you should carefully consider the risks described below and in the POSCO 2009 Annual Report on Form 20-F under the section entitled “Item 3. Key Information — Risk Factors”, in addition to the other information contained in this offering circular, before making an investment decision. The risks described below and in the POSCO 2009 Annual Report on Form 20-F are not the only risks that may be relevant to us or the Notes. Additional risks and uncertainties, including those of which our management is not currently aware or deems immaterial, may also have an adverse effect on our business, results of operations, financial condition or future prospects or may result in other events that could cause investors to lose all or part of their investment.*

### Risks Relating to the Company

***We are dependent on imported raw materials, and significant increases in market prices of essential raw materials could adversely affect our margins and profits.***

We purchase substantially all of the principal raw materials we use from sources outside Korea, including iron ore and coal. POSCO imported approximately 41.7 million dry metric tons of iron ore and 21.7 million wet metric tons of coal in 2009 and approximately 24.2 million dry metric tons of iron ore and 12.9 million wet metric tons of coal in the first half of 2010. Iron ore is imported primarily from Australia, Brazil and South Africa. Coal is imported primarily from Australia, Canada and China. Although we have not experienced significant unanticipated supply disruptions in the past, supply disruptions, which could be caused by political or other events in the countries from which we import these materials, could adversely affect our operations.

In addition, we are particularly exposed to increases in the prices of coal, iron ore and nickel, which represent the largest components of our cost of goods sold. The prices of our key raw materials have fluctuated significantly in recent years. For example, the average price of coal per wet metric ton (benchmark free on board price of Australian premium hard coking coal) was \$250 in 2008, \$172 in 2009 and \$165 in the first half of 2010. The average price of iron ore per dry metric ton (free on board price of Platts Iron Ore Index with iron (Fe) 62% content) was \$126 in 2008, \$68 in 2009 and \$134 in the first half of 2010. Future increases in prices of our key raw materials and our inability to pass along such increases to our customers could adversely affect our margins and profits. Increased prices may also cause potential customers to defer purchase of steel products, which would have an adverse effect on our business, financial condition and results of operations.

***We could be adversely affected if the U.S. government were to determine that our affiliate’s Iran-related business activities are sanctionable under the recently expanded U.S. Iranian sanction laws and regulations.***

In May 2010, we acquired a 40.4% interest in Sungjin Geotec Co., Ltd. (“Sungjin Geotec”), a manufacturer of specialized equipment used in the power and energy industries. In 2008, Sungjin Geotec entered into a EUR 100 million supply contract with Pars Oil and Gas Company (“POGC”), a subsidiary of National Iranian Oil Company, to supply equipment for projects used to develop natural gas fields located in South Pars, Iran. Sungjin Geotec recognized revenues of approximately Won 8.6 billion in 2008, Won 83.5 billion in 2009 and Won 34.7 billion in the first half of 2010 from such activities, and it expects its contract with POGC to be completed in the first quarter of 2011.

In July 2010, the United States adopted legislation that expands U.S. economic sanctions against foreign companies doing business with Iran in certain sectors. The Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (the “CISADA”) expands the scope of sanctionable activities by, among other things, broadening the definition of “investment” under the Iran Sanctions Act (the “ISA”) arguably to include the supply of goods for use in petroleum and gas production. The CISADA also expands the severity of potential sanctions available under the ISA and imposes mandatory investigation and reporting requirements designed to increase the likelihood of enforcement. The CISADA requires the imposition of sanctions against parties found by the U.S. administration, following an investigation, to have engaged in conduct sanctionable under the ISA, subject to certain waiver provisions and exceptions.

Under the ISA, as amended, sanctions can also be imposed against a company that has actual knowledge of, or should have known of, sanctionable conduct engaged in by another company that it owns or controls.

A range of sanctions may be imposed on companies that engage in sanctionable activities, including among other things the blocking of any property subject to U.S. jurisdiction in which the sanctioned company has an interest, which could include a prohibition on transactions or dealings involving securities of the sanctioned company. By its terms, the CISADA is applicable to certain investments in Iran that commenced on or after July 1, 2010, and it is not clear whether a supply of equipment after that date pursuant to a legally binding contractual obligation that arose prior to July 1, 2010 would or would not be determined to be sanctionable under the CISADA.

Sungjin Geotec's supply contract with POGC and/or performance thereunder may be sanctionable under the CISADA if the CISADA's revised definition of "investment" is interpreted to cover the supply of goods to parties developing gas fields in Iran and if future performance under the supply contract is not considered to have "commenced" prior to the enactment of the CISADA. Accordingly, there can be no assurance that Sungjin Geotec's Iran-related business activities do not constitute sanctionable activities or that we will not be subjected to sanctions under the ISA as amended by the CISADA. Our business and reputation could be adversely affected if the U.S. government were to determine that Sungjin Geotec's Iran-related business activities constitute sanctionable activity attributable to us. Investors in our Notes may also be adversely affected if we are sanctioned under the CISADA or if their investment in the Notes is restricted under any sanctions regimes with which the investors are required to comply. As noted above, sanctions under the ISA could include the blocking of any property in which we have an interest, which would effectively prohibit all U.S. persons from receiving any payments from us, including payments under the Notes, or otherwise acquiring, holding, withholding, using, transferring, withdrawing, transporting, importing, or exporting any property in which we have any interest.

We are also aware of initiatives by certain U.S. states and U.S. institutional investors, such as pension funds, to adopt or consider adopting laws, regulations or policies requiring divestment from, or reporting of interests in, companies that do business with Iran and other countries identified by the U.S. as state sponsors of terrorism. If our business activities or the business activities of our affiliates regarding Iran were deemed to fall within the scope of such initiatives, such initiatives could adversely affect investment by certain investors in our Notes.

***We expect to continue operations and investments relating to countries targeted by United States and European Union economic sanctions.***

The U.S. Department of the Treasury's Office of Foreign Assets Control, or "OFAC," enforces certain laws and regulations ("OFAC Sanctions") that impose restrictions upon U.S. persons and, in some instances, foreign entities owned or controlled by U.S. persons, with respect to activities or transactions with certain countries, governments, entities and individuals that are the subject of OFAC Sanctions ("U.S. Sanctions Targets"). U.S. persons are also generally strictly prohibited from facilitating such activities or transactions. Similarly, the European Union enforces certain laws and regulations ("E.U. Sanctions") that impose restrictions upon nationals of E.U. member states, persons located within E.U. member states, entities incorporated or constituted under the law of a E.U. member state, or business conducted in whole or in part in E.U. member states with respect to activities or transactions with certain countries, governments, entities and individuals that are the subject of E.U. Sanctions ("E.U. Sanctions Targets" and together with U.S. Sanctions Targets, "Sanctions Targets"). E.U. persons are also generally prohibited from activities that promote such activities or transactions.

We engage in limited business activities and investments relating to Iran and Myanmar. We also hold a 70.0% interest in Myanmar-POSCO Steel Co., Ltd., an entity that is a E.U. Sanctions Target under Council Regulation (EC) No. 194/2008, as amended. Such activities and investments do not involve any U.S. goods or services, and we do not export or reexport U.S. goods or services directly or indirectly to any Sanctions Target. For each of 2007, 2008, 2009, and the first half of 2010, our activities and investments relating to Sanctions Targets accounted for less than 1.0% of our total consolidated revenues and total consolidated assets, respectively.

On September 20, 2010, we acquired a 68.15% interest in Daewoo International for Won 3.37 trillion. Daewoo International is a global trading company that primarily engages in the trading of steel and raw materials, including with certain Sanctions Targets, as well as investing in energy development projects. Daewoo International generated approximately 5% of its revenues in 2009 from its trading activities with Iranian entities. Daewoo International also has a portfolio of investments in energy exploration and production projects, including a gas field exploration project in Myanmar, in which Daewoo International has invested Won 530 billion since 1998 and plans to make substantial further investments in the future. This project is not expected to generate any revenues until 2013. On a consolidated basis under Korean GAAP, Daewoo International generated revenues of Won 11,544 billion in 2009 and had total assets of Won 4,695 billion as of December 31, 2009. On a non-consolidated basis under Korean GAAP, Daewoo International generated revenues of Won 7,772 billion in the first half of 2010 and had total assets of Won 4,665 billion as of June 30, 2010.

We expect to continue to engage in business activities and make investments in Sanctions Targets over the foreseeable future. Although we believe that OFAC Sanctions under their current terms are not applicable to our activities, our reputation may be adversely affected, some of our U.S. investors may be required to divest their investments in us under the laws of certain U.S. states or under internal investment policies or may decide for reputational reasons to divest such investments, and some U.S. institutional investors may forego the purchase of our Notes. We are aware of initiatives by U.S. governmental entities and U.S. institutional investors, such as pension funds, to adopt or consider adopting laws, regulations, or policies prohibiting transactions with or investment in, or requiring divestment from, entities doing business with countries identified as state sponsors of terrorism. We cannot assure you that the foregoing will not occur or that such occurrence will not have a material adverse effect on the value of the Notes.

***Korean GAAP differs in significant respects from accounting standards applicable in certain other countries, including U.S. GAAP and the International Financial Reporting Standards.***

Our financial statements included in this offering circular are prepared in accordance with Korean GAAP. Korean GAAP differs in significant respects from accounting standards applicable in certain other countries, including U.S. GAAP. See the POSCO 2009 Annual Report on Form 20-F under the sections entitled “Item 5. Operating and Financial Review and Prospects — Item 5.B. Liquidity and Capital Resources — U.S. GAAP Reconciliation” and “— Recent Accounting Pronouncements in U.S. GAAP” and note 31 of the notes to our consolidated financial statements contained in the POSCO 2009 Annual Report on Form 20-F. One key difference between Korean GAAP and U.S. GAAP relates to the accounting for subsidiaries. Under U.S. GAAP, we would have prepared only consolidated financial statements. However, under Korean GAAP, the financial statements are also prepared on a standalone basis using the equity method of accounting for our subsidiaries. Our non-consolidated income statements contained elsewhere in this offering circular include our share of the results of operations of our subsidiaries using the equity method of accounting. On a consolidated basis, the assets and liabilities of our subsidiaries would be included in each line item of the consolidated interim balance sheets. Potential investors should take into consideration such discrepancies prior to making an investment decision.

In March 2007, the Financial Services Commission and the Korea Accounting Institute announced a road map for the adoption of the Korean equivalent of International Financial Reporting Standards, or IFRS, pursuant to which all listed companies in Korea, including us, will be required to prepare their annual financial statements under IFRS beginning in 2011. In December 2007, the Korea Accounting Standards Board published the full text of the Korean equivalent of IFRS, or Korean IFRS. For a discussion of our plan and status for applying Korean IFRS, see note 26 to our non-consolidated interim financial statements. As part of our preparation for conversion to Korean IFRS, we conducted a revaluation of certain of our property, plant and equipment as of January 1, 2010, and the adoption of Korean IFRS is likely to result in certain accounting changes for us. However, because there is not yet a significant body of established practice on which to draw in forming judgments regarding its implementation and application, it is not possible to estimate with any degree of certainty the impact that the adoption of Korean IFRS will have on

our financial reporting. Accordingly, there can be no assurance that the mandatory adoption of Korean IFRS beginning in 2011 will not adversely affect our reported financial condition and results of operations.

### **Risks Relating to the Notes**

#### ***The Notes are unsecured obligations.***

Because the Notes are unsecured obligations, their repayment may be compromised if:

- we enter into bankruptcy, liquidation, rehabilitation or other winding-up proceedings;
- there is a default in payment under our future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of our indebtedness.

If any of these events occurs, our assets may not be sufficient to pay amounts due on any of the Notes.

#### ***The Notes are subject to transfer restrictions.***

The Notes will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except to QIBs in reliance on the exemption provided by Rule 144A, to certain persons in offshore transactions in reliance on Regulation S, or pursuant to another exemption from, or in another transaction not subject to, the registration requirements of the Securities Act and in accordance with applicable state securities laws. For a further discussion of the transfer restrictions applicable to the Notes, see “Transfer Restrictions”.

#### ***The Notes may have limited liquidity.***

The Notes constitute a new issue of securities for which there is no existing market. Approval in-principle has been received for the listing and quotation of the Notes on the Singapore Stock Exchange. The offer and sale of the Notes is not conditioned on obtaining a listing of the Notes on the Singapore Stock Exchange or any other exchange. Although the Initial Purchasers have advised us that they currently intend to make a market in the Notes, they are not obligated to do so, and any market-making activity with respect to the Notes, if commenced, may be discontinued at any time without notice in their sole discretion. For a further discussion of the Initial Purchasers’ planned market-making activities, see “Plan of Distribution”.

No assurance can be given as to the liquidity of, or the development and continuation of an active trading market for, the Notes. If an active trading market for the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected. If such a market were to develop, the Notes could trade at prices that may be higher or lower than the price at which the Notes are issued depending on many factors, including:

- prevailing interest rates;
- our results of operations and financial condition;
- political and economic developments in and affecting Korea;
- the market conditions for similar securities; and
- the financial condition and stability of the Korean financial sector.

## RECENT DEVELOPMENTS

### Acquisition of Daewoo International Corporation

On September 20, 2010, we acquired a 68.15% interest in Daewoo International for Won 3.37 trillion. Daewoo International is a global trading company that primarily engages in trading of steel and raw materials as well as investing in energy development projects. Daewoo International has invested in a portfolio of energy exploration and production projects, including oil and gas projects located in Peru, Oman, Vietnam, Myanmar, Uzbekistan and Russia, as well as mineral projects located in Australia, Bolivia and Madagascar. Daewoo International also holds a 24% interest in Kyobo Life Insurance, Korea's third largest life insurance company in terms of market share in 2009.

On a non-consolidated basis under Korean GAAP, Daewoo International generated revenues of Won 7,772 billion and net income of Won 106 billion in the first half of 2010, compared to revenues of Won 4,798 billion and net income of Won 66 billion in the first half of 2009. On a non-consolidated basis under Korean GAAP, Daewoo International had total assets of Won 4,665 billion and total shareholders' equity of Won 1,511 billion as of June 30, 2010, compared to total assets of Won 3,885 billion and total shareholders' equity of Won 1,390 billion as of December 31, 2009.

On a consolidated basis under Korean GAAP, Daewoo International generated revenues of Won 11,544 billion and net income of Won 131 billion in 2009, compared to revenues of Won 11,426 billion and net income of Won 79 billion in 2008. On a consolidated basis under Korean GAAP, Daewoo International had total assets of Won 4,695 billion and total shareholders' equity of Won 1,399 billion as of December 31, 2009 and total assets of Won 3,477 billion and total shareholders' equity of Won 1,068 billion as of December 31, 2008.

### Operational Data for the Six Months Ended June 30, 2009 and 2010

#### *Production*

On a non-consolidated basis, we produced approximately 16.6 million tons of crude steel in the first half of 2010 and approximately 13.3 million tons of crude steel in the first half of 2009, all of which were produced at our Pohang Works and Gwangyang Works. At Pohang Works, actual crude steel and stainless steel output in the first half of 2010 increased by 6.0% to 7.3 million tons from 6.8 million tons in the first half of 2009. At Gwangyang Works, actual crude steel output in the first half of 2010 increased by 45.0% to 9.4 million tons from 6.5 million tons in the first half of 2009. We reduced our production level in the first half of 2009 in response to sluggish demand from our customers in industries adversely impacted by deteriorating global economic conditions, such as the automotive industry and the construction industry.



### Sales Revenues and Sales Volume

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

#### Sales Revenues

Steel Products	For the Six Months Ended June 30,			
	2009		2010	
	Billions of Won	%	Billions of Won	%
Hot rolled products . . . . .	₩ 2,812	22.7	₩ 2,873	20.0
Plates . . . . .	2,259	18.2	1,796	12.5
Wire rods . . . . .	841	6.8	890	6.2
Cold rolled products . . . . .	4,059	32.7	5,401	37.6
Silicon steel sheets . . . . .	763	6.1	715	4.9
Stainless steel products . . . . .	1,345	10.8	2,285	15.9
Others . . . . .	332	2.7	417	2.9
Total . . . . .	<u>₩12,411</u>	<u>100.0</u>	<u>₩14,377</u>	<u>100.0</u>

#### Sales Volume

Steel Products	For the Six Months Ended June 30,			
	2009		2010	
	Thousands of Tons	%	Thousands of Tons	%
Hot rolled products . . . . .	3,675	28.3	3,871	25.3
Plates . . . . .	2,264	17.5	2,058	13.4
Wire rods . . . . .	938	7.2	1,001	6.5
Cold rolled products . . . . .	4,598	35.5	6,327	41.3
Silicon steel sheets . . . . .	381	3.0	498	3.3
Stainless steel products . . . . .	549	4.2	820	5.4
Others . . . . .	562	4.3	731	4.8
Total . . . . .	<u>12,967</u>	<u>100.0</u>	<u>15,306</u>	<u>100.0</u>

The non-consolidated sales revenues and sales volumes in the tables above represent the steel product sales of POSCO prior to elimination of intercompany transactions and do not include POSCO's non-steel product sales. In addition, they do not include sales by our manufacturing subsidiaries of steel products such as Zhangjiagang Pohang Stainless Steel Co., Ltd. and POSCO Specialty Steel Co., Ltd., as well as sales by our consolidated sales subsidiaries of steel products purchased by these subsidiaries from third parties, including trading companies to which we sell steel products.

## Unit Sales Prices

On a non-consolidated basis, the tables below set out the average unit sales prices for our semi-finished and finished steel products for the periods indicated.

Steel Products	For the Six Months Ended June 30,	
	2009	2010
	(Thousands of Won per Ton)	
Hot rolled products . . . . .	₩ 765	₩ 742
Plates . . . . .	998	873
Wire rods . . . . .	897	889
Cold rolled products . . . . .	883	854
Silicon steel sheets . . . . .	2,003	1,436
Stainless steel products . . . . .	2,450	2,787
Others . . . . .	591	570
Average(1) . . . . .	₩ 957	₩ 939

(1) "Average" prices are based on the weighted average, by sales volume, of our sales for the listed products.

## Domestic Market

The total Korean market for steel products amounted to 27.1 million tons in the first half of 2010. On a non-consolidated basis, we sold a total of 10.2 million tons of steel products in Korea in the first half of 2010, maintaining an overall domestic market share of approximately 37.8% for such period. On a non-consolidated basis, our domestic market shares for our major steel products in the first half of 2010 were 33% for hot rolled products, 35% for plates, 45% for wire rods, 54% for cold rolled products, 96% for silicon steel sheets and 49% for stainless steel products.

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

Source	For the Six Months Ended June 30,			
	2009		2010	
	Thousands of Tons	%	Thousands of Tons	%
POSCO's non-consolidated sales . . . . .	8,376	41.8	10,239	37.8
Other Korean steel companies' sales . . . . .	7,460	37.3	11,027	40.7
Imports(1) . . . . .	4,183	20.9	5,821	21.5
Total domestic sales(1) . . . . .	20,019	100.0	27,087	100.0

(1) Source: POSCO Research Institute.

Total domestic sales increased by 35.3% in the first half of 2010 compared to the first half of 2009, primarily due to a general recovery of the global economy and an increase in demand from the automotive industry and the household goods industry, the impact of which was partially offset by a decrease in demand from the construction industry. Imports from foreign competitors, primarily from Japan, China, and Russia, showed strong growth as import sales volume increased by 39.2% in the first half of 2010 to 5.8 million tons. Growth in domestic sales volume of other Korean steel companies increased significantly by 47.8% in the first half of 2010 to 11.0 million tons while our domestic sales volume increased by 22.2% in the first half of 2010 to 10.2 million tons. Accordingly, our market share on a non-consolidated basis decreased to 37.8% in the first half of 2010 compared to 41.8% in the first half of 2009.



## Exports

On a non-consolidated basis, our export sales represented 33.1% of our total sales volume of steel products in the first half of 2010, 63.6% of which was generated from export sales and overseas sales to customers in Asian countries. On a non-consolidated basis, our export sales and overseas sales to customers abroad in terms of sales volume increased by 10.4% to 5.1 million tons in the first half of 2010 compared to the first half of 2009. The tables below set out our non-consolidated export sales and overseas sales to customers abroad in terms of sales volume of steel products by geographical market and by product for the periods indicated.

Region	For the Six Months Ended June 30,			
	2009		2010	
	Thousands of Tons	%	Thousands of Tons	%
Asia (other than China and Japan) . . . . .	791	17.2	1,153	22.8
China . . . . .	1,429	31.1	1,080	21.3
Japan . . . . .	495	10.8	988	19.5
North America . . . . .	276	6.0	282	5.6
Europe . . . . .	147	3.2	225	4.4
Others . . . . .	1,453	31.7	1,339	26.4
Total . . . . .	<u>4,591</u>	<u>100.0</u>	<u>5,067</u>	<u>100.0</u>

  

Steel Products	For the Six Months Ended June 30,			
	2009		2010	
	Thousands of Tons	%	Thousands of Tons	%
Hot rolled products . . . . .	1,332	29.0	1,119	22.1
Plates . . . . .	213	4.6	329	6.5
Wire rods . . . . .	255	5.6	199	3.9
Cold rolled products . . . . .	2,283	49.7	2,735	54.0
Silicon steel sheets . . . . .	182	4.0	236	4.7
Stainless steel products . . . . .	278	6.1	396	7.8
Others . . . . .	48	1.0	53	1.0
Total . . . . .	<u>4,591</u>	<u>100.0</u>	<u>5,067</u>	<u>100.0</u>

The table below sets out our non-consolidated total sales, including non-steel sales, in Korea and abroad, for the periods indicated.

Geographical Location of Customers	For the Six Months Ended June 30,	
	2009	2010
	(In billions of Won)	
Korea . . . . .	₩ 8,383	₩ 9,838
Abroad . . . . .	4,432	5,044
Total . . . . .	<u>₩12,815</u>	<u>₩14,882</u>

We distribute our export products mostly through Korean trading companies and our overseas sales subsidiaries. Our largest export market in the first half of 2010 was Asian countries other than China and Japan, which accounted for 22.8% of our export volume of steel products on a non-consolidated basis. The principal products exported to Asian countries other than China and Japan were cold rolled products and hot rolled products. On a non-consolidated basis, our exports to Asian countries other than China and Japan increased by 45.8% to 1.2 million tons in the first half of 2010 from 0.8 million tons in the first half of 2009 primarily due to a general recovery of the automotive industry as well as an increase in our supply of

hot rolled products to POSCO-Vietnam Co., Ltd. On a non-consolidated basis, our exports to China decreased by 24.4% to 1.1 million tons in the first half of 2010 from 1.4 million tons in the first half of 2009 primarily due to adjustment of our export sales mix to Asian countries in response to the recovery of demand from Asian countries other than China. On a non-consolidated basis, our exports to Japan increased by 98.4% to 1.0 million tons in the first half of 2010 from 0.5 million tons in the first half of 2009 primarily due to a general recovery of the Japanese automotive industry.

On a non-consolidated basis, our exports to North America increased by 2.2% to 282 thousand tons in the first half of 2010 compared to 276 thousand tons in the first half of 2009 primarily due to a general recovery of the U.S. automotive industry, while our exports to Europe increased by 53.1% to 225 thousand tons in the first half of 2010 compared to 147 thousand tons in the first half of 2009 primarily due to a general recovery of the European automotive industry as well as our procurement of a new customer for our stainless steel products. A significant part of our sales in North America were made to USS-POSCO Industries ("UPI"), a 50-50 joint venture between U.S. Steel Corporation and us. We sold hot rolled products to UPI, which used such products to manufacture cold rolled and galvanized steel products for sale in the United States. Our sales to UPI were 156 thousand tons in the first half of 2010, accounting for approximately 55% of our sales to North America during that period.

Our products that have been subject to anti-dumping or countervailing proceedings in the aggregate have not accounted for a material portion of our total sales in recent years. Consequently, the anti-dumping or countervailing duties imposed on our products have not had a material adverse effect on our total sales. However, there can be no assurance that further increases in or new imposition of dumping duties, countervailing duties, quotas or tariffs on our sales in the United States, China, Europe or elsewhere may not have a material adverse effect on our exports to these or other regions in the future.

### ***Transportation***

Since 1983, we have retained a fleet of dedicated bulk carriers to transport our raw materials through long-term contracts with shipping companies in Korea. On a non-consolidated basis, these dedicated bulk carriers transported approximately 72.4% of our coal and iron ore in the first half of 2010, with the remaining amounts transported by other vessels through chartering contracts. All imported raw materials are unloaded at our port facilities in Pohang and Gwangyang. On a non-consolidated basis, the costs of transportation of iron ore and coal represented approximately 13.6% and 11.0%, respectively, of the total cost of such materials in the first half of 2010.

### ***Raw Materials***

We purchase substantially all of the principal raw materials, including iron ore and coal, we use from sources outside Korea. On a non-consolidated basis, we imported approximately 41.7 million dry metric tons of iron ore and 21.7 million wet metric tons of coal in 2009 and approximately 24.2 million dry metric tons of iron ore and 12.9 million wet metric tons of coal in the first half of 2010. Iron ore is imported primarily from Australia, Brazil and South Africa. Coal is imported primarily from Australia, Canada and China.

The average price of iron ore per dry metric ton (free on board price of Platts Iron Ore Index with iron (Fe) 62% content) was \$126 in 2008, \$68 in 2009 and \$134 in the first half of 2010. The average price of coal per wet metric ton (benchmark free on board price of Australian premium hard coking coal) was \$250 in 2008, \$172 in 2009 and \$165 in the first half of 2010.

### **Non-consolidated Operating Results for the Six Months Ended June 30, 2009 and 2010**

The selected non-consolidated financial data as of December 31, 2009 and June 30, 2010 and for the six months ended June 30, 2009 and 2010 below have been derived from our unaudited non-consolidated interim financial statements as of December 31, 2009 and June 30, 2010 and for the six months ended June 30, 2009 and 2010 and related notes thereto included elsewhere in this offering circular. Korean GAAP differs in significant respects from U.S. GAAP. See the POSCO 2009 Annual Report on Form 20-F under the sections entitled "Item 5. Operating and Financial Review and Prospects — Item 5.B. Liquidity

and Capital Resources — U.S. GAAP Reconciliation” and “— Recent Accounting Pronouncements in U.S. GAAP”, and note 31 of the notes to our consolidated financial statements contained in the POSCO 2009 Annual Report on Form 20-F.

The selected financial data set forth below have been prepared on a non-consolidated basis, and therefore do not reflect the results of operations of our subsidiaries other than those accounted for under the equity method. For example, while our non-consolidated net income reflects the results of our consolidated subsidiaries, our other non-consolidated financial data, including sales and operating income, do not. Accordingly, we believe that while there should not be any material differences between our net income on a non-consolidated basis and our net income on a consolidated basis, our other financial data would be materially different on a consolidated basis. Under Korean GAAP, our non-consolidated sales accounted for between approximately 70.3% to 73.4% of our consolidated sales for the years ended December 31, 2007, 2008 and 2009 and our non-consolidated operating income accounted for between approximately 81.3% to 91.2% of our consolidated operating income for the years ended December 31, 2007, 2008 and 2009. Accordingly, the non-consolidated financial information below is not comparable with the consolidated financial information presented in the POSCO 2009 Annual Report on Form 20-F.

For a description of our consolidated subsidiaries and global joint ventures, see the section entitled “Item 4. Information on the Company — Item 4.B. Business Overview — Subsidiaries and Global Joint Ventures” contained in the POSCO 2009 Annual Report on Form 20-F. Consolidated financial information as of or for the year ended December 31, 2009 for our five significant consolidated subsidiaries based on total assets are as follows:

<u>Consolidated Subsidiaries</u>	<u>Percentage of Ownership</u> (%)	<u>Total Assets</u>	<u>Net Assets</u>	<u>Total Sales</u>	<u>Net Income (Net Loss)</u>
		(In billions of Won)			
POSCO E&C Co., Ltd. . . . .	89.5%	₩4,431	₩1,872	₩6,676	₩305
POSCO Power Corporation . . . . .	85.7	1,716	615	509	59
Zhangjiagang Pohang Stainless Steel Co., Ltd. . . . .	82.5	1,330	574	1,844	(18)
POSCO Specialty Steel Co., Ltd. . . . .	100.0	972	629	1,271	65
Posteel Co., Ltd. . . . .	95.3	745	476	1,627	(14)

The non-consolidated financial data of POSCO presented below should be read in conjunction with our audited non-consolidated financial statements and related notes thereto included in this offering circular.

	For the Six Months Ended June 30,	
	2009	2010
	(In billions of Won)	
<b>Non-consolidated Korean GAAP income statement data</b>		
Sales . . . . .	₩12,815	₩14,882
Cost of goods sold . . . . .	11,709	10,889
Gross profit. . . . .	1,107	3,993
Selling and administrative expenses . . . . .	563	710
Operating profit. . . . .	543	3,283
Non-operating income, net . . . . .	311	(76)
Income before income taxes . . . . .	855	3,207
Income tax expense . . . . .	100	574
Net income . . . . .	755	2,633

	As of	
	December 31, 2009	June 30, 2010
	(In billions of Won)	
<b>Non-consolidated Korean GAAP balance sheet data</b>		
Working capital(1) . . . . .	₩10,232	₩10,256
Property, plant and equipment, net . . . . .	16,646	17,636
Total assets . . . . .	39,993	44,475
Long-term debt, net of current portion and discount on debentures issued . . . . .	5,682	5,308
Total shareholders' equity . . . . .	30,951	33,016

(1) Current assets minus current liabilities.

### **Sales**

Our non-consolidated sales increased by 16.1% to Won 14,882 billion in the first half of 2010 from Won 12,815 billion in the first half of 2009. The increase in non-consolidated sales was due primarily to an increase of 18.0% in the non-consolidated sales volume of our steel products in the first half of 2010 compared to the first half of 2009, the impact of which was partially offset by a decrease of 1.9% in the weighted average unit sales price per ton of our steel products in the first half of 2010 compared to the first half of 2009.

The non-consolidated sales volume of each of our principal product lines, other than plates, increased in the first half of 2010 compared to the first half of 2009. Our non-consolidated sales volume of stainless steel products, which accounted for 5.4% of total sales volume in the first half of 2010, showed the greatest increase among our principal product lines with an increase of 49.4% primarily due to an increase in demand from the automotive industry and the household goods industry. Non-consolidated sales volume of cold rolled products, which accounted for 41.3% of total sales volume in the first half of 2010, increased by 37.6% primarily due to an increase in demand from the automotive industry. Non-consolidated sales volume of silicon steel sheets, which accounted for 3.3% of total sales volume in the first half of 2010, increased by 30.7% primarily due to an increase in demand from manufacturers of power transformers and generators. On the other hand, non-consolidated sales volume of plates, which accounted for 13.4% of total sales volume in the first half of 2010, decreased by 9.1% primarily due to a decrease in demand from the shipbuilding industry, reflecting a decrease in new orders for vessels.

The unit sales prices in Won of each of our principal product lines, other than stainless steel products, decreased in the first half of 2010 compared to the first half of 2009. See “— Operational Data for the Six Months Ended June 30, 2009 and 2010 — Unit Sales Prices”. The weighted average unit prices of our products decreased by 1.9% in the first half of 2010 compared to the first half of 2009 primarily due to an appreciation in the average value of the Won against the Dollar in the first half of 2010 compared to the first half of 2009 that contributed to a decrease in our export prices in Won terms as well as reductions in the sales prices of our principal products in May 2009 in response to the global economic downturn, the impact of which was partially offset by increases in the sales prices of our principal products ranging from 9.8% to 25.0% in May 2010. The average exchange rate of the Won against the Dollar, as announced by Seoul Money Brokerage Services, Ltd., appreciated to Won 1,153.9 per Dollar in the first half of 2010 from Won 1,350.9 per Dollar in the first half of 2009.

### **Domestic Sales**

Our non-consolidated sales to domestic customers increased by 17.4% in terms of sales revenues and by 22.2% in terms of sales volume of steel products in the first half of 2010 compared to the first half of 2009. Our non-consolidated domestic sales accounted for approximately 66.9% of our total sales volume of steel products in the first half of 2010, compared to 64.6% in the first half of 2009. The increase in non-

consolidated domestic sales revenues in the first half of 2010 compared to the first half of 2009 was attributable primarily to an increase in our non-consolidated sales volume to domestic customers, the impact of which was partially offset by a decrease in the weighted average unit sales price per ton of our steel products sold in Korea. In the first half of 2010, the volume of steel products sold in Korea increased primarily due to an increase in demand from the automotive industry and the household goods industry, the impact of which was partially offset by a decrease in demand from the construction industry.

### *Export Sales*

Our non-consolidated export sales and overseas sales to customers abroad increased by 13.8% in terms of sales revenues and by 10.4% in terms of sales volume of steel products in the first half of 2010 compared to the first half of 2009. Our non-consolidated export sales and overseas sales to customers abroad accounted for approximately 33.1% of our non-consolidated total sales volume of steel products in the first half of 2010 compared to 35.4% in the first half of 2009. The increase in non-consolidated export sales and overseas sales to customers abroad in terms of sales revenues in the first half of 2010 compared to the corresponding period in 2009 was attributable primarily to an increase in our non-consolidated sales volume of steel products to customers abroad, the impact of which was partially offset by a decrease in the weighted average unit sales price per ton of our steel products sold abroad. In the first half of 2010, the volume of our non-consolidated export sales and overseas sales to customers abroad increased primarily due to an increase in demand from customers in Japan and Southeast Asia, the impact of which was partially offset by a decrease in demand from China.

### *Cost of Goods Sold*

Our non-consolidated cost of goods sold decreased by 7.0% to Won 10,889 billion in the first half of 2010 from Won 11,709 billion in the first half of 2009. The decrease in non-consolidated cost of goods sold was due primarily to decreases in the average prices in Won terms of key raw materials that were used to manufacture finished goods sold in the first half of 2010 compared to the first half of 2009, the impact of which was partially offset by an increase in our sales volume of steel products as discussed above. Our purchase of key raw materials is subject to periodic price adjustments, and we typically maintain approximately two months of inventory of raw materials. Accordingly, we expect our cost of goods sold to increase in the second half of 2010 to reflect an increase in the price of key raw materials in recent quarters.

### *Selling and Administrative Expenses*

Our non-consolidated selling and administrative expenses increased by 26.1% to Won 710 billion in the first half of 2010 from Won 563 billion in the first half of 2009. The increase in non-consolidated selling and administrative expenses resulted principally from increases in selling expenses, labor-related expenses and research and development expenses. Selling expenses increased by 16.3% to Won 360 billion in the first half of 2010 from Won 309 billion in the first half of 2009, primarily reflecting an increase in our sales volume. Our labor-related expenses included in selling and administrative expenses, which consist of salaries and wages, other employee benefit expenses and provision for severance benefits, increased by 42.0% to Won 119 billion in the first half of 2010 from Won 84 billion in the first half of 2009, primarily reflecting increases in our incentive pay as well as related provision for severance benefits that reflect an increase in our operating income. Our research and development expenses increased by 333.1% to Won 44 billion in the first half of 2010 from Won 10 billion in the first half of 2009 primarily due to an increase in the number of outsourced research projects in the first half of 2010.

### *Operating Profit*

Due to the factors described above, our non-consolidated operating profit increased by 504.6% to Won 3,283 billion in the first half of 2010 from Won 543 billion in the first half of 2009. Our non-consolidated operating margin increased to 22.1% in the first half of 2010 from 4.2% in the first half of 2009.

### ***Non-operating Income (Expenses), Net***

We recorded net non-consolidated non-operating expenses of Won 76 billion in the first half of 2010 compared to net non-consolidated non-operating income of Won 311 billion in the first half of 2009 primarily due to a net loss on foreign currency translation in the first half of 2010 compared to a net gain in the first half of 2009 and a decrease in net equity in earnings of equity method accounted investments, the impact of which was partially offset by a decrease in net loss on foreign currency transactions and an increase in interest income. Such factors were principally attributable to the following:

- We recorded net loss on foreign currency translation of Won 283 billion in the first half of 2010 compared to a net gain of Won 191 billion in the first half of 2009 as the Won depreciated at a greater level against the Dollar in the first half of 2010 compared to the first half of 2009 and the Won also depreciated against the Yen in the first half of 2010 while it appreciated against the Yen in the first half of 2009. In terms of the market average exchange rate announced by Seoul Money Brokerage Services, Ltd., the Won depreciated against the Dollar to Won 1,210.3 per Dollar as of June 30, 2010 from Won 1,167.6 per Dollar as of December 31, 2009, while the Won depreciated to Won 1,284.7 per Dollar as of June 30, 2009 from Won 1,257.5 per Dollar as of December 31, 2008. The Won depreciated against the Yen to Won 1,364.56 per Yen 100 as of June 30, 2010 from Won 1,262.82 per Yen 100 as of December 31, 2009, while the Won appreciated to Won 1,336.28 per Yen 100 as of June 30, 2009 from Won 1,393.89 per Yen 100 as of December 31, 2008.
- Our net equity in earnings of equity method accounted investments decreased by 49.8% to Won 123 billion in the first half of 2010 from Won 245 billion in the first half of 2009 primarily due to a one-time gain of Won 170 billion recognized in the first half of 2009 from POSCO E&C's sale of Shanghai Plaza.
- Our net loss on foreign currency transactions decreased by 77.0% to Won 26 billion in the first half of 2010 from Won 114 billion in the first half of 2009 primarily as a result of fluctuations in the value of the Won against the dollar during such periods as described above.
- Our interest income increased by 51.2% to Won 133 billion in the first half of 2010 from Won 88 billion in the first half of 2009 primarily due to an increase in the average balance of our time deposits in the first half of 2010 compared to the first half of 2009.

### ***Income Tax Expense***

Income tax expense increased by 474.8% to Won 574 billion in the first half of 2010 from Won 100 billion in the first half of 2009 primarily due to a 275.2% increase in income before income taxes. Our effective tax rates were 17.9% in the first half of 2010 and 11.7% in the first half of 2009, as we recorded net credit in adjustments, including tax credit, of Won 202 billion in the first half of 2010 compared to net credit of Won 107 billion in the first half of 2009. See note 20 of the notes to our non-consolidated interim financial statements.

### ***Net Income***

Due to the factors described above, our non-consolidated net income increased by 248.7% to Won 2,633 billion in the first half of 2010 from Won 755 billion in the first half of 2009.

### **Non-consolidated Operating Results for the Third Quarter of 2010**

Our discussion set forth below was derived from our non-consolidated management accounts for the three months ended September 30, 2009 and 2010. Our non-consolidated management account information is preliminary and remains subject to change. Accordingly, the degree of reliance on such information should be limited. Our non-consolidated management accounts were prepared in accordance with Korean GAAP, which differs in certain significant respects from U.S. GAAP. A description of the material differences between Korean GAAP and U.S. GAAP as well as a reconciliation to U.S. GAAP are presented in note 31 of the notes to our consolidated financial statements contained in the POSCO 2009



Annual Report on Form 20-F. The discussion set forth below has been prepared on a non-consolidated basis, and therefore does not reflect the results of operations of our subsidiaries other than those accounted for under the equity method. Our discussion of results of operations for the three months or nine months ended September 30, 2010, on a non-consolidated basis, is not necessarily indicative of our results of operations for the full 2010 year.

### ***Third Quarter of 2010 Compared to Third Quarter of 2009***

Our non-consolidated sales increased significantly in the third quarter of 2010 compared to the third quarter of 2009. The increase in non-consolidated sales was primarily due to a 21.1% increase in our average unit sales price to Won 1,066 thousand per ton in the third quarter of 2010 from Won 880 thousand per ton in the third quarter of 2009 as well as a 2.8% increase in our non-consolidated sales volume to 7,740 thousand tons in the third quarter of 2010 from 7,526 thousand tons in the third quarter of 2009.

Our non-consolidated operating income increased in the third quarter of 2010 compared to the third quarter of 2009. However, our non-consolidated operating margin decreased in the third quarter of 2010 compared to the third quarter of 2009, as our non-consolidated cost of goods sold increased at a higher rate than our non-consolidated sales in the third quarter of 2010 compared to the third quarter of 2009 primarily due to an increase in raw material prices. Our purchase of key raw materials is subject to periodic price adjustments, and we typically maintain approximately two months of inventory of raw materials. Accordingly, our cost of goods sold increased in the third quarter of 2010 to reflect an increase in the price of key raw materials in the prior quarter.

Our non-consolidated net income decreased in the third quarter of 2010 compared to the third quarter of 2009. The decrease in our non-consolidated net income was primarily attributable to a several-fold increase in income tax expenses in the third quarter of 2010 compared to the third quarter of 2009, as we had recorded a significant tax credit in the third quarter of 2009 related to reversal of tax that had previously been assessed.

### ***Third Quarter of 2010 Compared to Second Quarter of 2010***

Our non-consolidated sales increased in the third quarter of 2010 compared to the second quarter of 2010. The increase in non-consolidated sales was primarily due to a 8.9% increase in our average unit sales price to Won 1,066 thousand per ton in the third quarter of 2010 from Won 979 thousand per ton in the second quarter of 2010, the impact of which was partially offset by a 1.2% decrease in our non-consolidated sales volume to 7,740 thousand tons in the third quarter of 2010 from 7,831 thousand tons in the second quarter of 2010.

Our non-consolidated operating income and operating margin decreased significantly in the third quarter of 2010 compared to the second quarter of 2010, as our non-consolidated cost of goods sold increased at a higher rate than our non-consolidated sales in the third quarter of 2010 compared to the second quarter of 2010 primarily due to an increase in raw material prices. Our purchase of key raw materials is subject to periodic price adjustments, and we typically maintain approximately two months of inventory of raw materials. Accordingly, our cost of goods sold increased in the third quarter of 2010 to reflect an increase in the price of key raw materials in the prior quarter. Raw material prices continued to increase in the third quarter of 2010, and we believe that our non-consolidated operating income and operating margin will both decrease in the fourth quarter of 2010 compared to the third quarter of 2010.

Our non-consolidated net income decreased in the third quarter of 2010 compared to the second quarter of 2010. The decrease in our non-consolidated net income was primarily attributable to the decrease in our operating income discussed above, the impact of which was partially offset by net foreign currency related gain in the third quarter of 2010 compared to net foreign currency related loss in the second quarter of 2010.

## Liquidity and Capital Resources for the Six Months Ended June 30, 2009 and 2010

The following table sets forth our selected non-consolidated cash flow data for the periods indicated:

	For the Six Months Ended June 30,	
	2009	2010
(In billions of Won)		
<b>Non-consolidated Korean GAAP cash flow statement data</b>		
Net cash provided by operating activities . . . . .	₩ 2,728	₩ 2,389
Net cash used in investing activities . . . . .	(3,617)	(3,477)
Net cash provided by financing activities . . . . .	1,590	679
Cash and cash equivalents at beginning of period . . . . .	942	627
Cash and cash equivalents at end of period . . . . .	1,643	218
Net increase (decrease) in cash and cash equivalents . . . . .	701	(409)

### **Capital Requirements**

Historically, uses of cash consisted principally of purchases of property, plant and equipment and other assets and repayments of outstanding debt and payments of dividends. From time to time, we have also engaged in acquisition of treasury shares.

Non-consolidated net cash used in investing activities was Won 3,617 billion in the first half of 2009 and Won 3,477 billion in the first half of 2010. These amounts included acquisition of property, plant and equipment of Won 2,017 billion in the first half of 2009 and Won 2,095 billion in the first half of 2010. We currently plan to increase our capital expenditures in the second half of 2010, which we may adjust on an on-going basis subject to market demand for our products, the production outlook of the global steel industry and global economic conditions in general. We may delay or not implement some of our current capital expenditure plans based on our assessment of such market conditions.

In our financing activities, we paid dividends on common stock in the amount of Won 574 billion in the first half of 2009 and Won 500 billion in the first half of 2010. On August 5, 2010, we also paid interim dividends for fiscal year 2010 of Won 2,500 per share for an aggregate amount of Won 193 billion.

In recent years, we have also selectively considered various opportunities to acquire or invest in companies that may complement our businesses. For example, on September 20, 2010, we acquired a 68.15% interest in Daewoo International for Won 3.37 trillion. We may require additional capital for such acquisitions or entering into other strategic relationships. Other than capital required for such activities, we anticipate that capital expenditures, repayments of outstanding debt and payments of cash dividends will represent the most significant uses of funds for the next several years.



Payments of contractual obligations and commitments will also require considerable resources. In our ordinary course of business, we routinely enter into commercial commitments for various aspects of our operations, as well as issue guarantees for our related companies' indebtedness. As of June 30, 2010, we issued guarantees of Won 1,920 billion for the repayment of loans of related companies and others. See note 16 of the notes to our non-consolidated interim financial statements. The following table sets forth the amount of long-term debt, capital lease and operating lease obligations as of June 30, 2010 on a non-consolidated basis.

Non-consolidated Contractual Obligations	Payments Due by Period				
	Total	Less Than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years
		(In billions of Won)			
Long-term debt obligations(1) . . . . .	₩ 6,167	₩ 801	₩ 2,153	₩ 2,641	₩ 572
Interest payments on long-term debt(2) . . . . .	754	256	389	102	7
Capital lease obligations(3) . . . . .	11	1	2	3	5
Operating lease obligations(4) . . . . .	13	7	6	—	—
Purchase obligations(5) . . . . .	62,975	12,164	19,595	15,999	15,217
Accrued severance benefits(6) . . . . .	885	49	107	117	612
Total . . . . .	<u>₩ 70,805</u>	<u>₩ 13,278</u>	<u>₩ 22,252</u>	<u>₩ 18,862</u>	<u>₩ 16,413</u>

- (1) Includes the current portion and premium on bond redemption but excludes amortization of discount on debentures and issuance costs.
- (2) As of June 30, 2010, a portion of our long-term debt carried variable interest rates. We used the interest rate in effect as of June 30, 2010 in calculating the interest payments on long-term debt for the periods indicated.
- (3) We entered into a capital lease contract with Ilshin Shipping Co., Ltd. for a vessel for transporting plates and other products.
- (4) We acquired certain tools and equipment under operating lease agreements with Macquarie Capital Korea Co., Ltd. and others.
- (5) Our purchase obligations include long-term contracts to purchase iron ore, coal, liquefied natural gas and other raw materials. These contracts generally have terms of three to ten years and provide for periodic price adjustments to then-market prices. As of June 30, 2010, 339 million tons of iron ore and 55 million tons of coal remained to be purchased under long-term contracts. In addition, we entered into an agreement with Tangguh Liquefied Natural Gas ("LNG") Consortium in Indonesia to purchase 550 thousand tons of LNG annually for 20 years commencing in August 2005. The purchase price under the agreement with Tangguh LNG Consortium is variable based on the monthly standard oil price (as represented by the Japan Customs-cleared Crude Price), subject to a ceiling. We used the market price in effect as of June 30, 2010 in calculating the iron ore, coal and liquefied natural gas purchase obligations described above for the periods indicated.
- (6) See note 14 of the notes to our non-consolidated interim financial statements for our accrued severance benefits.

### **Capital Resources**

We have traditionally met our working capital and other capital requirements principally from cash provided by operations, while raising the remainder of our requirements primarily through long-term debt and short-term borrowings.

Our primary sources of cash have been cash provided by operating activities and proceeds of long-term debt and short-term borrowings, and we expect that these sources will continue to be our principal

sources of cash in the future. From time to time, we may also generate cash through sale of treasury shares.

Our net cash provided by operating activities decreased by 12.4% from Won 2,728 billion in the first half of 2009 to Won 2,389 billion in the first half of 2010. Our non-consolidated sales increased by 16.1% in such periods primarily reflecting an 18.0% increase in the non-consolidated sales volume of our steel products as discussed above, which increased gross cash inflow from our sales activities. Cash used for payment of income taxes for the prior fiscal year also significantly decreased in the first half of 2010 compared to the first half of 2009, which further increased our gross cash inflow. However, our overall net cash provided by operating activities decreased by 12.4% as an increase in the price of raw materials in the first half of 2010 led to an increase in the inventory level and a delay in recoupment of cash used in production activities, including purchase of raw materials. Our inventory level increased from Won 2,996 billion as of December 31, 2009 to Won 5,026 billion as of June 30, 2010. Such developments resulted in an overall decrease of net cash provided by operating activities in the first half of 2010 compared to the first half of 2009.

Net proceeds from short-term borrowings, after deducting for repayment of short-term borrowings, were Won 713 billion in the first half of 2009 and Won 972 billion in the first half of 2010. Proceeds from issuance of debentures were Won 1,450 billion in the first half of 2009 and none in the first half of 2010. Total long-term debt, including current portion but excluding discount on debentures issued, were Won 5,683 billion as of December 31, 2009 and Won 6,107 billion as of June 30, 2010, and total short-term borrowings were Won 431 billion as of December 31, 2009 and Won 1,435 billion as of June 30, 2010. We periodically increase our short-term borrowings and adjust our long-term debt financing levels depending on changes in our capital requirements.

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

### ***Liquidity***

Our liquidity is affected by exchange rate fluctuations. Approximately 34.6% of our non-consolidated sales in the first half of 2009 and 33.9% in the first half of 2010 were denominated in foreign currencies, of which approximately 84% were denominated in Dollars and approximately 14% in Yen, which were derived almost entirely from export sales. As of June 30, 2010, approximately 61% of our non-consolidated long-term debt (excluding discounts on debentures issued and including current portion) was denominated in foreign currencies, principally in Dollars and Yen. We have incurred foreign currency debt in the past principally due to the cost of Won-denominated financings in Korea, which have historically been higher than for Dollar or Yen-denominated financings.

Our liquidity is also affected by our construction expenditures and raw materials purchases. Cash used for acquisitions of property, plant and equipment was Won 2,017 billion in the first half of 2009 and Won 2,095 billion in the first half of 2010. We have entered into several long-term contracts to purchase iron ore, coal and other raw materials. The long-term contracts generally have terms of three to ten years and provide for periodic price adjustments to then-market prices. As of June 30, 2010, 339 million tons of iron ore and 55 million tons of coal remained to be purchased under long-term contracts. We may face unanticipated increases in capital expenditures and raw materials purchases. There can be no assurance that we will be able to secure funds on satisfactory terms from financial institutions or other sources that are sufficient for our unanticipated needs.

We had working capital (current assets minus current liabilities) of Won 10,232 billion as of December 31, 2009 and Won 10,256 billion as of June 30, 2010. On a non-consolidated basis, we

had unused credit lines of Won 1,579 billion out of total available credit lines of Won 2,934 billion as of June 30, 2010. We have not had, and do not believe that we will have, difficulty gaining access to short-term financing sufficient to meet our current requirements.

The following table sets forth our selected non-consolidated current assets data as of the periods indicated:

	As of December 31, 2009	As of June 30, 2010
	(In billions of Won)	
Cash and cash equivalents . . . . .	₩ 627	₩ 218
Short-term financial instruments . . . . .	5,582	6,258
Trading securities . . . . .	506	524
Trade accounts and notes receivable, net of allowance for doubtful accounts . . . . .	2,684	3,068
Inventories . . . . .	2,996	5,026

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

The following table sets forth our selected non-consolidated current liabilities data as of the periods indicated:

	As of December 31, 2009	As of June 30, 2010
	(In billions of Won)	
Trade accounts payable . . . . .	₩740	₩1,589
Short-term borrowings . . . . .	431	1,435
Current portion of long-term debt, net of discount on debentures issued . . . . .	1	800
Other accounts payable . . . . .	993	795
Income tax payable . . . . .	291	523

### Capital Expenditures and Capacity Expansion

Our current plan for capital investment in production facilities emphasizes capacity rationalization, increased production of higher value-added products and improvements in the efficiency of older facilities in order to reduce operating costs. The following table sets out the major items of our capital expenditures on a non-consolidated basis as of June 30, 2010:

Project	Expected Completion Date	Total Cost of Project (In billions of Won)	Estimated Remaining Cost of Completion as of June 30, 2010
<b>Pohang Works:</b>			
Construction of a new steelmaking plant . . . . .	December 2010	₩1,277	₩130
Renovation of no. 4 furnace . . . . .	December 2010	417	146
<b>Gwangyang Works:</b>			
Construction of no. 5 sintering plant and no. 5 coke plant . . . . .	December 2011	1,713	799
Construction of a new steel plate plant . . . . .	July 2010	1,912	88
<b>Pohang and Gwangyang Works:</b>			
Raw materials treatment facility upgrades . . . . .	March 2016	1,214	937

## **USE OF PROCEEDS**

The aggregate net proceeds from the offering are expected to be approximately US\$693 million, after deducting underwriting commissions and certain out-of-pocket expenses relating to the offering. The net proceeds from the offering will be used for capital expenditures, purchase of raw materials and other general corporate purposes.

## CAPITALIZATION

The following table sets forth our non-consolidated capitalization (defined as the sum of long-term debt and stockholders' equity) as of June 30, 2010 and as adjusted to give effect to (i) the issuance of the Notes, (ii) the issuance of Won 500 billion of 4.81% bonds due August 2015 and (iii) the borrowing of \$165 million of 4.09% long term loan due January 2014. This table should be read in conjunction with our non-consolidated financial statements, including the notes thereto, included elsewhere in this offering circular.

	As of June 30, 2010	
	Outstanding	As Adjusted
	(In billions of Won)	
Long-term debt:		
Long-term debt, net of current portion and discount on debentures Issued . . . . .	₩ 5,308	₩ 6,006
Notes offered hereby(1)(2) . . . . .	—	847
Total long-term debt . . . . .	₩ 5,308	₩ 6,853
Shareholders' equity:		
Capital stock . . . . .	₩ 482	₩ 482
Capital surplus . . . . .	4,437	4,437
Capital adjustments . . . . .	(2,403)	(2,403)
Accumulated other comprehensive Income . . . . .	423	423
Retained earnings . . . . .	30,076	30,076
Total shareholders' equity . . . . .	₩ 33,015	₩ 33,015
Total capitalization(3) . . . . .	₩ 38,323	₩ 39,868

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- (1) Pursuant to the Financial Accounting Standards of the Republic of Korea, the Notes will be accounted for as long-term debt for purposes of our capitalization.
- (2) Translated into Won amount at the market average exchange rate of Won 1,210.3 to US\$1.00 on June 30, 2010 as announced by the Seoul Money Brokerage Services, Ltd.
- (3) Sum of long-term debt (excluding current portion) and shareholders' equity.

Except as set forth herein, there has been no material change in our non-consolidated capitalization since June 30, 2010.

## EXCHANGE RATES

The table below sets forth, for the periods and dates indicated, information concerning the market average exchange rate, announced by Seoul Money Brokerage Services, Ltd., between Won and dollars and rounded to the nearest tenth of one Won. No representation is made that the Won or dollar amounts referred to herein could have been or could be converted into dollars or Won, as the case may be, at any particular rate or at all.

<u>Period</u>	<u>At End of Period</u>	<u>Average Rate(1)</u> (Won per US\$1.00)	<u>High</u>	<u>Low</u>
2005 .....	1,013.0	1,024.2	1,060.3	998.2
2006 .....	929.6	956.1	1,013.0	918.0
2007 .....	938.2	929.2	950.0	902.2
2008 .....	1,257.5	1,102.6	1,509.0	934.5
2009 .....	1,167.6	1,276.4	1,573.6	1,152.8
2010 (through October 21) .....	1,131.3	1,161.5	1,261.5	1,104.0
January .....	1,156.5	1,138.8	1,167.6	1,119.8
February .....	1,158.4	1,157.1	1,172.6	1,142.7
March .....	1,130.8	1,137.6	1,160.2	1,129.5
April .....	1,115.5	1,117.1	1,132.5	1,104.0
May .....	1,200.2	1,163.1	1,255.1	1,108.5
June .....	1,210.3	1,212.3	1,261.5	1,176.7
July .....	1,187.2	1,207.3	1,231.2	1,183.6
August .....	1,189.1	1,179.9	1,195.4	1,159.1
September .....	1,142.0	1,167.0	1,196.8	1,142.0
October (through October 21) .....	1,131.3	1,123.3	1,141.3	1,112.8

Source: Seoul Money Brokerage Services, Ltd.

(1) The average rate for the period is calculated as the average of the market average exchange rates on each business day during the relevant period.

## DESCRIPTION OF THE NOTES

The Notes will be issued under a fiscal agency agreement to be dated as of October 28, 2010 (the “Fiscal Agency Agreement”), between the Company and The Bank of New York Mellon, as fiscal agent (the “Fiscal Agent”). The following summaries of certain provisions of the Notes and the Fiscal Agency Agreement do not purport to be complete and are qualified in their entirety by reference to the provisions of the Notes and the Fiscal Agency Agreement.

### General

The Notes will be issued in an initial aggregate principal amount of US\$700,000,000 and will mature on October 28, 2020. The Notes are the direct, unconditional, unsecured and unsubordinated general obligations of the Company. The Notes will rank *pari passu* among themselves, without any preference one over the other by reason of priority of date of issue or otherwise, and at least equally with all other outstanding unsecured and unsubordinated general obligations of the Company (subject to certain statutory exceptions under the laws of the Republic).

The Notes will bear interest at the rate of 4.250% per annum from and including October 28, 2010, payable semi-annually in arrears on April 28 and October 28 of each year, commencing April 28, 2011, to the holders of record (“Holders”) as of the close of business on the fifteenth day preceding such interest payment date. Interest on the Notes will be calculated on the basis of a 360-day year consisting of twelve 30-day months. In any case where the date for the payment of any principal of or interest on any Note is not a day on which banking institutions at any place of payment are open for business (a “Business Day”), then payment of such principal or interest need not be made on such date at such place of payment but may be made on the next succeeding day at such place of payment which is a Business Day with the same force and effect as if made on the date for such payment of principal or interest, and no interest shall accrue for the period after such date.

The Notes may be redeemed at the option of the Company in whole, but not in part, at any time prior to maturity under the circumstances described under “— Optional Tax Redemption”. The Notes do not have the benefit of any sinking fund.

### Payments

Payments of interest on and principal of the Notes will be made in the legal currency of the United States of America by a Dollar check drawn on a bank that processes payments in Dollars mailed by the Fiscal Agent to the last address for each Holder appearing on the register (or, in the case of any Holder of a Global Note or at the option of each Holder of at least US\$10,000,000 in aggregate principal amount of Notes, by wire transfer to a bank account designated by such Holder in writing (such designation to be signed by two authorized officers of such Holder if it is not an individual) to the Fiscal Agent at least ten days prior to the relevant payment date).

### Book-Entry System and Form of Notes

Upon issuance, the Notes are expected to be represented by Global Notes in fully registered form. The Global Notes will be deposited with or on behalf of DTC and registered in the name of a nominee of DTC. A Global Note may not be transferred except as a whole by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC or by DTC or any such nominee to a successor of or a nominee of such successor.

Upon the issuance of the Global Notes, DTC will credit, on its book-entry registration and transfer system, the respective principal amounts of the Notes represented by such Global Notes to the accounts of persons that have accounts with DTC (“participants”), including depositaries for Euroclear and Clearstream. The accounts to be initially credited shall be designated by the Initial Purchasers participating in the initial offer and sale of the Notes. Ownership of beneficial interests in the Global Notes will be limited to participants or persons that may hold interests through participants. Ownership of

beneficial interests in such Global Notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC for such Global Notes (with respect to interests of participants) or by participants or persons that hold through participants (with respect to interests of persons other than participants).

DTC or its nominee, as the case may be, as registered Holder of the Global Notes will be considered the sole owner or holder of the Notes represented by each Global Note for all purposes under the Notes and the Fiscal Agency Agreement.

Principal and interest payments on Notes represented by the Global Notes registered in the name of DTC or its nominee will be made to DTC or its nominee, as the case may be, as the registered owner of such Global Notes. None of the Company, the Fiscal Agent or any paying agent for such Notes will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in such Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Company expects that DTC, upon receipt of any payment of principal or interest, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Notes as shown on the records of DTC. The Company also expects that payments by participants to owners of beneficial interests in such Global Notes held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the account of customers registered in "street names", and will be the responsibility of such participants.

If (i) at any time DTC notifies the Company in writing that it is unwilling or unable to continue as depositary or ceases to be a "clearing agency" under the Exchange Act, and a successor depositary is not appointed by the Company within 90 days after the Company is notified by DTC or becomes aware of such condition, or (ii) the Notes have become immediately due and payable pursuant to the Fiscal Agency Agreement, the Company will issue Notes in definitive registered form in exchange for the Global Notes representing such Notes. The Notes will be issued only in fully registered form without coupons in denominations of US\$100,000 and integral multiples of US\$1,000 in excess thereof. If the Notes are issued in definitive registered form, the Company will make payments of principal of and interest on the Notes, and transfers and exchanges of the Notes will be affected, subject to the terms of the Fiscal Agency Agreement and the Notes (without any service charge) upon surrender of the Notes at the offices of the Fiscal Agent.

### **Same-Day Settlement**

Initial settlement for the Notes will be made in same-day funds.

### **Restrictions on Transfer**

The Notes may not be sold or otherwise transferred except in accordance with the restrictions described under "Transfer Restrictions".

### **Meetings of Holders; Modification and Amendment**

The Company may at any time, and the Fiscal Agent shall at any time after the Notes shall have become immediately due and payable due to a default upon a request in writing made by Holders holding not less than 10% of the aggregate outstanding principal amount of the Notes, convene a meeting of the Holders. At a meeting of the Holders, persons entitled to vote a majority in aggregate principal amount of the Notes at the time outstanding shall constitute a quorum. In the absence of a quorum at any such meeting, the meeting may be adjourned for a period of not less than ten days; in the absence of a quorum at any such adjourned meeting, such adjourned meeting may be further adjourned for a period of not less than ten days; at the reconvening of any meeting further adjourned for lack of a quorum, the persons entitled to vote 25% in aggregate principal amount of the Notes at the time outstanding shall constitute a



quorum for the taking of any action set forth in the notice of the original meeting. Any resolution at a meeting of the Holders to modify or amend, or to waive compliance with, any of the covenants or conditions (other than those set forth below as requiring the consent of each Holder of a Note affected thereby) shall be effectively passed if passed by the lesser of (i) a majority in aggregate principal amount of Notes then outstanding or (ii) 75% in aggregate principal amount of the Notes represented and voting at the meeting.

Modifications and amendments to the Fiscal Agency Agreement or the Notes requiring consent of Holders may be made, and future compliance therewith or past defaults by the Company may be waived, with the consent of the Company and the Holders of more than 50% in aggregate principal amount of the Notes at the time outstanding, or of such lesser percentage as may act at a meeting of the Holders held in accordance with the provisions of the Fiscal Agency Agreement; *provided* that no such modification, amendment or waiver of the Fiscal Agency Agreement or any Note may, without the consent of each Holder affected thereby, (i) change the stated maturity of the principal of, or the date for the payment of interest on, any such Note; (ii) reduce the principal of or interest on any such Note; (iii) change the currency of payment of the principal of or interest on any such Note; or (iv) reduce the above-stated percentage of aggregate principal amount of Notes outstanding or reduce the quorum requirements or the percentage of votes required for the taking of any action.

The Fiscal Agency Agreement and the terms and conditions of the Notes may be modified, supplemented or amended, without the consent of the Holders, for the purposes of (i) adding to the covenants of the Company for the benefit of such Holders, (ii) surrendering any right or power conferred upon the Company, (iii) securing the Notes, (iv) curing any ambiguity or correcting or supplementing any defective provision contained in the Fiscal Agency Agreement or the Notes, (v) implementing the provisions described under “— Meetings of Holders; Modification and Amendment” herein, (vi) evidencing and providing for the acceptance of appointment of a successor Fiscal Agent with respect to the Notes and to add to or change any provisions of the Fiscal Agency Agreement that shall be necessary to provide for or facilitate the administration of the trusts by more than one Fiscal Agent or (vii) in any other manner which the Company and the Fiscal Agent may deem necessary or desirable, *provided* that such action, in the opinion of the Company, shall not adversely affect in any material respect the interests of the Holders of such Notes at the time outstanding. In all other cases, any amendment of the Fiscal Agency Agreement will require the consent of the Holders pursuant to a resolution of the Holders adopted in accordance with the provisions of the Fiscal Agency Agreement.

Any modifications, amendments or waivers consented to or approved at a meeting will be conclusive and binding on all Holders whether or not they have given such consent or were present at such meeting, and on all future Holders whether or not notation of such modifications, amendments or waivers is made upon the Notes. Any instrument given by or on behalf of any Holder of a Note in connection with any consent to any such modification, amendment or waiver will be irrevocable once given and will be conclusive and binding on all subsequent Holders of such Note.

## **Certain Covenants**

### ***Limitation on Liens***

So long as any of the Notes are outstanding, the Company will not itself, and will not permit any Material Subsidiary to, create, incur, issue or assume or guarantee any External Indebtedness secured by any mortgage, charge, pledge, encumbrance or other security interest (a “Lien”) on any Principal Property without in any such case effectively providing that the Notes (together with, if the Company shall so determine, any other indebtedness of the Company or such Material Subsidiary then existing or thereafter created) shall be secured equally and ratably with or prior to such secured External Indebtedness, so long as such secured External Indebtedness shall be so secured, unless, after giving effect thereto, the aggregate principal amount of all such secured External Indebtedness then outstanding *plus* Attributable Debt of the Company and its Material Subsidiaries in respect of Sale/Leaseback Transactions as described under “— Limitation on Sale and Leaseback Transactions” below (other than such Sale/

Leaseback Transactions permitted under clause (b) of the covenant described in such section) would not exceed an amount equal to 15% of Consolidated Net Tangible Assets.

The foregoing restriction will not apply to External Indebtedness secured by:

(i) any Lien existing on any Principal Property prior to the acquisition thereof by the Company or any of its Material Subsidiaries or arising after such acquisition pursuant to contractual commitments entered into prior to and not in contemplation of such acquisition;

(ii) any Lien on any Principal Property securing External Indebtedness incurred or assumed for the purpose of financing the purchase price thereof or the cost of construction, improvement or repair of all or any part thereof, *provided* that such Lien attaches to such Principal Property concurrently with or within 12 months after the acquisition thereof or completion of construction, improvement or repair thereof;

(iii) any Lien existing on any Principal Property of any Material Subsidiary prior to the time such Material Subsidiary becomes a Subsidiary of the Company or arising after such time pursuant to contractual commitments entered into prior to and not in contemplation thereof;

(iv) any Lien securing External Indebtedness owing to the Company or to a Subsidiary; or

(v) any Lien arising out of the refinancing, extension, renewal or refunding of any External Indebtedness secured by any Lien permitted by any of the foregoing clauses or existing as of the date of the Fiscal Agency Agreement, *provided* that such External Indebtedness is not increased and is not secured by any additional Principal Property.

For the purposes of the covenants described hereunder and under “— Limitation on Sale and Leaseback Transactions” below, the giving of a guarantee which is secured by a Lien on a Principal Property, and the creation of a Lien on a Principal Property to secure External Indebtedness which existed prior to the creation of such Lien, shall be deemed to involve the creation of indebtedness in an amount equal to the principal amount guaranteed or secured by such Lien; but the amount of indebtedness secured by Liens on Principal Properties shall be computed without cumulating the underlying indebtedness with any guarantee thereof or Lien securing the same.

#### ***Limitation on Sale and Leaseback Transactions***

So long as any of the Notes are outstanding, the Company will not itself, and will not permit any Material Subsidiary to, enter into any Sale/Leaseback Transaction after the date of the Fiscal Agency Agreement (other than such Sale/Leaseback Transactions permitted under clause (b) below), unless either:

(a) the Attributable Debt of the Company and its Material Subsidiaries in respect of such Sale/Leaseback Transaction and all other Sale/Leaseback Transactions entered into after the date of the Fiscal Agency Agreement (other than such Sale/Leaseback Transactions permitted under clause (b) below) plus the aggregate principal amount of External Indebtedness secured by Liens on Principal Properties then outstanding (excluding any such External Indebtedness secured by Liens described in clauses (i) through (v) under “— Limitation on Liens” above or existing on the date of the Fiscal Agency Agreement) without equally and ratably securing the Notes, would not exceed 15% of Consolidated Net Tangible Assets; or

(b) the Company, within 12 months after such Sale/Leaseback Transaction, applies or causes a Material Subsidiary, as the case may be, to apply an amount equal to the net proceeds of such sale or transfer of the Principal Property which is the subject of such Sale/Leaseback Transaction, to the retirement of External Indebtedness of the Company or a Material Subsidiary, as the case may be, which is not subordinate to the Notes; *provided* that the amount to be so applied shall be reduced by (i) the principal amount of Notes delivered within 12 months after such Sale/Leaseback Transaction to the Fiscal Agent for retirement and cancellation, and (ii) the principal amount of External Indebtedness of the Company or a Material Subsidiary, other than the Notes, voluntarily retired by

the Company or a Material Subsidiary within 12 months after such Sale/Leaseback Transaction. Notwithstanding the foregoing, no retirement referred to in this clause (b) may be effected by payment at maturity or pursuant to any mandatory prepayment provision.

Notwithstanding the foregoing, where the Company or any Material Subsidiary is the lessee in any Sale/Leaseback Transaction, Attributable Debt shall not include any External Indebtedness resulting from the guarantee by the Company or any other Material Subsidiary of the lessee's obligation in such Sale/Leaseback Transaction. The foregoing restrictions shall not apply to any transaction between the Company and a Subsidiary or between a Material Subsidiary and a Subsidiary.

### ***Certain Definitions***

All accounting terms used in the Fiscal Agency Agreement and the Notes and not expressly defined shall have the meanings given to them in accordance with Korean GAAP, and the term "Korean GAAP" shall mean such accounting principles which are generally accepted in the Republic at the date or time of any computation.

*"Attributable Debt"* means, with respect to any Sale/Leaseback Transaction, the lesser of:

- (x) the fair market value of the Principal Property subject to the Sale/Leaseback Transaction; and
- (y) the present value (discounted at a rate per annum equal to the discount rate of a capital lease obligation with a like term in accordance with Korean GAAP) of the obligations of the lessee for net rental payments (excluding amounts on account of maintenance and repairs, insurance, taxes, assessments and similar charges) during the term of the lease.

*"Consolidated Net Tangible Assets"* means, at any date, the total amount of assets of the Company and its consolidated Subsidiaries, including investments in unconsolidated Subsidiaries, after deducting therefrom:

- (i) all current liabilities (excluding any current liabilities constituting Long-term Debt by reason of their being renewable or extendible at the option of the Company);
- (ii) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangible assets; and
- (iii) all write-ups of fixed assets, net of accumulated depreciation thereon, after December 31, 2009, other than as permitted under the Asset Revaluation Law, or successor law, of the Republic, all as set forth on the most recent balance sheet of the Company and its consolidated Subsidiaries and computed in accordance with Korean GAAP.

*"External Indebtedness"* means any obligation for the payment or repayment of money borrowed which is denominated in a currency other than the currency of the Republic and which has a final maturity of one year or more from its date of incurrence or issuance.

*"Long-term Debt"* means any note, bond, debenture or other similar indebtedness for money borrowed having a maturity of more than one year from the date such indebtedness was incurred or having a maturity of less than or equal to one year but by its terms being renewable or extendible, at the option of the borrower, beyond one year from the date such indebtedness was incurred.

*"Material Subsidiary"* means any Subsidiary that owns a Principal Property.

*"person"* means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

*"Principal Property"* means:

- (a) Pohang Works, Gwangyang Works and any other steel producing or processing facility located in the Republic, whether at the date of the Fiscal Agency Agreement owned or thereafter acquired, including any land, buildings, structures or machinery and other fixtures that constitute any

such facility, or portion thereof, other than any such facility, or portion thereof, reasonably determined by the Company's Board of Directors not to be of material importance to the total business conducted by the Company and its Subsidiaries as a whole; and

(b) any share of common or participating preferred stock of a Material Subsidiary.

*"Sale/Leaseback Transaction"* means any arrangement with any person which provides for the leasing by the Company or any Material Subsidiary, for an initial term of three years or more, of any Principal Property, whether now owned or hereafter acquired, which is to be sold or transferred by the Company or any Material Subsidiary after the date of the Fiscal Agency Agreement to such person for a sale price of US\$1,000,000 (or the equivalent thereof) or more where the rental payments are denominated in a currency other than the currency of the Republic.

*"Subsidiary"* means any corporation or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are at the time directly or indirectly owned by the Company.

### ***Provision of Information to Holders***

The Company covenants that for so long as the Notes are "restricted securities" within the meaning of Rule 144 under the Securities Act, the Company will, at any time when it is not subject to either the periodic reporting requirements of Section 13 or Section 15(d) of the Exchange Act or the requirements of Rule 12g3-2(b) thereunder, provide to any Holder or prospective purchaser of Notes designated by such Holder, upon the request of such Holder or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

### **Events of Default**

The term "Event of Default" wherever used in the Fiscal Agency Agreement with respect to the Notes means any of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body) which shall have occurred and be continuing:

(a) default in the payment of any installment of interest upon any of the Notes when it becomes due and payable, and continuance of such default for a period of 30 days; or

(b) default in the payment of all or any part of the principal of (or premium, if any, on) any of the Notes as and when the same shall become due and payable, whether at maturity, upon redemption or otherwise; or

(c) default in the performance, or breach, of the covenants or agreements on the part of the Company contained in the Notes or in the Fiscal Agency Agreement, and continuance of such default or breach for a period of 60 days after there has been given, by registered or certified mail, to the Company at the office of the Fiscal Agent by the Holders of at least 10% in aggregate principal amount of the Notes at the time outstanding a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" under the Notes; or

(d) any External Indebtedness of the Company in the aggregate outstanding principal amount of US\$15,000,000 or more either (i) becoming due and payable prior to the due date for payment thereof by reason of acceleration thereof following default by the Company or (ii) not being repaid at, and remaining unpaid after, maturity as extended by the period of grace, if any, applicable thereto, or any guarantee given by the Company in respect of External Indebtedness of any other person not being honored when, and remaining dishonored after becoming, due and called; *provided that*, in the case of (i) above, if any such default under any such External Indebtedness shall be cured or waived, then the default under the Notes by reason thereof shall be deemed to have been cured and waived; or

(e) the entry of a decree or order for relief in respect of the Company by a court having jurisdiction in the premises in an involuntary case under any applicable bankruptcy, insolvency, rehabilitation or other similar law in effect on the date of the Notes or thereafter, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of the Company or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of 60 consecutive days; or

(f) the commencement by the Company of a voluntary case under any applicable bankruptcy, insolvency, rehabilitation or other similar law in effect on the date of the Notes or thereafter, or the consent by the Company to the entry of an order for relief in an involuntary case under any such law or to the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of the Company or of any substantial part of its property, or the mailing by the Company of an assignment for the benefit of its creditors, or the admission by the Company in writing of inability to pay its debts generally as they become due, or the taking of corporate action by the Company in furtherance of any such action.

If an Event of Default with respect to the Notes occurs and is continuing, the Holders of not less than 25% in aggregate principal amount of the Notes then outstanding may declare the principal amount of and all accrued but unpaid interest on all the Notes to be due and payable immediately, by a notice in writing to the Company at the office of the Fiscal Agent, and upon such declaration any such principal amount and interest shall become immediately due and payable. Upon such declaration, the Fiscal Agent shall give notice thereof to the Company and to the Holders, by mail and publication. If, after any such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Company pays or deposits with the Fiscal Agent all amounts then due with respect to the Notes (other than amounts due solely because of such declaration) and cures all other Events of Default with respect to the Notes, such defaults may be waived and such declaration may be annulled and rescinded by the Holders of more than 50% in aggregate outstanding principal amount of the Notes by written notice thereof to the Company at the office of the Fiscal Agent.

### **Consolidation, Merger and Sale of Assets**

The Company, without the consent of the Holders of any of the Notes, may consolidate with, or merge into, or sell, transfer, lease or convey its assets as an entirety or substantially as an entirety to any corporation organized under the laws of the Republic; *provided* that (a) any successor corporation expressly assumes the Company's obligations under the Notes and the Fiscal Agency Agreement, (b) after giving effect to the transaction, no Event of Default and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing, (c) if, as a result of such transaction, the Company or any successor corporation becomes subject to a Lien which would not be permitted by the Notes, such steps shall have been taken as are necessary to secure the Notes equally and ratably with (or prior to) all indebtedness secured thereby, and (d) certain other conditions as per the Fiscal Agency Agreement are satisfied.

### **Defeasance and Discharge**

The Fiscal Agency Agreement provides that the Company need not comply with certain covenants ("covenant defeasance") of the Notes (including those described under "— Certain Covenants — Limitation on Liens" and "— Certain Covenants — Limitation on Sale and Leaseback Transactions"), if (i) the Company irrevocably deposits, in trust with a trustee (which may be the Fiscal Agent) for the benefit of the Holders, (a) cash in Dollars in an amount, or (b) U.S. Government Obligations (as defined below) which through the payment of interest thereon and principal thereof in accordance with their terms will provide cash in Dollars in an amount, or (c) any combination of (a) and (b), sufficient to pay all the principal of, and interest on, the Notes on the dates such payments are due in accordance with the terms of such Notes; (ii) no Event of Default or event which, with notice or lapse of time or both, would become an Event of Default with respect to the Notes shall have occurred and be continuing on the date of such deposit; (iii) the Company delivers to such trustee an opinion of counsel in the United States reasonably acceptable to such



trustee to the effect that the Holders will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the exercise of such covenant defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such covenant defeasance had not occurred; (iv) the Company delivers to such trustee an opinion of counsel in the Republic to the effect that such deposit and related covenant defeasance will not cause the Holders, other than the Holders (x) who are or who are deemed to be residents of the Republic or (y) who use or hold or are deemed to use or hold their Notes in carrying on a business in the Republic, to recognize income, gain or loss for Korean income tax purposes, and to the effect that payments out of the trust fund will be free and exempt from any and all withholding and other income taxes of whatever nature of the Republic or any province or political subdivision thereof or therein having power to tax, except in the case of Notes beneficially owned (x) by a person who is or is deemed to be a resident of the Republic or (y) by a person who uses or holds or is deemed to use or hold such Notes in carrying on a business in the Republic; and (v) the Company delivers to such trustee a certificate executed by a duly authorized officer of the Company and an opinion of counsel, each stating that all conditions precedent provided for relating to the covenant defeasance have been complied with.

“U.S. Government Obligations” means securities which are (i) direct obligations of the United States government or are (ii) direct obligations of a person controlled or supervised by and acting as an agency or instrumentality of the United States government, the payment of which is unconditionally guaranteed by the United States government, which, in either case, are full faith and credit obligations of the United States government payable in Dollars and are not callable or redeemable at the option of the issuer thereof and shall also include a depositary receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depositary receipt; provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depositary receipt.

## **Change of Control**

If a Change of Control occurs, each Holder will have the right to require the Company to repurchase all or any part (equal to US\$100,000 or an integral multiple of US\$1,000 in excess thereof) of such Holder's Notes at a purchase price in cash equal to 100% of the principal amount of the Notes plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant Interest Payment Date).

Within 30 days following any Change of Control, the Company will mail a notice (the “Change of Control Offer”) to each Holder, with a copy to the Fiscal Agent, stating:

(i) that a Change of Control has occurred and that such Holder has the right to require the Company to purchase such Holder's Notes at a purchase price in cash equal to 100% of the principal amount of such Notes plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of Holders of record on a record date to receive interest on the relevant Interest Payment Date) (the “Change of Control Payment”);

(ii) the effective date for the Change of Control repurchase (which shall be no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the “Change of Control Effective Date”);

(iii) the circumstances and relevant facts regarding the Change of Control; and

(iv) the procedures, consistent with the Fiscal Agency Agreement and the Notes, that a Holder must follow in order to have its Notes repurchased.



On the Change of Control Effective Date, the Company will, to the extent lawful:

(1) accept for payment all Notes or portions of Notes (with a principal amount of at least US\$100,000 and integral multiples of US\$1,000 in excess thereof) properly tendered pursuant to the Change of Control Offer; and

(2) deliver or cause to be delivered to the Fiscal Agent the Notes so accepted, together with an Officers' Certificate stating the aggregate principal amount of Notes or portions of Notes being purchased by the Company.

Promptly thereafter (but in no event more than five business days after the Change of Control Effective Date), the Company will deposit with the Fiscal Agent an amount equal to the Change of Control Payment in respect of the Notes or portions of Notes tendered. The Fiscal Agent will promptly mail to each Holder of Notes so tendered the Change of Control Payment for such Notes, and the Fiscal Agent will promptly authenticate and mail (or cause to be transferred by book entry) to each Holder a new Note equal in principal amount to any unpurchased portion of the Notes surrendered, if any; *provided* that each such new Note will be in a principal amount of at least US\$100,000 or integral multiples of US\$1,000 in excess thereof.

If the Change of Control Effective Date is on or after an interest record date and on or before the related Interest Payment Date, any accrued and unpaid interest, if any, will be paid to the Holder in whose name a Note is registered at the close of business on such record date, and no additional interest will be payable to Holders who tender pursuant to the Change of Control Offer.

The repurchase obligation resulting from a Change of Control is a result of negotiations between the Company and the Purchasers. Neither the Company nor any of its shareholders has a present intention to engage in a transaction involving a Change of Control, although the Company or its shareholders may decide to do so in the future.

The Company will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Fiscal Agency Agreement and the Notes applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

The Company will comply, in each case to the extent applicable, with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws or regulations, including any securities laws of the United States, Korea and Singapore and the requirements of the Singapore Stock Exchange or any other securities exchange upon which the Notes are listed, in connection with the repurchase of Notes pursuant to this covenant. To the extent that the provisions of any securities laws or regulations conflict with provisions of the Fiscal Agency Agreement or the Notes, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Fiscal Agency Agreement or the Notes by virtue of such conflict.

The definition of "Change of Control" includes a disposition of all or substantially all of the property and assets of the Company to any Person. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of "all or substantially all" of the property or assets of a Person. As a result, it may be unclear as to whether a Change of Control has occurred and whether a Holder of Notes may require the Company to make an offer to repurchase the Notes as described above.

"Change of Control" means:

(1) (A) any "person" (as defined in Section 13(d)(3) of the Exchange Act) is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that such person or group shall be deemed to have "beneficial ownership" of all shares that any such person or group has the right to acquire, whether such right is exercisable immediately or only after the passage

of time), directly or indirectly, of more than 50% of the total voting power of the Voting Stock of the Company (or its successor by merger, consolidation or purchase of all or substantially all of its assets); and (B) a Rating Event occurs;

(2) (A) the sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation) in one or a series of related transactions, of all or substantially all of the assets of the Company to any “person” (as such term is used in Section 13(d) of the Exchange Act) other than to one or more subsidiaries of the Company; and (B) a Rating Event occurs;

(3) (A) the first day on which a majority of the members of the board of directors of the Company cease to be Continuing Directors; and (B) a Rating Event occurs; or

(4) the adoption by the stockholders of the Company of a plan or proposal for the liquidation or dissolution of the Company.

“Capital Stock” of any Person means any and all shares, interests, rights to purchase, warrants, options, participation or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock and limited liability or partnership interests (whether general or limited), but excluding any debt securities convertible or exchangeable into such equity.

“Continuing Director” means, as of any date of determination, any member of the board of directors of the Company who: (1) was a member of such board of directors on the date of the Fiscal Agency Agreement; or (2) was nominated for election or elected to such board of directors with the approval of a majority of the Continuing Directors who were members of such board of directors at the time of such nomination or election (it being understood that any such member who was nominated for election or elected to such board by the Company’s Director Nomination Committee, other than as a result of a request by a shareholder of the Company pursuant to Paragraph 5, Article 542-8 of the Commercial Code of Korea, shall be deemed to be nominated for election or elected with the approval of a majority of such Continuing Directors).

“Person” means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

“Preferred Stock,” as applied to the Capital Stock of any corporation, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such corporation, over shares of Capital Stock of any other class of such corporation.

“Rating Event” means that, on any date during the period (the “Trigger Period”) commencing on the first public announcement by the Company of an arrangement that could result in a Change of Control and ending 60 days following occurrence of such Change of Control (other than the applicable Rating Event) (which Trigger Period will be extended following occurrence of such Change of Control (other than the applicable Rating Event) for so long as Moody’s Investors Service, Inc., and its successors (“Moody’s”) or Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors (“S&P”), has publicly announced during the original Trigger Period, and has not publicly rescinded such announcement, that it is considering a possible ratings downgrade), the rating of the Notes ceases to be rated Baa3 or better by Moody’s (or its equivalent under any successor rating category of Moody’s) and BBB- or better by S&P (or its equivalent under any successor rating category of S&P).

“Voting Stock” of a Person means all classes of Capital Stock of such Person then outstanding and normally entitled to vote in the election of directors.

### **Additional Amounts**

All payments of principal of and interest on the Notes shall be made by the Company without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Republic or by or within any political subdivision thereof or any authority therein having power to tax (“Korean Tax”), unless

deduction or withholding of such Korean Tax is required by law. In the event that the deduction or withholding of Korean Tax is required by law, the Company will pay such additional amounts ("Additional Amounts") as will result in the payment to the Holder of the amounts which would otherwise have been receivable in respect of principal and interest in the absence of such deduction or withholding, except that no such Additional Amount shall be payable in respect of the Notes:

(a) to or on behalf of a Holder who is subject to such Korean Tax in respect of such Note by reason of such Holder being or having been connected with the Republic (or any political subdivision thereof) otherwise than merely by holding such Note or receiving principal or interest in respect thereof; or

(b) to or on behalf of a Holder who would not be liable for or subject to such deduction or withholding by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority if, after having been requested in writing by the Company to make such a declaration or claim, such Holder fails to do so within 30 days; or

(c) to or on behalf of a Holder who presents a Note (where presentation is required) more than 30 days after the Relevant Date except to the extent that the Holder thereof would have been entitled to such Additional Amounts on presenting a Note for payment on the last day of such 30-day period; for this purpose the "Relevant Date" in relation to any payments of interest on, or principal of, any Note means:

(i) the due date for payment thereof; or

(ii) if the full amount of the monies payable on such date has not been received by the Fiscal Agent on or prior to such due date, the date on which, the full amount of such monies having been so received, notice to that effect is duly given to the Holders in accordance with the Fiscal Agency Agreement; or

(d) if withholding or deduction is imposed on a payment to or for the benefit of an individual and such payment is required to be made pursuant to Council Directive 2003/48/EC or any other Directive on the taxation of savings implementing the conclusion of the ECOFIN council meeting on November 26-27, 2000, or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(e) to a Holder that is a fiduciary or partnership or a person other than the sole beneficial owner of any such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of the payment would not have been entitled to the Additional Amounts had the beneficiary, settlor, member or beneficial owner been the Holder of the Note; or

(f) to or on behalf of a Holder who would have been able to avoid the withholding or deduction by the presentation (where presentation is required) of the relevant Note to, or otherwise accepting payment from, another paying agent in a Member State of the European Union; or

(g) any combination of (a), (b), (c), (d), (e) or (f) above.

The obligation of the Company to pay such Additional Amounts in respect of taxes, duties, assessments and governmental charges shall not apply to (i) any estate, inheritance, gift, sales, transfer, personal property or any similar tax, assessment or other governmental charge or (ii) any tax, assessment or other governmental charge which is payable otherwise than by deduction or withholding from payments of principal or interest on the Notes; *provided that*, except as otherwise set forth in the Notes and in the Fiscal Agency Agreement, the Company shall pay all stamp and other duties, if any, which may be imposed by the Republic, the United States, or any respective political subdivision thereof or any taxing authority of or in the foregoing, with respect to the Fiscal Agency Agreement or as a consequence of the initial issuance of the Notes.

References to principal or interest in respect of the Notes shall be deemed also to refer to any Additional Amounts which may be payable as set forth in the Note.

### **Optional Tax Redemption**

The Notes may be redeemed at the option of the Company, in whole, but not in part, upon not less than 30 nor more than 60 days' notice, at any time at a redemption price equal to the principal amount thereof plus accrued interest to (but excluding) the date fixed for redemption if, as a result of any change in, expiration of or amendment to the laws of the Republic (or of any political subdivision or taxing authority thereof or therein) or any regulations or rulings promulgated thereunder or any change in the official interpretation or official application of such laws, regulations or rulings, or any change in the official application or interpretation of, or any execution of or amendment to, any treaty or treaties affecting taxation to which the Republic (or such political subdivision or taxing authority) is a party, which change, amendment, expiration or treaty becomes effective on or after October 21, 2010, the Company is or would be obligated on the next succeeding due date for a payment with respect to the Notes to pay Additional Amounts with respect to the Notes, and such obligation cannot be avoided by the use of reasonable measures available to the Company; *provided, however*, that (i) no such notice of redemption may be given earlier than 60 days prior to the earliest date on which the Company would be obligated to pay such Additional Amounts, and (ii) at the time such notice of redemption is given, such obligation to pay such Additional Amounts remains in effect. Before giving any notice of such redemption, the Company shall deliver to the Fiscal Agent a certificate of the Company stating that the Company is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of redemption have occurred.

### **Purchase of Notes**

The Company may at any time purchase Notes by tender (available to all Holders alike) or in the open market at any price. If the Company shall acquire any Notes, such acquisition shall not operate as or be deemed for any purpose to be a satisfaction of the indebtedness represented by such Notes unless and until such Notes are delivered to the Fiscal Agent for cancellation and are cancelled and retired by the Fiscal Agent. Notes purchased or otherwise acquired by the Company may be held, resold or, at its discretion, surrendered to the Fiscal Agent for cancellation.

### **Fiscal Agent**

The Fiscal Agent may resign at any time or may be removed by the Company. If the Fiscal Agent resigns, is removed or becomes incapable of acting as Fiscal Agent or if a vacancy occurs in the office of the Fiscal Agent for any cause, a successor Fiscal Agent shall be appointed in accordance with the provisions of the Fiscal Agency Agreement.

The address of the relevant corporate trust office of the Fiscal Agent is The Bank of New York Mellon, 101 Barclay Street, Floor 4 East, New York, New York 10286, USA.

### **Paying and Transfer Agents**

The Fiscal Agent will serve as the initial paying agent and transfer agent (together with any additional paying agent and transfer agent, the "Paying and Transfer Agents"). The Paying and Transfer Agents may resign at any time or may be removed by the Company. If any of the Paying and Transfer Agents is removed or becomes incapable of acting as a Paying and Transfer Agent or if a vacancy occurs in the office of any of the Paying and Transfer Agents for any cause, a successor Paying and Transfer Agent will be appointed in accordance with the provisions of the Fiscal Agency Agreement; *provided* that the Company will ensure that it maintains a paying agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26 — 27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

For so long as the Notes are listed on the Singapore Stock Exchange and the rules of the Singapore Stock Exchange so require, the Company will appoint and maintain a Paying and Transfer Agent in Singapore, where the certificates representing Notes may be presented or surrendered for payment or redemption (if required), in the event that the Company issues definitive certificates. In addition, an announcement of such issue will be made through the Singapore Stock Exchange. Such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the Paying and Transfer Agent in Singapore.

### **Further Issues**

Subject to the lock-up provisions, the Company may from time to time, without the consent of the existing Holders, create and issue further notes to the extent permitted under the applicable laws, having the same terms and conditions as the Notes in all respects except for issue date and/or issue price, which may be consolidated and form a single series with the Notes outstanding at the time of such further issuance.

### **Notices**

Except as otherwise expressly provided in the Fiscal Agency Agreement, whenever the Fiscal Agency Agreement or the Notes require that the Company or the Fiscal Agent give notice to the Holders, the Company or the Fiscal Agent will cause such notice to be mailed to the Holders at their respective addresses as they appear on the Note Register (as defined in the Fiscal Agency Agreement) of the Company.

### **Governing Law and Jurisdiction**

The Fiscal Agency Agreement and the Notes will be governed by, and interpreted in accordance with, the laws of the State of New York.

The Company has consented to the jurisdiction of the state and federal courts in the Borough of Manhattan, the State and City of New York, United States of America with respect to any action that may be brought in connection with the Fiscal Agency Agreement or the Notes (except actions arising under the United States federal securities laws) and has appointed POSCO America Corp. at 2 Executive Dr., Suite #805, Fort Lee, New Jersey 07024, as its authorized agent upon whom process may be served in any such action.

### **Foreign Exchange Controls**

Korean law does not limit the right of non-Koreans to hold Notes outside of the Republic. In order for the Company to issue the Notes outside of the Republic, the Company is required to file a report with the Ministry of Strategy and Finance through a designated foreign exchange bank for the issuance of the Notes. Such report must be obtained prior to the offer and sale of the Notes. Furthermore, in order for the Company to make payments of principal of or interest on the Notes and other amounts as provided in the Fiscal Agency Agreement and the Notes, the Company is required to submit the relevant documents to a foreign exchange bank at the time of each actual payment. The purpose of this submission is to enable such foreign exchange bank to verify that the amount being remitted conforms to the amount required to be paid under the relevant documents and that any necessary requirement under the Foreign Exchange Transaction Law of Korea has been met. Under the Foreign Exchange Transaction Law of Korea, if the Government deems that certain emergency circumstances, including, but not limited to, sudden fluctuations in interest rates or exchange rates, extreme difficulty in stabilizing the balance of payments or a substantial disturbance in the Korean financial and capital markets, are likely to occur, it may impose any necessary restrictions such as requiring foreign investors of the Notes to obtain prior approval from the relevant Korean authority or obligate certain portions of payments received by the foreign investors in connection with the Notes to be deposited in Korea.



## TAXATION

### U.S. Taxation

**TO ENSURE COMPLIANCE WITH U.S. TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF UNITED STATES FEDERAL TAX ISSUES IN THIS OFFERING CIRCULAR IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE COMPANY IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE COMPANY OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.**

The following summary describes certain material U.S. federal income tax considerations with respect to the purchase, ownership and disposition of Notes by a U.S. Holder (as defined below) as of the date of this offering circular. The summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular investor, including tax considerations that arise from rules of general application to all taxpayers or to certain classes of investors or that are generally assumed to be known by investors. The discussion set forth below deals only with Notes purchased at their original issuance and issue price and held as capital assets and does not deal with special situations, such as those of dealers in securities or currencies, certain short-term holders of the Notes, financial institutions, tax-exempt entities, insurance companies, persons liable for alternative minimum tax, pass-through entities, persons holding Notes as a part of a hedging, integrated, conversion or constructive sale transaction or a straddle, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings or U.S. Holders of Notes whose “functional currency” is not the U.S. Dollar. Furthermore, the discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended (the “Code”), and regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be repealed, revoked or modified, possibly on a retroactive basis, so as to result in U.S. federal income tax consequences different from those discussed below. Persons considering the purchase, ownership or disposition of Notes should consult their own tax advisors concerning the U.S. federal income tax consequences in light of their particular situations as well as any consequences arising under the laws of any other taxing jurisdiction.

As used herein, a “U.S. Holder” of a Note means a beneficial owner that is, for U.S. federal income tax purposes, an individual who is a citizen or resident of the United States, a corporation created or organized in or under the laws of the United States or any political subdivision thereof, or any other person that is subject to U.S. federal income tax on a net income basis in respect of its investment in the Notes.

A “Non-U.S. Holder” is a holder that is an individual, corporation, trust or estate and is not a U.S. Holder.

If Notes are held by a partnership, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. If you are a partner of a partnership holding Notes, you should consult your tax advisor.

**Investors should consult their own tax advisors regarding the tax consequences of the acquisition, ownership and disposition of the Notes, including the application to their particular circumstances of the tax considerations discussed below, as well as the application of U.S. state and local tax laws and foreign tax laws.**

### *Payments of Interest*

Interest on a Note generally will be taxable to a U.S. Holder as ordinary income at the time it is paid or accrued in accordance with the U.S. Holder’s method of accounting for U.S. federal income tax purposes.



### *Additional Amounts*

Although interest payments to a U.S. Holder are currently exempt from Korean taxation, if the Korean law providing for the exemption is repealed, then in addition to interest on the Notes (which includes any tax withheld from interest payments), a U.S. Holder would be required to include in income any Additional Amounts received (see “Description of Notes — Additional Amounts”). A U.S. Holder may be entitled to deduct or credit such tax, subject to applicable limitations and conditions under U.S. federal income tax laws. However, the election to deduct foreign taxes applies to all of the U.S. Holder’s foreign taxes for a particular taxable year. Interest income on a Note, including any Additional Amounts, generally will constitute foreign source income and generally will be considered “passive category income” in computing the foreign tax credit allowable to U.S. Holders under U.S. federal income tax laws. U.S. Holders will generally be denied a foreign tax credit for foreign taxes imposed with respect to the Notes where they do not meet a minimum holding period requirement during which they are not protected from risk of loss. The rules governing foreign tax credits are complex. Investors are urged to consult their tax advisors regarding the availability of foreign tax credits under their particular circumstances.

### ***Sale, Exchange and Retirement of Notes***

Upon the sale, exchange, retirement or other taxable disposition of a Note, a U.S. Holder will recognize gain or loss equal to the difference between the amount realized upon the sale, exchange, retirement or other disposition (less an amount equal to any accrued interest not previously included in income, which will be taxable as such) and the U.S. Holder’s adjusted tax basis in the Note. A U.S. Holder’s adjusted tax basis in a Note will generally be the cost for that Note. Gain or loss recognized by a U.S. Holder on the sale, exchange, retirement or other disposition of a Note generally will be treated as U.S. source gain or loss. Such gain or loss will be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange, retirement or other disposition, the Note has been held for more than one year. Capital gains of individuals derived with respect to capital assets held for more than one year are generally eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

### *Estate and Gift Taxation*

As discussed in “— Korean Taxation — Inheritance Tax and Gift Tax”, Korea imposes an inheritance tax on property located or deemed to be located in Korea (including the Notes) that passes on death, even if the decedent is a Non-Resident. Similarly, a Korean gift tax will be imposed on transfers of the Notes by gift. Subject to certain conditions and limitations, the amount of any inheritance tax paid to Korea may be eligible for credit against the amount of U.S. federal estate tax imposed on the estate of a U.S. Holder. The Korean gift tax generally will not be treated as a creditable foreign tax for U.S. tax purposes. Prospective purchasers should consult their personal tax advisors regarding the consequences of the imposition of the Korean inheritance or gift tax.

### *Non-U.S. Holders*

A Non-U.S. Holder generally will not be subject to U.S. federal income tax (including withholding tax) on payments of interest on the Notes. In addition, a Non-U.S. Holder generally will not be subject to U.S. federal income tax on gain realized on the sale, exchange, redemption or other disposition of the Notes. U.S. federal income tax will apply to such interest and gain, however, to the extent that such income is effectively connected with the conduct of a U.S. trade or business by such Non-U.S. Holder (subject to the provisions of an applicable income tax treaty); furthermore, gain realized by an individual Non-U.S. Holder will be subject to U.S. federal income taxation if such holder is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met.

### *Information Reporting and Backup Withholding*

Payments in respect of the Notes that are made within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup

withholding unless the U.S. Holder (i) is an exempt recipient or (ii) in the case of backup withholding, provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. Holders generally will not be subject to information reporting or backup withholding, but such holders may be required to provide a certification of non-U.S. status in connection with payments received within the United States or through a U.S.-related financial intermediary.

Backup withholding tax is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against a holder's U.S. federal income tax liability, provided that the required information is timely furnished to the Internal Revenue Service.

## **Korean Taxation**

### ***Republic of Korea***

The information provided below does not purport to be a complete summary of Korean tax law and practice currently applicable. Prospective investors who are in any doubt as to their tax position should consult with their own professional advisors.

The taxation of non-resident individuals and non-Korean corporations ("Non-Residents") depends on whether they have a "permanent establishment" (as defined under Korean law and applicable tax treaty) in Korea to which the relevant Korean source income is attributable or with which such income is effectively connected. Non-Residents without a permanent establishment in Korea are taxed in the manner described below. Non-Residents with permanent establishments in Korea are taxed in accordance with different rules.

### ***Tax on Interest***

Interest on the Notes paid to Non-Residents, being foreign currency denominated bonds, is exempt from income tax and corporation tax (whether payable by withholding or otherwise) pursuant to the Special Tax Treatment Control Law (the "STTCL").

If the tax exemption under the STTCL referred to above were to cease to be in effect, the rate of income tax or corporation tax applicable to interest on the Notes, for a Non-Resident without a permanent establishment in Korea, would be 14% of income. In addition, a tax surcharge called local income tax would be imposed at the rate of 10% of the income or corporation tax (raising the total tax rate to 15.4%).

The tax is withheld by the payer or us. As the duty to withhold the tax is on the payer or us, Korean law does not automatically entitle the person who has suffered the withholding of Korean tax to recover from the Government any part of the Korean tax withheld even if he subsequently produces evidence that he was entitled to have his tax withheld at a lower rate or be exempted, although in certain circumstances it may be possible to claim withheld tax from the payer or us. A Non-Resident that was subject to withholding of Korean tax on interest is entitled to claim refund of over-withheld tax directly from the Korean tax authorities effective from refund claims made on or after January 1, 2009.

The tax rates may be reduced by an applicable tax treaty, convention or agreement between Korea and the country of the recipient of the income. The relevant tax treaties are discussed below. In order to obtain a reduction or exemption in withholding tax under an applicable tax treaty, a Non-Resident should submit, prior to the interest payment date, such evidence of tax residence as the Korean tax authorities may require in support of the claim for treaty protection.

### ***Tax on Capital Gains***

Korean tax laws currently exclude from Korean taxation gains made by a Non-Resident without a permanent establishment in Korea from the sale of the Notes to other Non-Residents (other than to their permanent establishments in Korea). In addition, capital gains earned by Non-Residents with or without permanent establishments in Korea from the transfer taking place outside Korea of the Notes are currently

exempt from taxation by virtue of STTCL, provided that the issuance of the Notes is deemed to be an overseas issuance under the STTCL.

If the exclusion or exemption from Korean taxation referred to above were to cease to be in effect, in the absence of an applicable tax treaty reducing or eliminating tax on capital gains, the applicable rate of tax would be the lower of 11% (including local income tax) of the gross realization proceeds or (subject to the production of satisfactory evidence of the acquisition cost and certain direct transaction costs of the relevant Note) 22% (including local income tax) of the realized gain (i.e., the excess of the gross realization proceeds over the acquisition cost and certain direct transaction costs) made. If such evidence shows that no gain (or a loss) was made on the sale, no Korean tax is payable. There is no provision under relevant Korean law to allow offsetting of gains and losses or otherwise aggregating transactions for the purpose of computing the net gain attributable to sales of the Notes issued by Korean companies. The purchaser or any other designated withholding agent of the Notes is obliged under Korean law to withhold the applicable amount of Korean tax and make payment thereof to the relevant Korean tax authority. Unless the seller can claim the benefit of an exemption from tax under an applicable tax treaty or on the failure of the seller to produce satisfactory evidence of his acquisition cost and certain direct transaction costs in relation to the instruments being sold, the purchaser or such withholding agent must withhold an amount equal to 11% of the gross realization proceeds. Any amounts withheld by the purchaser or such withholding agent must be paid to the competent Korean tax office. The purchaser or withholding agent must pay any withholding tax no later than the tenth day of the month following the month in which the payment for the purchase of the relevant instruments occurred. Failure to transmit the withheld tax to the Korean tax authorities in time subjects the purchaser or such withholding agent to penalties under Korean tax laws. The Korean tax authorities may attempt to collect such tax from a Non-Resident who is liable for payment of any Korean tax on gains, as a purchaser or withholding agent who is obliged to withhold such tax, through proceedings against payments due to the Non-Resident from its Korean investments and the assets or revenues of any of the Non-Resident's branch or representative offices in Korea.

### ***Inheritance Tax and Gift Tax***

Korean inheritance tax is imposed upon (a) all assets (wherever located) of the deceased if at the time of his death he was domiciled in Korea or resided in Korea for at least one year immediately prior to his death and (b) all property located in Korea that passes on death (irrespective of the domicile of the deceased). Gift tax is imposed in similar circumstances to the above. The taxes are imposed if the value of the relevant property is above a certain limit and the rate varies from 10% to 50%. At present, Korea has not entered into any tax treaties regarding its inheritance or gift taxes.

Under Korean inheritance and gift tax laws, bonds issued by Korean corporations are deemed located in Korea irrespective of where they are physically located or by whom they are owned, and, consequently, the Korean inheritance and gift taxes will be imposed on transfers of the Notes by inheritance or gift. Prospective purchasers should consult their personal tax advisors regarding the consequences of the imposition of the Korean inheritance or gift tax.

### ***Stamp Duty and Securities Transaction Tax***

No stamp, issue or registration duties will be payable in Korea by the Holders in connection with the issue of the Notes except for a nominal amount of stamp duty on certain documents executed in Korea which will be paid by us. No securities transaction tax will be imposed upon the transfer of the Notes.

### ***Tax Treaties***

At the date of this offering circular, Korea has tax treaties with, inter alia, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, The Netherlands, New Zealand, Norway, Singapore, Sweden, Switzerland, the United Kingdom and the United States of America, under which the rate of withholding tax on interest is reduced, generally to between 5 and 16.5% (including local income tax), and the tax on capital gains is often eliminated.

Each Holder should inquire whether he is entitled to the benefit of a tax treaty with respect to any transaction involving the Notes. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest payments to file with the payer or us a certificate as to his residence. In the absence of sufficient proof, the payer or we must withhold taxes in accordance with the above discussion.

Further, in order for a Non-Resident to obtain the benefit of a tax exemption on certain Korean source income (e.g., interest and capital gains) under an applicable tax treaty, Korean tax law requires such Non-Resident (or its agents) to submit to the payer of such Korean source income an application for tax exemption under a tax treaty along with a certificate of tax residency of such Non-Resident issued by a competent authority of the non-resident's country of tax residence, subject to certain exceptions. The payer of such Korean source income, in turn, is required to submit such application to the relevant district tax office by the ninth day of the month following the date of the first payment of such income. However, this requirement does not apply to exemptions under Korean tax law.

### ***Withholding and Gross Up***

As mentioned above, interest on the Notes is exempt from any withholding or deduction on account of income tax or corporation tax pursuant to STTCL. However, in the event that the payer or we are required by law to make any withholding or deduction for or on account of any Korean taxes (as more fully described in "Description of the Notes — Additional Amounts") we have agreed to pay (subject to the customary exceptions as set out in "Description of the Notes — Additional Amounts") such Additional Amounts as may be necessary in order that the net amounts received by the Holder of any Note after such withholding or deduction shall equal the respective amounts which would have been received by such Holder in the absence of such withholding or deduction.

### **EU Savings Directive**

Under European Council Directive 2003/48/EC on the taxation of savings income, each Member State of the European Union is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual beneficial owner resident in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg will instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35%, unless during such period they elect otherwise.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to an individual beneficial owner resident in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to an individual beneficial owner resident in one of those territories.

## CERTAIN ERISA CONSIDERATIONS

Due to the fiduciary duties imposed and transactions prohibited by Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and Section 4975 of U.S. Internal Revenue Code of 1986, as amended (the “Code”), each retirement, pension, individual retirement account or other employee benefit plan subject thereto (each, a “Plan”), including entities whose underlying assets are considered to include “plan assets” of any such plan, account or arrangement, considering an investment in the Notes should consult with its counsel regarding the legal consequences of such investment.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of a Plan and persons who are “parties in interest”, within the meaning of ERISA, or “disqualified persons”, within the meaning of the Code, with respect to the Plan. Thus, a fiduciary considering a purchase of the Notes should also consider whether such an investment might constitute or give rise to a prohibited transaction under ERISA or the Code. For example, if the Company or any of its affiliates were considered to be a “party in interest” within the meaning of ERISA, or a “disqualified person” within the meaning of the Code, the acquisition of the Notes by or on behalf of the Plan could result in a prohibited transaction.

Certain exemptions from the prohibited transaction provisions of ERISA and the Code could be applicable, depending on the plan fiduciary who makes the decision on behalf of the Plan to purchase the Notes and the terms of the Notes. Among these exemptions are Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code, relating to transactions with certain service providers, Prohibited Transaction Class Exemption 90-1, relating to investments by insurance company pooled separate accounts, Prohibited Transaction Class Exemption 91-38, relating to investments by bank collective investment funds, Prohibited Transaction Class Exemption 84-14, relating to investments made by a “qualified professional asset manager”, Prohibited Transaction Class Exemption 95-60 relating to investments by insurance company general accounts and Prohibited Transaction Class Exemption 96-23, relating to investments made by in-house asset managers, although there can be no assurance that all of the conditions of any such exemptions will be satisfied.

Employee benefit plans which are governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and non-U.S. plans may not be subject to the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code, but may be subject to other laws or regulations that are similar to such provisions of ERISA or the Code.

Because of the foregoing, each purchaser and subsequent transferee of Notes or any interest therein will be deemed to have represented and warranted that either (i) no portion of the assets used by such purchaser or subsequent transferee to acquire or hold the Notes or any interest therein constitutes assets of any employee benefit plan subject to Section 406 of ERISA, plan, account or other arrangement subject to Section 4975 of the Code or provisions under any other federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of ERISA or the Code (collectively, “Similar Laws”) or entity whose underlying assets are considered to include “plan assets” of any such employee benefit plan, plan, account or arrangement or (ii) the purchase and holding of the Notes or any interest therein will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a similar violation under any applicable Similar Law.

## PLAN OF DISTRIBUTION

Subject to the terms and conditions stated in the purchase agreement dated October 21, 2010 (the “Purchase Agreement”), each initial purchaser named below (each, an “Initial Purchaser” and collectively, the “Initial Purchasers”) has severally agreed to purchase from us, and we have agreed to sell to such Initial Purchaser, the principal amount of the Notes set forth opposite the name of such Initial Purchaser.

<u>Initial Purchaser</u>	<u>Principal Amount of Notes</u>
BNP Paribas Securities Corp. . . . .	US\$140,000,000
Deutsche Bank AG, Singapore Branch . . . . .	140,000,000
Goldman Sachs International . . . . .	140,000,000
Merrill Lynch International. . . . .	140,000,000
Morgan Stanley & Co. International plc. . . . .	140,000,000
Total . . . . .	<u>US\$700,000,000</u>

The Purchase Agreement provides that the obligations of each of the Initial Purchasers to purchase the Notes are subject to approval of certain legal matters by counsel and to certain other conditions. Each of the Initial Purchasers must purchase all the Notes set forth opposite its name if they purchase any of the Notes. The Purchase Agreement also provides that if an Initial Purchaser defaults, the purchase commitments of non-defaulting Initial Purchasers may be increased or the offering may be terminated.

We have been advised that the Initial Purchasers propose to resell the Notes at the issue price set forth on the cover page of this offering circular. The price at which the Notes are offered and other selling terms may be changed from time to time without notice by the Initial Purchasers. The Initial Purchasers may offer the Notes in various jurisdictions through certain of their affiliates.

We have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, and to contribute to payments that the Initial Purchasers may be required to make in respect thereof.

The Purchase Agreement provides that we will pay compensation to the Initial Purchasers consisting of underwriting and management commission as a percentage of the aggregate principal amount of the Notes.

We have agreed that we will not issue, offer, sell or contract to sell, or announce the offering of, any Dollar- or Euro-denominated debt securities issued or guaranteed by us (other than the Notes), without the prior written consent of the Initial Purchasers for a period of 30 days following the date of the Purchase Agreement. For the avoidance of doubt, we may, during such period, issue, offer, sell or contract to sell, or announce the offering of, any debt securities issued or guaranteed by us other than Dollar- or Euro-denominated debt securities.

Delivery of the Notes is expected on or about October 28, 2010, which will be the fifth business day following the date of pricing of the Notes. Under Rule 15(c)6-1 under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes prior to the third business day from the settlement date will be required by virtue of the fact that the Notes initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Such purchasers of Notes should consult their own advisor.

### **Selling Restrictions**

#### ***General***

No action has been taken or will be taken in any jurisdiction by us or any Initial Purchaser that would permit a public offering of the Notes, or the possession, circulation or distribution of this offering circular or any other material relating to the Notes or this offering, in any jurisdiction where action for that purpose is



required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this offering circular nor such other material may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

### ***United States***

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act and applicable state securities laws. In addition, until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

The Initial Purchasers, through their respective affiliates, acting as selling agents where applicable, propose to offer the Notes to certain persons in offshore transactions in reliance on Regulation S and in accordance with applicable law and propose to offer the Notes to qualified institutional buyers in the United States pursuant to Rule 144A. Each of the Initial Purchasers has agreed that, except as permitted under the Purchase Agreement, it will not offer, sell or deliver the Notes within the United States. Any offer or sale of the Notes in the United States in reliance on Rule 144A will be made by broker-dealers who are registered as such under the Exchange Act. Terms used in this paragraph have the meanings given to them by Regulation S. Transfer of the Notes will be restricted as described under “Transfer Restrictions”.

### ***United Kingdom***

Each Initial Purchaser has represented and agreed that (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Market Act of 2000 (the “FSMA”)) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to us; and (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

### ***Hong Kong***

Each Initial Purchaser has represented and agreed that it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

### ***Singapore***

This offering circular has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the “Securities and Futures Act”). Accordingly, the Notes may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this offering circular or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any Notes be circulated or distributed,



whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (c) pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Each of the following relevant persons specified in Section 275 of the Securities and Futures Act which has subscribed or purchased Notes, namely a person who is:

(a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor;

should note that shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the notes under Section 275 of the Securities and Futures Act except:

(i) to an institutional investor under Section 274 of the Securities and Futures Act or to a relevant person (as defined in Section 275(2) of the Securities and Futures Act) in accordance with the conditions specified in Section 275 of the Securities and Futures Act;

(ii) (in the case of a corporation, other than a corporation that is an accredited investor) where the transfer arises from an offer referred to in Section 275(1A) of the Securities and Futures Act, or (in the case of a trust, other than a trust the trustee of which is an accredited investor) where the transfer arises from an offer that is made on terms that such rights or interests are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets;

(iii) where no consideration is or will be given for the transfer;

(iv) by operation of law; or

(v) pursuant to Section 276(7) of the Securities and Futures Act.

### ***Korea***

The Notes have not been registered with the Financial Services Commission of Korea under the Financial Investment Services and Capital Markets Act of Korea. Accordingly, the Notes have not been and will not be offered, delivered, or sold directly or indirectly in Korea or to any resident of Korea (as defined in the Foreign Exchange Transaction Law of Korea and the regulations thereunder) or to others for re-offering or resale directly or indirectly in Korea or to any resident of Korea except as otherwise permitted under applicable Korean laws and regulations. In addition, until the expiration of one year after the issuance of the Notes, the Notes may not be transferred to any resident of Korea except as otherwise permitted by applicable Korean laws and regulations.

### ***Japan***

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan. Each Initial Purchaser has represented and agreed that it has not offered or sold, and it will not offer or sell, directly or indirectly, any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan) or to, or for the account or benefit of, any resident for reoffering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan except (i) pursuant to an exemption from the registration requirements of, or otherwise in compliance with, the

Financial Instruments and Exchange Law of Japan and (ii) in compliance with the other relevant laws, regulations and ministerial guidelines of Japan.

### **New Issue of Notes**

The Notes will constitute a new class of securities with no established trading market. Approval in-principle has been received for the listing and quotation of the Notes on the Singapore Stock Exchange. The Notes are eligible for trading in the National Association of Securities Dealers screen-based automated market for trading of securities eligible for resale under Rule 144A. The Initial Purchasers have advised us that they currently intend to make a market in the Notes as permitted by applicable law. However, they are not obligated to do so and any market-making activities with respect to the Notes may be discontinued at any time without notice. In addition, such market-making activity will be subject to the limits imposed by the Securities Act and the Exchange Act. Accordingly, no assurance can be given as to the liquidity of, or trading market for, the Notes.

### **Price Stabilization and Short Positions**

The Initial Purchasers may engage in over-allotment, stabilizing transactions, syndicate covering transactions and penalty bids to the extent permitted by applicable laws and regulations. Over-allotment involves sales in excess of the offering size, which creates a short position. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Covering transactions involve purchase of the Notes in the open market after the distribution has been completed in order to cover short positions. Penalty bids permit the Initial Purchasers to reclaim a selling concession from a dealer when the Notes originally sold by such dealer are purchased in a stabilizing transaction or a covering transaction to cover short positions. Neither we nor any of the Initial Purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither we nor any of the Initial Purchasers makes any representation that the Initial Purchasers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

### **Other Relationships**

From time to time, in the ordinary course of business, certain of the Initial Purchasers and their affiliates have provided advisory and investment banking services, and entered into other commercial transactions, with us and our affiliates, including commercial banking services, for which customary compensation has been received. It is expected that the Initial Purchasers and their affiliates will continue to provide such services to, and enter into such transactions, with us and our affiliates in the future.

## TRANSFER RESTRICTIONS

The Notes have not been and will not be registered under the Securities Act or any state securities laws and, subject to certain exceptions, may not be offered or sold directly or indirectly within the United States or to or for the account or benefit of U.S. persons, as defined in Regulation S. The Notes may be offered for sale only (i) in the United States, to QIBs within the meaning of, and in reliance on, Rule 144A or another available exemption from, or in a transaction not subject to, the registration requirements of the Securities Act; or (ii) outside the United States to non-U.S. persons in reliance on, and in accordance with, Regulation S, in each case, in compliance with applicable laws, regulations and directives.

The Notes have not been registered with the Financial Services Commission of Korea under the Financial Investment Services and Capital Markets Act of Korea. Accordingly, the Notes have not been and will not be offered, delivered, or sold directly or indirectly in Korea or to any resident of Korea (as defined in the Foreign Exchange Transaction Law of Korea and the regulations thereunder) or to others for re-offering or resale directly or indirectly in Korea or to any resident of Korea except as otherwise permitted under applicable Korean laws and regulations. In addition, until the expiration of one year after the issuance of the Notes, the Notes may not be transferred to any resident of Korea except as otherwise permitted by applicable Korean laws and regulations.

Each purchaser of the Notes will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S under the Securities Act are used herein as defined therein):

(1) The purchaser (A)(i) is a qualified institutional buyer, (ii) is aware that the sale to it is being made in reliance on Rule 144A and (iii) is acquiring the Notes for its own account or for the account of a qualified institutional buyer or (B) is a non-U.S. person purchasing the Notes in an offshore transaction pursuant to Regulation S.

(2) The purchaser understands that the Notes are being offered in a transaction not involving any public offering in the United States within the meaning of the Securities Act, that the Notes have not been and will not be registered under the Securities Act and that, in the event of Notes sold in reliance on Rule 144A, if in the future it decides to offer, resell, pledge or otherwise transfer any of the Notes, such Notes may be offered, resold, pledged or otherwise transferred only (A)(i) to the Company, (ii) to a person whom the seller reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, (iii) to a non-U.S. person in an offshore transaction meeting the requirements of Rule 903 or Rule 904 under the Securities Act, (iv) pursuant to an exemption from registration under the Securities Act provided by Rule 144 under the Securities Act (if available), or (v) pursuant to another exemption from the Securities Act, provided that, as a condition to the registration of the transfer thereof, the Company or the Fiscal Agent may require the delivery of any documents, including an opinion of counsel that it, in its sole discretion, may deem necessary or appropriate to evidence compliance with such exemption, or (B) pursuant to an effective registration statement under the Securities Act, and, in each of such cases, in accordance with any applicable securities laws of any state of the United States. The purchaser will, and each subsequent holder is required to, notify any subsequent purchaser of the Notes from it of the resale restrictions referred to in (A) above.

(3) The purchaser understands that the Notes sold in reliance on Rule 144A will, unless otherwise agreed by the Company, bear a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). THE HOLDER HEREOF, BY PURCHASING THIS SECURITY, AGREES FOR THE BENEFIT OF POSCO (THE "COMPANY") THAT THIS SECURITY MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A)(i) TO THE COMPANY, (ii) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER, AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT,

(iii) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (iv) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (v) PURSUANT TO ANOTHER EXEMPTION FROM THE SECURITIES ACT, PROVIDED THAT, AS A CONDITION TO THE REGISTRATION OF THE TRANSFER THEREOF, THE COMPANY OR THE FISCAL AGENT MAY REQUIRE THE DELIVERY OF ANY DOCUMENTS, INCLUDING AN OPINION OF COUNSEL THAT IT, IN ITS SOLE DISCRETION, MAY DEEM NECESSARY OR APPROPRIATE TO EVIDENCE COMPLIANCE WITH SUCH EXEMPTION, OR (B) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, AND, IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF THE SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE.

(4) The purchaser understands that the Notes will, unless we determine otherwise in compliance with applicable law, bear a legend substantially to the following effect:

THE NOTES HAVE NOT BEEN REGISTERED WITH THE FINANCIAL SERVICES COMMISSION OF KOREA UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT OF KOREA. ACCORDINGLY, THE NOTES HAVE NOT BEEN AND WILL NOT BE OFFERED, DELIVERED, OR SOLD DIRECTLY OR INDIRECTLY IN KOREA OR TO ANY RESIDENT OF KOREA (AS DEFINED IN THE FOREIGN EXCHANGE TRANSACTION LAW OF KOREA AND THE REGULATIONS THEREUNDER) OR TO OTHERS FOR RE-OFFERING OR RESALE DIRECTLY OR INDIRECTLY IN KOREA OR TO ANY RESIDENT OF KOREA EXCEPT AS OTHERWISE PERMITTED UNDER APPLICABLE KOREAN LAWS AND REGULATIONS. IN ADDITION, UNTIL THE EXPIRATION OF ONE YEAR AFTER THE ISSUANCE OF THE NOTES, THE NOTES MAY NOT BE TRANSFERRED TO ANY RESIDENT OF KOREA EXCEPT AS OTHERWISE PERMITTED BY APPLICABLE KOREAN LAWS AND REGULATIONS.

(5) The purchaser understands that the offer or sale of Notes sold in reliance on Regulation S may not be made to U.S. person or for the account or benefit of a U.S. person (other than a distributor), until the expiration of 40 days after the later of the commencement of this offering and the completion of the distribution of the Notes, and unless otherwise agreed by the Company, will bear a legend substantially to the following effect:

THIS SECURITY (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE TRANSFERRED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON EXCEPT PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ALL APPLICABLE STATE SECURITIES LAWS. TERMS USED ABOVE HAVE THE MEANINGS GIVEN TO THEM IN REGULATIONS UNDER THE SECURITIES ACT.

## **LEGAL MATTERS**

Certain legal matters with respect to the issue and sale of the Notes will be passed upon for us by Cleary Gottlieb Steen & Hamilton LLP and Kim & Chang. Certain legal matters relating to the issue and sale of the Notes will be passed upon for the Initial Purchasers by Simpson Thacher & Bartlett LLP. Kim & Chang may rely on the opinions of Cleary Gottlieb Steen & Hamilton LLP and Simpson Thacher & Bartlett LLP with respect to matters of New York law, and Cleary Gottlieb Steen & Hamilton LLP and Simpson Thacher & Bartlett LLP may rely on the opinion of Kim & Chang with respect to matters of Korean law.

## **INDEPENDENT ACCOUNTANTS**

Our consolidated financial statements as of December 31, 2008 and 2009 and for the years ended December 31, 2008 and 2009, included in the POSCO 2009 Annual Report on Form 20-F and incorporated into this offering circular, have been audited by KPMG Samjong Accounting Corp., independent accountants, as stated in their report appearing in the POSCO 2009 Annual Report on Form 20-F. Our consolidated financial statements for the year ended December 31, 2007 included in the POSCO 2009 Annual Report on Form 20-F and incorporated into this offering circular have been audited by Samil PricewaterhouseCoopers, an independent registered public accounting firm, as stated in their report appearing in the POSCO 2009 Annual Report on Form 20-F.

With respect to our unaudited non-consolidated interim financial information for the six-month periods ended June 30, 2009 and 2010 included herein, KPMG Samjong Accounting Corp., independent accountants, has reported that they applied limited procedures in accordance with professional standards for a review of such information. However, their separate report included herein states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

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## **Independent Accountants' Review Report**

Based on a report originally issued in Korean

The Board of Directors and Shareholders of  
POSCO:

We have reviewed the accompanying non-consolidated statement of financial position of POSCO (the "Company") as of June 30, 2010, and the related non-consolidated statements of income for the three-month and six-month periods ended June 30, 2010 and 2009, and changes in equity and cash flows for the six-month periods ended June 30, 2010 and 2009. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these non-consolidated financial statements based on our reviews.

We conducted our reviews in accordance with the Review Standards for Semiannual Financial Statements established by the Securities and Futures Commission of the Republic of Korea. These Standards require that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review consists principally of inquiries of company personnel and analytical procedures applied to financial data and, thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our reviews, nothing has come to our attention that causes us to believe that the non-consolidated financial statements referred to above are not presented fairly, in all material respects, in accordance with accounting principles generally accepted in the Republic of Korea.

The non-consolidated statement of financial position as of December 31, 2009, and the related non-consolidated statements of income, appropriation of retained earnings, changes in equity and cash flows for the year then ended, which are not included in this Offering Circular were audited by us in accordance with auditing standards generally accepted in the Republic of Korea and our report thereon, dated February 8, 2010, expressed an unqualified opinion on those non-consolidated financial statements. In our opinion the information set forth in the accompanying non-consolidated statement of financial position as of December 31, 2009, is fairly stated, in all material respects, in relation to the non-consolidated statement of financial position from which it has been derived.

The following matters may be helpful to the readers in their understanding of the non-consolidated financial statements:

As discussed in note 2 to the non-consolidated financial statements, accounting principles and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to review such non-consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying non-consolidated financial statements are for use by those knowledgeable about Korean accounting procedures and review standards and their application in practice.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea  
August 4, 2010

This report is effective as of August 4, 2010, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.



# POSCO

## Unaudited Non-Consolidated Statements of Financial Position As of June 30, 2010 and December 31, 2009

	Notes	2010 (In millions of Won)	2009 (In millions of Won)
<b>Assets</b>			
Cash and cash equivalents . . . . .	3	₩ 217,513	626,782
Short-term financial instruments . . . . .	3	6,257,522	5,581,594
Trading securities . . . . .	6	523,913	505,811
Current portion of available-for-sale securities . . . . .	7	—	20,230
Current portion of held-to-maturity securities . . . . .	7	1,945	20,000
Trade accounts and notes receivable, net of allowance for doubtful accounts . . . . .	4, 23	3,067,678	2,683,909
Inventories . . . . .	5	5,025,563	2,996,326
Other accounts receivable, net of allowance for doubtful accounts . . . . .	4, 23	219,138	126,942
Deferred income tax assets . . . . .	20	248,185	286,075
Other current assets . . . . .	11	115,955	70,395
<b>Total current assets</b> . . . . .		15,677,412	12,918,064
Property, plant and equipment at cost . . . . .	8	41,977,706	40,071,426
Less accumulated depreciation . . . . .		(24,341,322)	(23,425,832)
Property, plant and equipment, net . . . . .		17,636,384	16,645,594
Investment securities, net . . . . .	7, 10	10,446,023	10,187,813
Intangible assets, net . . . . .	9	168,968	151,829
Long-term trade accounts and notes receivable, net of allowance for doubtful accounts . . . . .	4	23	1,307
Long-term financial instruments . . . . .	3	40	40
Other long-term assets, net of allowance for doubtful accounts . . . . .	11	546,064	88,118
<b>Total non-current assets</b> . . . . .		28,797,502	27,074,701
<b>Total assets</b> . . . . .		₩ 44,474,914	39,992,765

See accompanying notes to unaudited non-consolidated financial statements.

# POSCO

## Unaudited Non-Consolidated Statements of Financial Position As of June 30, 2010 and December 31, 2009

	Notes	2010	2009
		(In millions of Won)	
<b>Liabilities</b>			
Trade accounts payable . . . . .	23	₩ 1,588,680	739,746
Short-term borrowings . . . . .	12, 16	1,434,827	430,910
Current portion of long-term debt, net of discount on debentures issued . . . . .	12, 13	799,509	1,065
Accrued expenses . . . . .		147,543	145,484
Other accounts payable . . . . .	23	795,042	993,120
Withholdings . . . . .		48,416	51,075
Income tax payable . . . . .	20	523,252	290,638
Other current liabilities . . . . .	15	84,075	33,804
<b>Total current liabilities</b> . . . . .		5,421,344	2,685,842
Long-term debt, net of current portion and discount on debentures issued . . . . .	10, 13, 16	5,307,963	5,681,509
Accrued severance benefits, net . . . . .	14	274,333	185,187
Deferred income tax liabilities . . . . .	20	389,680	400,276
Other long-term liabilities . . . . .	17	66,039	88,660
<b>Total non-current liabilities</b> . . . . .		6,038,015	6,355,632
<b>Total liabilities</b> . . . . .		11,459,359	9,041,474
<b>Shareholders' Equity</b>			
Capital stock . . . . .		482,403	482,403
Capital surplus . . . . .		4,436,948	4,404,069
Capital adjustments . . . . .		(2,403,263)	(2,403,263)
Accumulated other comprehensive income . . . . .		423,442	524,824
Retained earnings . . . . .		30,076,025	27,943,258
<b>Total shareholders' equity</b> . . . . .		33,015,555	30,951,291
<b>Total liabilities and shareholders' equity</b> . . . . .		₩ 44,474,914	39,992,765

See accompanying notes to unaudited non-consolidated financial statements.

# POSCO

## Unaudited Non-Consolidated Statements of Income

For the three-month and six-month periods ended June 30, 2010 and 2009

		For the Three-Month Period Ended June 30		For the Six-Month Period Ended June 30	
	Notes	2010	2009	2010	2009
(In millions of Won, except per share information)					
Sales . . . . .	23, 24	₩ 7,932,695	6,343,996	14,882,221	12,815,299
Cost of goods sold . . . . .	25	5,733,870	5,893,168	10,889,186	11,708,751
Gross profit . . . . .		2,198,825	450,828	3,993,035	1,106,548
Selling and administrative expenses . . . . .	19	362,883	284,073	709,977	563,083
Operating profit . . . . .		1,835,942	166,755	3,283,058	543,465
Non-operating income					
Interest income . . . . .		65,171	44,726	133,467	88,285
Dividend income . . . . .		6,627	3,207	74,885	48,834
Gain on valuation of trading securities . . . . .		—	—	3,168	3,723
Gain on disposal of trading securities . . . . .		6,064	5,211	6,780	15,216
Gain on disposal of property, plant and equipment . . . . .		4,902	5,968	6,439	9,618
Gain on derivative transactions . . . . .	17	26,737	16	26,737	20,357
Gain on valuation of derivatives . . . . .	17	4,914	2,046	1,197	6,165
Gain on foreign currency transactions . . . . .		120,295	163,231	196,011	412,035
Gain on foreign currency translation . . . . .		—	219,085	23,570	220,891
Equity in earnings of equity method accounted investments . . . . .	7	130,998	188,568	273,595	440,954
Reversal of allowance for doubtful accounts . . . . .		181	3,268	181	979
Reversal of stock compensation expense . . . . .	18, 23	6,127	—	10,828	—
Others . . . . .		13,296	17,405	33,707	34,449
		385,312	652,731	790,565	1,301,506
Non-operating expenses					
Interest expense . . . . .		74,381	80,007	143,550	140,845
Other bad debt expense . . . . .		37	—	40	21
Loss on valuation of trading securities . . . . .		3,235	958	—	18
Loss on foreign currency transactions . . . . .		155,517	185,566	222,188	525,999
Loss on foreign currency translation . . . . .		407,490	—	306,260	29,760
Donations . . . . .		8,196	13,142	12,212	15,145
Loss on disposal of property, plant and equipment . . . . .		11,509	22,862	19,643	36,027
Equity in losses of equity method accounted investments . . . . .	7	63,366	64,716	150,654	196,411
Loss on derivative transactions . . . . .	17	—	1,512	—	19,281
Loss on disposal of trade accounts and notes receivable . . . . .		292	1,967	1,357	3,258
Others . . . . .		2,407	2,869	10,553	23,361
		726,430	373,599	866,457	990,126
Income before income taxes . . . . .		1,494,824	445,887	3,207,166	854,845
Income tax expense . . . . .	20	298,578	15,357	573,685	99,799
Net income . . . . .	21	₩ 1,196,246	430,530	2,633,481	755,046
Basic earnings per share . . . . .	22	₩ 15,529	5,623	34,186	9,861

See accompanying notes to unaudited non-consolidated financial statements.

# POSCO

## Unaudited Non-Consolidated Statements of Changes in Equity For the six-month periods ended June 30, 2010 and 2009

	Capital Stock	Capital Surplus	Capital Adjustments	Accumulated Other Comprehensive Income	Retained Earnings	Total
			(In millions of Won)			
<b>Balance as of January 1, 2009 . . . . .</b>	₩ 482,403	4,291,355	(2,502,014)	51,790	25,460,123	27,783,657
Year-end dividends . . . . .	—	—	—	—	(574,274)	(574,274)
Net income . . . . .	—	—	—	—	755,046	755,046
Changes in capital surplus of equity method accounted investments . . . . .	—	(4,615)	—	—	—	(4,615)
Gain on valuation of available-for-sale securities, net . . . . .	—	—	—	230,015	—	230,015
Changes in capital adjustment arising from equity method accounted investments . . . . .	—	—	—	119,079	—	119,079
<b>Balance as of June 30, 2009 . . . . .</b>	<u>₩ 482,403</u>	<u>4,286,740</u>	<u>(2,502,014)</u>	<u>400,884</u>	<u>25,640,895</u>	<u>28,308,908</u>

	Capital Stock	Capital Surplus	Capital Adjustments	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
			(In millions of Won)			
<b>Balance as of January 1, 2010 . . . . .</b>	₩ 482,403	4,404,069	(2,403,263)	524,824	27,943,258	30,951,291
Year-end dividends . . . . .	—	—	—	—	(500,714)	(500,714)
Net income . . . . .	—	—	—	—	2,633,481	2,633,481
Changes in capital surplus of equity method accounted investments . . . . .	—	32,879	—	—	—	32,879
Losses on valuation of available-for-sale securities, net . . . . .	—	—	—	(132,309)	—	(132,309)
Changes in capital adjustment arising from equity method accounted investments . . . . .	—	—	—	30,927	—	30,927
<b>Balance as of June 30, 2010 . . . . .</b>	<u>₩ 482,403</u>	<u>4,436,948</u>	<u>(2,403,263)</u>	<u>423,442</u>	<u>30,076,025</u>	<u>33,015,555</u>

See accompanying notes to unaudited non-consolidated financial statements.

# POSCO

## Unaudited Non-Consolidated Statements of Cash Flows For the six-month periods ended June 30, 2010 and 2009

	2010	2009
	(In millions of Won)	
<b>Cash flows from operating activities</b>		
Net income . . . . .	₩ 2,633,481	755,046
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization . . . . .	1,080,922	986,952
Accrual of severance benefits . . . . .	131,119	3,221
Gain on disposal of trading securities . . . . .	(6,780)	(15,216)
Gain on valuation of trading securities, net . . . . .	(3,168)	(3,705)
Gain on valuation of derivatives . . . . .	(1,197)	(6,165)
Loss on disposal of property, plant and equipment, net . . . . .	13,204	26,409
Gain on derivative transactions, net . . . . .	(26,737)	(1,076)
(Reversal of) stock compensation expense . . . . .	(10,828)	8,999
Loss (gain) on foreign currency translation, net . . . . .	282,690	(176,793)
Loss on disposal of trade accounts and notes receivable . . . . .	1,357	3,258
Provision for (reversal of) allowance for doubtful accounts, net . . . . .	(6,674)	18,266
Other employee benefit . . . . .	5,200	3,426
Equity in earnings of equity method accounted investments, net . . . . .	(122,941)	(244,543)
Interest expense . . . . .	9,275	9,285
Interest income . . . . .	(274)	(560)
Others, net . . . . .	(2,707)	(7,260)
	<u>1,342,461</u>	<u>604,498</u>
Changes in operating assets and liabilities		
Trade accounts and notes receivable . . . . .	(375,265)	724,704
Other accounts receivable . . . . .	(90,842)	(5,983)
Accrued income . . . . .	(8,498)	5,845
Prepaid expenses . . . . .	(34,583)	(31,762)
Inventories . . . . .	(2,026,912)	2,824,039
Trade accounts payable . . . . .	814,429	(302,087)
Other accounts payable . . . . .	(197,732)	(97,035)
Accrued expenses . . . . .	2,059	20,171
Income tax payable . . . . .	232,614	(1,580,750)
Payment of severance benefits . . . . .	(30,589)	(49,278)
Deferred income tax assets and liabilities . . . . .	37,445	(190,256)
Deposit for severance benefit trust . . . . .	(11,384)	9,506
Other current liabilities . . . . .	19,234	16,663
Advances received . . . . .	30,189	(1,996)
Dividends from equity method accounted investments . . . . .	48,233	30,426
Others, net . . . . .	4,239	(4,204)
	<u>(1,587,363)</u>	<u>1,368,003</u>
Net cash provided by operating activities . . . . .	<u>2,388,579</u>	<u>2,727,547</u>

See accompanying notes to unaudited non-consolidated financial statements.

# POSCO

## Unaudited Non-Consolidated Statements of Cash Flows For the six-month periods ended June 30, 2010 and 2009

	2010	2009
	(In millions of Won)	
<b>Cash flows from investing activities</b>		
Disposal of short-term financial instruments . . . . .	₩ 8,969,744	2,517,934
Disposal of trading securities . . . . .	831,846	2,211,400
Disposal of available-for-sale securities . . . . .	121,129	17,006
Disposal of property, plant and equipment . . . . .	7,826	10,338
Disposal of other long-term assets . . . . .	1,548	6,523
Acquisition of short-term financial instruments . . . . .	(9,645,672)	(4,745,422)
Acquisition of trading securities . . . . .	(840,000)	(1,510,000)
Acquisition of available-for-sale securities . . . . .	(84,376)	(30,955)
Acquisition of equity method accounted investments . . . . .	(280,422)	(10,068)
Advance paid for acquisition of business and investments . . . . .	(450,950)	(4,466)
Acquisition of property, plant and equipment . . . . .	(2,095,472)	(2,016,729)
Cost of removal of property, plant and equipment . . . . .	(9,513)	(30,488)
Acquisition of intangible assets . . . . .	(4,896)	(7,090)
Others, net . . . . .	2,265	(24,508)
Net cash used in investing activities . . . . .	(3,476,943)	(3,616,525)
<b>Cash flows from financing activities</b>		
Proceeds from short-term borrowings . . . . .	1,541,877	1,472,589
Proceeds from long-term borrowings . . . . .	195,076	19,653
Proceeds from issuance of debentures . . . . .	—	1,449,728
Increase of other long-term liabilities . . . . .	40,805	7,020
Repayment of short-term borrowings . . . . .	(569,466)	(759,539)
Repayment of current portion of long-term liabilities . . . . .	(533)	(1,903)
Payment of cash dividends . . . . .	(500,714)	(574,274)
Decrease in other long-term liabilities . . . . .	(27,950)	(23,388)
Net cash provided by financing activities . . . . .	679,095	1,589,886
Net increase (decrease) in cash and cash equivalents . . . . .	(409,269)	700,908
<b>Cash and cash equivalents</b>		
Cash and cash equivalents at beginning of the period . . . . .	626,782	941,687
Cash and cash equivalents at end of the period . . . . .	₩ 217,513	1,642,595

See accompanying notes to unaudited non-consolidated financial statements.



# **POSCO**

## **Notes to Unaudited Non-Consolidated Financial Statements**

**June 30, 2010**

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### **1. The Company**

POSCO (the “Company”) is the largest steel producer in Korea which was incorporated on April 1, 1968, under the Commercial Code of the Republic of Korea to manufacture and distribute steel rolled products and plates in the domestic and overseas markets. The shares of the Company have been listed on the Korea Stock Exchange since 1988. The Company operates two plants (Pohang mill and Gwangyang mill) and one office in Korea, and seven overseas liaison offices.

As of June 30, 2010, the shares of the Company are listed on the Korea Stock Exchange, while its depository receipts are listed on the New York, Tokyo and London Stock Exchanges.

### **2. Summary of significant accounting policies**

The Company maintains its accounting records in Korean Won and prepares statutory non-consolidated financial statements in the Korean language 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 financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying non-consolidated financial statements have been condensed, restructured and translated into English from the Korean language non-consolidated financial statements.

The accounting policies were consistently applied for the non-consolidated financial statements both as of and for the six-month period ended June 30, 2010 and as of and for the year ended December 31, 2009.

**POSCO**  
**Notes to Unaudited Non-Consolidated Financial Statements**  
**June 30, 2010**

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

Cash and cash equivalents, short-term and long-term financial instruments as of June 30, 2010 and December 31, 2009 are as follows:

	Annual Interest Rate (%)	2010	2009
(In millions of Won)			
<b>Cash and cash equivalents</b>			
Checking accounts . . . . .	—	₩ 1,213	817
Money market deposit accounts . . . . .	—	—	16,800
Money market funds . . . . .	—	50,000	—
Money market trust . . . . .	2.07 ~ 2.80	146,300	228,700
Time deposits . . . . .	3.24	20,000	70,000
Time deposits in foreign currency . . . . .	—	—	310,465
		₩ 217,513	626,782
<b>Short-term financial instruments</b>			
Ordinary deposits <sup>(*1)</sup> . . . . .	—	25,376	10,667
Time deposits . . . . .	1.60 ~ 4.70	5,310,830	2,850,000
Certificates of deposit . . . . .	1.60 ~ 4.80	760,000	2,370,000
Repurchase agreement . . . . .	3.78 ~ 4.03	100,000	290,000
Specified money in trust. . . . .	—	61,316	60,927
		₩ 6,257,522	5,581,594
<b>Long-term financial instruments</b>			
Guarantee deposits for opening accounts <sup>(*2)</sup> . . . . .	—	₩ 40	40

(\*1) In relation to projects outsourced to the Company by the Korean government, these deposits are restricted in use.

(\*2) The Company is required to provide deposits to maintain checking accounts and accordingly, the withdrawal of these deposits is restricted.

**4. Accounts and Notes Receivable**

Accounts and notes receivable, and their respective allowance for doubtful accounts as of June 30, 2010 and December 31, 2009 are as follows:

	<b>2010</b>	<b>2009</b>
	<b>(In millions of Won)</b>	
Trade accounts and notes receivable . . . . .	₩ 3,072,567	2,695,161
Less: Allowance for doubtful accounts . . . . .	(4,889)	(11,252)
	<u>₩ 3,067,678</u>	<u>2,683,909</u>
Other accounts receivable. . . . .	₩ 229,789	137,560
Less: Allowance for doubtful accounts . . . . .	(10,651)	(10,618)
	<u>₩ 219,138</u>	<u>126,942</u>
Long-term trade accounts and notes receivable . . . . .	₩ 252	1,875
Less: Allowance for doubtful accounts . . . . .	(229)	(568)
	<u>₩ 23</u>	<u>1,307</u>

**POSCO**  
**Notes to Unaudited Non-Consolidated Financial Statements**  
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**5. Inventories**

Inventories as of June 30, 2010 and December 31, 2009 are as follows:

	<b>2010</b>	<b>2009</b>
	<b>(In millions of Won)</b>	
Finished goods . . . . .	₩ 527,812	344,192
By-products . . . . .	3,713	4,281
Semi-finished goods . . . . .	1,232,394	843,720
Raw materials . . . . .	1,196,528	696,492
Fuel and materials . . . . .	457,284	405,003
Materials-in-transit . . . . .	1,607,182	702,807
Others . . . . .	650	522
	<u>5,025,563</u>	<u>2,997,017</u>
Less: Provision for valuation loss . . . . .	—	(691)
	<u><u>₩ 5,025,563</u></u>	<u><u>2,996,326</u></u>

**6. Trading Securities**

Trading securities as of June 30, 2010 and December 31, 2009 are as follows:

	<b>2010</b>			<b>2009</b>
	<b>Acquisition</b>	<b>Fair Value</b>	<b>Book Value</b>	<b>Book Value</b>
	<b>(In millions of Won)</b>			
Beneficiary certificates . . . . .	<u>₩ 520,000</u>	<u>₩ 523,913</u>	<u>₩ 523,913</u>	<u>505,811</u>

**7. Investment Securities**

(a) Investment securities as of June 30, 2010 and December 31, 2009 are as follows:

	<b>2010</b>	<b>2009</b>
	<b>(In millions of Won)</b>	
Available-for-sale securities		
Marketable equity securities . . . . .	₩ 3,435,397	3,650,351
Non-marketable equity securities . . . . .	774,744	767,174
Investments in bonds . . . . .	4,950	125,125
Equity investments . . . . .	500	500
	<u>4,215,591</u>	<u>4,543,150</u>
Less: Current portion . . . . .	—	(20,230)
	<u>4,215,591</u>	<u>4,522,920</u>
Held-to-maturity securities . . . . .	31,739	51,675
Less: Current portion . . . . .	(1,945)	(20,000)
	<u>29,794</u>	<u>31,675</u>
Equity method accounted investments . . . . .	<u>6,200,638</u>	<u>5,633,218</u>
	<u><u>₩ 10,446,023</u></u>	<u><u>10,187,813</u></u>

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## Notes to Unaudited Non-Consolidated Financial Statements June 30, 2010

(b) Investments in marketable equity securities as of June 30, 2010 and December 31, 2009 are as follows:

Company	Number of Shares	Percentage of Ownership (%)	2010			2009
			Acquisition Cost	Fair Value	Book Value	Book Value
			(In millions of Won)			
SK TELECOM CO., LTD. <sup>(*)</sup>	4,442,481	5.50	₩ 1,235,197	₩ 712,912	₩ 712,912	743,845
Hana Financial Group Inc.	4,663,776	2.20	29,998	153,205	153,205	153,438
Nippon Steel Corporation <sup>(*)</sup>	238,352,000	3.50	719,622	962,727	962,727	1,128,734
HYUNDAI HEAVY INDUSTRIES CO., LTD.	1,477,000	1.94	343,505	347,095	347,095	256,260
HANIL IRON & STEEL CO., LTD.	206,798	10.14	2,413	2,968	2,968	2,575
HI STEEL CO., LTD.	135,357	9.95	1,609	3,127	3,127	1,895
MOONBAE STEEL CO., LTD.	1,849,380	9.02	3,588	4,318	4,318	5,419
DONGYANG STEEL PIPE CO., LTD.	1,564,250	2.06	3,911	2,151	2,151	1,877
SHINHAN FINANCIAL GROUP CO., LTD.	4,369,881	0.92	228,778	199,485	199,485	188,779
SeAH STEEL CORPORATION	610,103	10.17	18,792	23,153	23,153	22,055
Thainox Stainless Public Company Limited	1,200,000,000	15.00	42,301	64,524	64,524	67,658
UNION STEEL Co., Ltd.	1,005,000	9.80	40,212	22,914	22,914	22,110
Macarthur Coal Limited	21,215,700	8.34	420,805	264,807	264,807	249,431
HANJIN SHIPPING CO., LTD.	65,132	0.08	2,538	2,420	2,420	1,185
HANJIN SHIPPING HOLDINGS CO., LTD.	11,033	0.03	298	209	209	151
KB Financial Group Inc.	13,115,837	3.39	574,524	623,002	623,002	783,015
LG U Plus Corporation (formerly LG Telecom Co., Ltd.) <sup>(*)</sup>	2,671,688	0.52	22,683	20,465	20,465	—
LG Powercom Corporation <sup>(*)</sup>	—	—	—	—	—	21,924
SEOUL SEMICONDUCTOR CO., LTD.	591,000	1.01	24,999	25,915	25,915	—
			₩ 3,715,773	₩ 3,435,397	₩ 3,435,397	₩ 3,650,351

(\*) Certain portion of securities has been pledged as collateral. (note 10)

(\*) In January 2010, LG Powercom Co., Ltd.'s shares were exchanged with LG U Plus Co., Ltd. (formerly, LG Telecom Co., Ltd.)'s by merger and accordingly, the differences between the fair values and the acquisition costs at the date of exchange amounting to ₩758 million were recognized as gain on disposal of investments.

(c) Equity method accounted investments as of June 30, 2010 and December 31, 2009 are as follows:

Investees <sup>(*)</sup>	Number of Shares	Percentage of Ownership (%)	Acquisition Cost	2009	Increase (Decrease)		2010
				Carrying Value	Equity method Profit (Loss)	Other Increase (Decrease) <sup>(*)</sup>	Carrying Value
(In millions of Won)							
Domestic							
POSCO E&C Co., Ltd. . . .	27,281,080	89.53	₩ 365,789	₩ 1,063,089	₩ 22,356	₩ (5,797)	₩ 1,079,648
Posteel Co., Ltd. . . . . .	17,155,000	95.31	113,393	421,927	18,368	28,127	468,422
POSCON Co., Ltd. <sup>(*)</sup> . . .	—	—	—	70,990	—	(70,990)	—
POSCO Coated & Color Steel Co., Ltd. . . . . .	3,412,000	56.87	82,017	108,421	(2,654)	—	105,767
POSCO Plant Engineering Co., Ltd. <sup>(*)</sup> . . . . . . .	2,700,000	100.00	27,052	24,276	547	10,547	35,370
POSCO ICT Co., Ltd. <sup>(*)</sup> . .	99,403,282	72.54	102,571	—	(832)	49,891	49,059
POSCO Research Institute . . . . . . . . . .	3,800,000	100.00	19,000	23,553	1,896	—	25,449

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## Notes to Unaudited Non-Consolidated Financial Statements

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Investees <sup>(*)</sup>	Number of Shares	Percentage of Ownership (%)	Acquisition Cost	2009	Increase (Decrease)		2010
				Carrying Value	Equity method Profit (Loss)	Other Increase (Decrease) <sup>(*)</sup>	Carrying Value
(In millions of Won)							
Seoung Gwang Co., Ltd. . . . .	2,737,000	69.38	28,408	29,928	1,114	—	31,042
POSCO Architects & Consultants Co., Ltd. . .	300,000	100.00	1,743	17,734	1,633	(580)	18,787
POSCO Specialty Steel Co., Ltd. . . . .	26,000,000	100.00	260,000	628,842	63,957	(4,033)	688,766
POSCO Machinery Co., Ltd. <sup>(*)</sup> . . . . .	—	—	—	9,059	—	(9,059)	—
POSTECH Venture Capital Corp. . . . .	5,700,000	95.00	28,500	33,779	(240)	608	34,147
POSCO Chemtec Company Ltd. (formerly, POSCO Refractories & Environment Co., Ltd.) . .	3,544,200	60.00	41,210	100,535	11,934	(2,556)	109,913
POSCO Terminal Co., Ltd. . . . .	2,550,000	51.00	12,750	23,674	3,755	(638)	26,791
POSMATE Co., Ltd. . . . .	214,286	30.00	7,233	12,270	846	(280)	12,836
POSCO Power Corp. . . . .	40,000,000	85.71	597,170	649,148	(19,900)	58,143	687,391
SNNC Co., Ltd. . . . .	18,130,000	49.00	90,650	100,655	39,882	(12,481)	128,056
POSCO TMC Co., Ltd. (formerly, POSCORE Co., Ltd.) <sup>(*)</sup> . . . . .	2,030,456	34.20	26,142	—	387	28,632	29,019
PNR Co., Ltd. . . . .	5,467,686	70.00	27,339	25,720	(9,231)	—	16,489
POSCOAST Co., Ltd. . . . .	3,400,000	85.00	70,034	75,603	(3,933)	(51)	71,619
POS-HiMETAL CO., Ltd . .	3,900,000	65.00	19,500	5,837	(1,309)	12,936	17,464
POSCO E&E Co., Ltd. . . .	3,480,000	100.00	17,400	17,303	232	—	17,535
Sungjin Geotec Co., Ltd. <sup>(*)</sup> . . . . .	12,345,110	40.38	159,878	—	(13,073)	159,891	146,818
POSCO Family Strategy Fund <sup>(*)</sup> . . . . .	20,000,000	69.93	20,000	—	—	20,000	20,000
Others . . . . .	830,000	26.50	5,581	10,523	419	(247)	10,695
			2,123,360	3,452,866	116,154	262,063	3,831,083

### Foreign

POSCO America Corporation . . . . .	374,532	99.45	316,941	113,510	(14,170)	17,236	116,576
POSCO Australia Pty. Ltd. . . . .	761,775	100.00	37,352	330,623	29,108	(38,436)	321,295
POSCO Asia Co., Ltd. . . . .	9,360,000	100.00	7,425	32,189	648	3,069	35,906
POSCO-CTPC Co., Ltd. <sup>(*)</sup> . . . . .	—	56.60	13,429	1,416	535	16,735	18,686
Zhangjiagang Pohang Stainless Steel Co., Ltd. <sup>(*)</sup> . . . . .	—	58.60	216,542	283,845	13,795	12,676	310,316
Guangdong Pohang Coated Steel Co., Ltd. <sup>(*)</sup> . . . . .	—	87.04	45,503	31,299	6,617	1,958	39,874

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## Notes to Unaudited Non-Consolidated Financial Statements

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Investees <sup>(*)</sup>	Number of Shares	Percentage of Ownership (%)	Acquisition Cost	2009	Increase (Decrease)		2010
				Carrying Value	Equity method Profit (Loss)	Other Increase (Decrease) <sup>(*)</sup>	Carrying Value
(In millions of Won)							
POSCO (Thailand) Co., Ltd. . . . .	12,721,734	85.62	39,677	25,945	2,760	2,055	30,760
KOBRASCO . . . . .	2,010,719,185	50.00	32,950	98,962	12,482	(12,085)	99,359
POSCO Investment Co., Ltd. . . . .	5,000,000	100.00	53,189	85,521	4,883	3,341	93,745
Poschrome . . . . . (Proprietary) Limited	21,675	25.00	4,859	15,090	448	(15)	15,523
POSCO-MKPC SDN. BHD . . . . .	25,269,900	44.69	12,574	17,550	(269)	1,778	19,059
Qingdao Pohang Stainless Steel Co., Ltd. <sup>(*)</sup> . . . . .	—	70.00	71,463	65,982	(350)	2,846	68,478
POSCO (Suzhou) Automotive Processing Center Co., Ltd. <sup>(*)</sup> . . . . .	—	90.00	31,023	49,429	(809)	(2,903)	45,717
POSCO-China Holding Corp. <sup>(*)</sup> . . . . .	—	100.00	164,418	208,413	4,462	9,342	222,217
POSCO-Japan Co., Ltd. . . . .	90,438	100.00	50,558	68,436	(4,700)	7,732	71,468
POSCO-India Private Ltd. . . . .	450,000,000	100.00	110,287	108,538	—	4,100	112,638
POSCO-India Pune Steel Processing Centre Pvt. Ltd. . . . .	74,787,080	65.00	17,017	15,016	(5,627)	1,040	10,429
POSCO-Foshan Steel Processing Center Co., Ltd. <sup>(*)</sup> . . . . .	—	39.60	9,408	12,985	546	612	14,143
Nickel Mining Company SAS . . . . .	3,234,698	49.00	157,585	189,197	5,204	(26,220)	168,181
POSCO-Vietnam Co., Ltd. . . . .	—	85.00	198,578	154,691	(53,697)	73	101,067
POSCO-Mexico Co., Ltd. . . . .	1,304,955,672	84.67	117,950	62,581	(4,722)	3,542	61,401
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd. <sup>(*)</sup> . . . . .	—	24.00	6,718	11,003	785	529	12,317
POSCO Vietnam Processing Center Co., Ltd. <sup>(*)</sup> . . . . .	—	89.58	19,948	11,425	1,488	5,216	18,129
BX STEEL POSCO Cold Rolled Sheet Co., Ltd. <sup>(*)</sup> . . . . .	—	25.00	61,961	63,865	16,404	3,266	83,535
POSCO-Malaysia SDN. BHD. <sup>(*)</sup> . . . . .	16,200,000	60.00	16,524	—	—	—	—
POSCO (Wuhu) Automotive Processing Center Co., Ltd. <sup>(*)</sup> . . . . .	—	68.57	10,026	11,533	(1,583)	556	10,506
POSCO VST Co., Ltd. <sup>(*)</sup> . . . . .	—	90.00	77,068	71,901	(8,617)	222	63,506
POSCO Maharashtra Steel Private Limited <sup>(*)</sup> . . . . .	1,455,308	100.00	80,627	—	(1,224)	83,120	81,896



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## Notes to Unaudited Non-Consolidated Financial Statements June 30, 2010

Investees <sup>(*)1</sup>	Number of Shares	Percentage of Ownership (%)	Acquisition Cost	2009	Increase (Decrease)		2010
				Carrying Value	Equity method Profit (Loss)	Other Increase (Decrease) <sup>(*)2</sup>	Carrying Value
(In millions of Won)							
POSCO India Chennai Steel Processing Centre Pvt. Ltd. <sup>(*)8</sup>	58,209,443	100.00	14,924	—	(1,089)	15,140	14,051
POSCO Turkey Nilufer Processing Centre Co., Ltd. <sup>(*)8</sup>	242,444	100.00	19,983	—	(378)	18,426	18,048
POSCO Vietnam Hanoi Processing Centre Co., Ltd. <sup>(*)6,8)</sup>	—	70.00	5,584	—	416	5,794	6,210
POSCO (Liaoning) Automotive Processing Centre Co., Ltd. <sup>(*)6,8)</sup>	—	90.00	16,952	—	(597)	16,816	16,219
POSCO-Indonesia Jakarta Processing Centre Co., Ltd. <sup>(*)5)</sup>	8,139,119	65.00	2,926	—	404	3,292	3,696
POSCO China Dalian Plate Processing Center Ltd. <sup>(*)5,6)</sup>	—	92.59	19,982	—	(317)	21,863	21,546
Others			41,866	39,407	3,951	(300)	43,058
			2,103,817	2,180,352	6,787	182,416	2,369,555
			₩ 4,227,177	₩ 5,633,218	₩ 122,941	₩ 444,479	₩ 6,200,638

(\*1) Due to the difference in the closing schedule of investees' financial statements, the Company used the unaudited or unreviewed financial statements of these companies as of June 30, 2010, when applying the equity method of accounting.

(\*2) Other increase (decrease) represents the changes in investment securities primarily due to acquisitions (disposals), dividends received, changes in capital surplus or capital adjustments arising from equity transaction with subsidiaries, changes in capital adjustments arising from translations of financial statements of foreign investees and others.

(\*3) On January 22, 2010, POSCO ICT Co., Ltd. merged with POSCON Co., Ltd.

(\*4) On January 1, 2010, POSCO Plant Engineering Co., Ltd. merged with POSCO Machinery Co., Ltd.

(\*5) These subsidiaries are newly acquired during the six-month period ended June 30, 2010.

(\*6) No shares have been issued in accordance with the local laws or regulations.

(\*7) The equity method of accounting has been suspended for investment in POSCO Malaysia SDN. BHD. as the Company's net investments have been reduced to zero. Unrecorded changes in equity interest in POSCO Malaysia SDN. BHD. in 2010 amounted to ₩5,163 million and the accumulated unrecorded change in the interest prior to 2010 amounted to ₩5,992 million.

(\*8) This investment was reclassified to equity method accounted investments from available-for-sale securities, since its total assets were greater than ₩10,000 million as of December 31, 2009.

(d) For the six-month period ended June 30, 2010, amortization of goodwill amounted to ₩19,938 million and the realized profit less the elimination of the unrealized profit from intercompany transactions amounted to ₩230,791 million.

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**8. Property, Plant and Equipment**

(a) Changes in property, plant and equipment for the six-month period ended June 30, 2010 are as follows:

	Beginning Balance	Acquisition <sup>(*)</sup>	Disposal	Others <sup>(*)</sup>	Depreciation	Ending Balance
	(In millions of Won)					
Land . . . . .	₩ 961,869	₩ 837	₩ —	₩ (4,389)	₩ —	₩ 958,317
Buildings . . . . .	1,998,510	372,384	(761)	4,576	(91,256)	2,283,453
Structures . . . . .	1,479,920	83,882	(2,445)	—	(61,022)	1,500,335
Machinery and equipment . . .	8,270,432	705,748	(8,308)	—	(893,350)	8,074,522
Vehicles . . . . .	16,803	2,712	(2)	—	(4,312)	15,201
Tools . . . . .	16,737	3,746	—	—	(3,942)	16,541
Furniture and fixtures . . . . .	50,057	8,497	(1)	(187)	(8,734)	49,632
Capital Lease Assets . . . . .	9,555	—	—	—	(319)	9,236
Construction-in-progress . . . .	3,841,711	2,095,472	—	(1,208,036)	—	4,729,147
	<u>₩ 16,645,594</u>	<u>₩ 3,273,278</u>	<u>₩ (11,517)</u>	<u>₩ (1,208,036)</u>	<u>₩ (1,062,935)</u>	<u>₩ 17,636,384</u>

(\*)1 Includes acquisition cost transferred from construction-in-progress amounting to ₩1,177,806 million.

(\*)2 Represent assets transferred from construction-in-progress to the other property, plant and equipment and intangible assets.

(b) The Company's expenditures in relation to construction-in-progress for the expansion of Pohang transporting plates amounted to ₩2,095,472 million for the six-month period ended June 30, 2010.

**9. Intangible Assets**

Intangible assets, net of amortization, as of June 30, 2010 and December 31, 2009 are as follows:

	2010	2009
	(In millions of Won)	
Intellectual property rights . . . . .	₩ 4,395	3,028
Port facilities usage rights . . . . .	120,498	100,144
Other intangible assets <sup>(*)</sup> . . . . .	44,075	48,657
	<u>₩ 168,968</u>	<u>151,829</u>

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

**10. Pledged Assets**

(a) As of June 30, 2010, government bonds and bonds issued by Seoul Metropolitan Rapid Transit Corp., amounting to ₩29,794 million and ₩1,945 million, respectively, were provided as collateral to the Gyeongsangbuk-Do Province Office as a guarantee for environmental remediation of POSCO No. 4 disposal site.

(b) As of June 30, 2010, 2,100,910 shares, equivalent to 18,908,189 American depository receipts ("ADRs") of SK Telecom Co., Ltd. have been pledged as collateral for the exchangeable bonds issued and 103,951,000 shares of Nippon Steel Corporation have been pledged as collateral for the 1st samurai bonds issued.

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**Notes to Unaudited Non-Consolidated Financial Statements**  
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(c) Guarantees provided by third parties on behalf of the Company as of June 30, 2010 and December 31, 2009 were as follows:

		2010		2009
		(In millions of Won)		
Korea Development Bank. . . . .	EUR	3,646,067	₩ 5,380	3,964,241
				6,637

**11. Other Assets**

Other current and other long-term assets as of June 30, 2010 and December 31, 2009 are as follows:

	2010	2009
	(In millions of Won)	
<b>Other current assets</b>		
Short-term loans receivable . . . . .	₩ 6,100	—
Accrued income . . . . .	58,484	49,987
Advanced payments . . . . .	6,152	11,943
Prepaid expense . . . . .	43,049	8,465
Others . . . . .	2,170	—
	<u>₩ 115,955</u>	<u>70,395</u>
<b>Other long-term assets</b>		
Long-term loans receivable . . . . .	₩ 33,636	24,554
Guarantee deposits . . . . .	2,149	1,771
Others (*) . . . . .	510,796	62,485
	546,581	88,810
Less: Allowance for doubtful accounts . . . . .	(517)	(692)
	<u>₩ 546,064</u>	<u>88,118</u>

(\*) Includes payments to acquire interests in Roy Hill Holdings Pty. Ltd. and Daewoo International Corporation amounting to ₩257,878 million and ₩177,816 million, respectively.

**12. Short-Term Borrowings and Current Portion of Long-Term Debts**

(a) Short-term borrowings as of June 30, 2010 and December 31, 2009 are as follows:

	Annual Interest Rate (%)		2010		2009
			(In millions of Won)		
CP . . . . .	2.59	KRW	580,000	₩ 580,000	—
Foreign currency borrowings . . . . .	1.17 ~ 1.60	USD	706,293,507	854,827	369,055,984
				<u>₩ 1,434,827</u>	<u>430,910</u>

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## Notes to Unaudited Non-Consolidated Financial Statements June 30, 2010

(b) Current portion of long-term debts as of June 30, 2010 and December 31, 2009 are as follows:

	Annual Interest Rate (%)		2010		2009	
			(In millions of Won)			
Domestic debentures . . .	5.00	KRW	800,000	₩ 800,000	—	—
Loans from foreign financial institutions . . .	2.00	EUR	636,350	939	636,350	1,065
				800,939		1,065
Less: Discount on debentures issued . . .				(1,430)		—
				₩ 799,509		1,065

### 13. Long-Term Debts

(a) Debentures as of June 30, 2010 and December 31, 2009 are as follows:

	Issue date	Maturity	Annual Interest Rate (%)		2010	2009	
					(In millions of Won)		
Domestic debentures . . . . .	Mar. 28, 2006~ Jan. 20, 2009	Mar. 28, 2011~ Jan. 20, 2014	5.00 ~ 6.52	KRW	2,300,000 ₩ 2,300,000	2,300,000	2,300,000
9th Samurai Bonds . . . . .	Jun. 28, 2006	Jun. 28, 2013	2.05	JPY	50,000,000,000	682,280	50,000,000,000 631,410
Euro Bonds . . . . .	Aug. 10, 2006	Aug. 10, 2016	5.88	USD	300,000,000	363,090	300,000,000 350,280
Exchangeable bonds <sup>(*)</sup> . . . . .	Aug. 19, 2008	Aug. 19, 2013	—	JPY	52,795,000,000	720,419	52,795,000,000 666,706
Yen dominated FRN . . . . .	Nov. 11, 2008	Nov. 11, 2011	6 Months Tibor +2.60	JPY	20,000,000,000	272,912	20,000,000,000 252,564
1st Samurai Private Equity Bonds . . . . .	Dec. 29, 2008	Dec. 29, 2011	6 Months Tibor +1.60	JPY	50,000,000,000	682,280	50,000,000,000 631,410
Global Bonds . . . . .	Mar. 26, 2009	Mar. 26, 2014	8.75	USD	700,000,000	847,210	700,000,000 817,320
						5,868,191	5,649,690
Add: Premium on bond redemption . . . . .						10,878	10,067
Less: Current portion . . . . .						(800,000)	—
Discount on debentures issued . . . . .						(57,648)	(64,917)
						₩ 5,021,421	5,594,840

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(\*1) The Company issued exchangeable bonds, which are exchangeable with 18,908,189 SK Telecom Co., Ltd. ADRs, on August 19, 2008. Details of exchangeable bonds are as follows:

Issuance date:	August 19, 2008
Maturity date:	August 19, 2013
Rate:	Interest rate of zero percent
Face value:	JPY 52,795,000,000
Issuance price:	JPY 52,424,229,136
Premium on bond redemption:	JPY 797,204,500 (redeemed on put date or maturity date)
Exchangeable price:	JPY 2,999.11/ADR
Fair value of an exchangeable right at issuance date:	JPY 2,867,605,334
Fair value of an exchangeable right as of June 30, 2010:	JPY 68,633,500
Exercise period of exchangeable right:	Commercing ten business days following the issuance date until ten business days prior to maturity date
Exercisable date of put by bondholders:	August 19, 2011

The Company issued exchangeable bonds which is exchangeable with SK Telecom Co., Ltd. ADRs through Zeus (Cayman) Ltd., a SPV. The Company accounted for these exchangeable bonds as long-term debts under generally accepted accounting principles in the Republic of Korea as if the Company issued the exchangeable bonds.

(b) Long-term domestic borrowings as of June 30, 2010 and December 31, 2009 are as follows:

	Annual Interest Rate (%)	2010	2009
	(In millions of Won)		
Korea Resources Corporation . . . . .	Representative-Borrowing Rate <sup>(*)</sup> -2.25	₩ 55,114	55,114
Woori Bank . . . . .	Representative-Borrowing Rate <sup>(*)</sup> -1.25	35,488	20,405
National Forestry Cooperative Federation . . . . .	1.50	746	—
		₩ 91,348	75,519

(\*1) Indexed to the average yield of 3-year government bond which is rounded off to the nearest 0.25%.

(c) Long-term foreign currency borrowings as of June 30, 2010 and December 31, 2009 are as follows:

	Annual Interest Rate (%)	2010	2009
	(In millions of Won)		
Korea National Oil Corporation <sup>(*)</sup>	Representative-Borrowing Rate-2.25	USD 4,549,590 ₩ 5,578	4,549,590 5,578
The Expert-Import Bank of Korea <sup>(*)</sup>	4.50	USD 153,000,000 185,175	— —
		₩ 190,753	5,578

(\*1) The borrowing is related to the exploration of gas field in the Aral Sea and Namangan-Chust in Uzbekistan with Korea National Oil Corporation ("KNOC") (note 16).

(\*2) The borrowing is related to the Roy Hill iron exploration work in Australia.

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(d) Loans from foreign financial institutions as of June 30, 2010 and December 31, 2009 are as follows:

	Annual Interest Rate (%)	2010		2009	
		(In millions of Won)			
NATIXIS . . . . .	2.00	EUR	3,646,067	₩ 5,380	3,964,241
Less: Current portion		EUR	(636,350)	(939)	(636,350)
				₩ 4,441	₩ 5,572

(e) Aggregate maturities of long-term debts as of June 30, 2010 are as follows:

June 30,	Debentures <sup>(*)</sup>	Borrowings	Foreign Currency Borrowings	Loans from Foreign Financial Institutions	Total
			(In millions of Won)		
2011 . . . . .	₩ 800,000	₩ —	₩ —	₩ 939	₩ 800,939
2012 . . . . .	1,455,192	4,025	—	939	1,460,156
2013 . . . . .	682,280	9,345	—	939	692,564
2014 . . . . .	2,578,507	10,960	50,923	939	2,641,329
Thereafter . . . . .	363,090	67,018	139,830	1,624	571,562
	₩ 5,879,069	₩ 91,348	₩ 190,753	₩ 5,380	₩ 6,166,550

(\*) The amount includes premium on bond redemption.

**14. Accrued Severance Benefits**

The changes in accrued severance benefits for the six-month period ended June 30, 2010 and the year ended December 31, 2009 are as follows:

	2010	2009
	(In millions of Won)	
Estimated severance benefits at the beginning of period/year . . . . .	₩ 784,357	851,391
Provision for severance benefits . . . . .	131,119	3,320
Payment . . . . .	(30,589)	(70,354)
Estimated severance benefits at the end of period/year . . . . .	₩ 884,887	784,357
Transferred to National Pension Fund . . . . .	(82)	(82)
Deposit for severance benefits trust . . . . .	(610,472)	(599,088)
Net balance at the end of period/year . . . . .	₩ 274,333	185,187

**15. Other Current Liabilities**

Other current liabilities as of June 30, 2010 and December 31, 2009 are as follows:

	2010	2009
	(In millions of Won)	
Other current liabilities		
Advances received . . . . .	₩ 55,804	25,615
Unearned revenue . . . . .	2,803	2,012
Others . . . . .	25,468	6,177
	₩ 84,075	33,804



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**16. Commitments and Contingencies**

(a) As of June 30, 2010, contingent liabilities for outstanding guarantees provided by the Company for the repayment of loans of related companies and others are as follows:

Company	Financial Institution	2010			2009	
		Guaranteed		Won Equivalent	Guaranteed	Won Equivalent
(In millions of Won)						
Related companies						
POSCO Investment Co., Ltd.	HSBC	USD	477,000,000	₩ 778,965	346,000,000	607,184
		MYR	240,000,000		280,000,000	
		CNY	630,000,000		630,000,000	
POSCO-Vietnam Co., Ltd.	The Export-Import Bank of Korea	USD	230,000,000	343,960	230,000,000	329,249
		JPY	4,806,750,000		4,806,750,000	
				1,122,925		936,433
Others						
Zeus (Cayman) Ltd.	Related creditors	JPY	52,795,000,000	720,419	52,795,000,000	666,706
United Spiral Pipe	Comerica Bank	USD	8,750,000	10,590	—	—
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	Bank of China and others	USD	13,220,000	66,216	13,800,000	77,554
		CNY	282,050,000		359,180,000	
				797,225		744,260
			₩ 1,920,150		₩ 1,680,693	

(b) As of June 30, 2010, the Company issued five blank promissory notes to Korea Resources Corporation as collateral for borrowings, and issued six blank promissory notes to KNOC as collateral for foreign currency borrowings.

(c) The Company entered into a capital lease contract acquiring a ro-ro ship for the exclusive use of transporting plates for ₩1,953 million and US\$11,583 thousand, equivalent to 90% of fair value of the ship price, to be redeemed over 12 years.

(d) As of June 30, 2010, the Company acquired certain tools and equipment under operating lease agreements from Macquarie Capital Korea Company Limited and others. The Company's rent expense with respect to these lease agreements amounted to ₩3,141 million for the six-month period ended June 30, 2010.

(e) The Company is involved eleven lawsuits and claims for alleged damages aggregating to ₩7,356 million as of June 30, 2010 which arose in the ordinary course of business. The Company is unable to predict the ultimate outcome of the above claims. However, in the opinion of management, the foregoing lawsuits and claims will not have a material adverse effect on the Company's financial position, operating results or cash flows. No provision is recorded in connection with the above lawsuits and claims as of June 30, 2010.

(f) The Company entered into long-term contracts to purchase iron ore, coal, nickel and other raw materials. These contracts generally have terms of more than three years and provide for periodic price adjustments to the market price. As of June 30, 2010, 339 million tons of iron ore and 55 million tons of coal remained to be purchased under such long-term contracts.

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(g) The Company 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 August 2005. This agreement provides for periodic price adjustments to market price (Japan JCC), and the ceiling price is applied when the market price exceeds the certain price level provided in the agreement.

(h) The Company has a bank overdraft agreements of up to ₩200,000 million with Woori Bank and six other banks as of June 30, 2010. In addition, the Company entered into a credit purchase loan agreement with Industrial Bank of Korea and four other banks for credit lines of up to ₩710,000 million and short-term borrowing agreement of up to ₩150,000 million with Woori Bank.

(i) As of June 30, 2010, 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\$1,300 million and US\$1,000 million in foreign short-term borrowings.

(j) The outstanding balance of accounts receivable in foreign currency sold to financial institutions as of June 30, 2010 amounted to US\$253 million for which the Company is contingently liable upon the issuers' default.

(k) The Company entered into commitments of foreign currency long-term borrowings which are limited up to the amount of US\$6.86 million and US\$3.54 million with KNOC related to the exploration of gas fields in the Aral Sea and Namangan-Chust in Uzbekistan, respectively. The repayment obligation depends on the success of the project. The Company is not liable for the repayment of full or part of money borrowed if the project fails and also the Company has agreed to pay certain portion of its profits under certain conditions as defined by borrowing agreement.

(l) The Company has provided a supplemental funding agreement as the largest shareholder by the requests from the creditors including Korea Development Bank for seamless funding to POSCO Power Corp. under construction of new power plants.

### 17. Derivatives

(a) Details of derivatives as of June 30, 2010 are as follows:

Type of Transaction	Purpose of Transaction	Financial Institutions	Description of contract
Embedded derivative <sup>(*)</sup>	Issuing exchangeable bonds	Investee for exchangeable bonds	Exchangeable rights for stock

(\*) The Company applied derivative accounting as exchangeable right to investors related to exchangeable bond issued in August 19, 2008 meets certain criteria of embedded derivatives. Fair values of exchangeable right are ₩2,133 million (JPY168,994,000) as of December 31, 2009 and ₩937 million (JPY68,633,500) as of June 30, 2010. This exchangeable right is included in other long-term liabilities.

(b) Details of the gains (losses) on derivatives, net for the six-month periods ended June 30, 2010 and 2009 are as follows:

Type of Transaction	Valuation Gain		Transaction Gain	
	2010	2009	2010	2009
	(In millions of Won)			
Currency forward (Swaps) . . . . .	₩ —	—	₩ 26,737	1,076
Embedded derivative . . . . .	1,197	6,165	—	—
	₩ 1,197	6,165	₩ 26,737	1,076

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**18. Stock Appreciation Rights**

(a) The Company 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	Total
<b>Before the modifications <sup>(*)</sup></b>							
Number of shares . . . . .	498,000 shares	60,000 shares	22,000 shares	141,500 shares	218,600 shares	90,000 shares	1,030,100 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>(*)</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	970,092 shares
Number of shares cancelled . . .	19,409 shares	—	—	—	—	—	19,409 shares
Number of shares exercised . . .	434,167 shares	55,896 shares	20,495 shares	135,897 shares	142,964 shares	64,000 shares	853,419 shares
Number of shares outstanding . .	—	—	—	—	71,264 shares	26,000 shares	97,264 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	

(\*) The Company modified the number of shares granted under the stock appreciation rights and the exercise price, as presented above (1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup>, 5<sup>th</sup>), in accordance with the resolutions of the Board of Directors on April 26, 2003, October 17, 2003 and October 22, 2004.

(b) Expense (or income) related to stock appreciation rights granted to executives incurred for the six-month period ended June 30, 2010 is 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	Total
	(In millions of Won)						
Prior periods . . . . .	₩ 59,945	₩ 10,780	₩ 6,071	₩ 31,896	₩ 81,239	₩ 31,694	₩ 221,625
Current period . . . . .	—	—	—	(32)	(7,831)	(2,965)	(10,828)
	<u>₩ 59,945</u>	<u>₩ 10,780</u>	<u>₩ 6,071</u>	<u>₩ 31,864</u>	<u>₩ 73,408</u>	<u>₩ 28,729</u>	<u>₩ 210,797</u>

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## Notes to Unaudited Non-Consolidated Financial Statements June 30, 2010

### 19. Selling and Administration Expenses

Details of selling and administrative expenses for the three-month and six-month periods ended June 30, 2010 and 2009 are as follows:

	For the Three-Month Period Ended June 30		For the Six-Month Period Ended June 30	
	2010	2009	2010	2009
	(In millions of Won)			
Selling expenses . . . . .	₩ 187,057	156,325	359,737	309,208
Fees and charges . . . . .	35,032	27,186	67,580	55,194
Salaries and wages . . . . .	36,819	23,189	72,242	47,601
Advertising . . . . .	20,668	17,618	40,942	34,104
Research and development . . . . .	20,531	2,759	43,521	10,049
Depreciation . . . . .	3,702	3,751	7,356	7,510
Amortization . . . . .	3,791	4,006	7,750	7,730
Rent . . . . .	6,358	4,599	12,474	9,125
Other employ benefits . . . . .	14,455	17,203	27,192	32,355
Provision for severance benefits . . . . .	8,470	370	19,428	3,767
Supplies . . . . .	556	449	4,027	2,930
Travel . . . . .	5,253	2,902	8,944	5,542
Training . . . . .	6,923	2,321	10,008	5,629
Repairs . . . . .	2,542	1,502	5,361	2,852
Communications . . . . .	1,966	1,947	3,866	3,732
Vehicle expenses . . . . .	1,649	1,363	3,011	2,723
Taxes and public dues . . . . .	1,031	873	2,187	1,966
Entertainment . . . . .	1,077	652	2,399	1,547
Subscriptions and printing . . . . .	475	380	1,234	973
Utilities . . . . .	233	102	514	186
Others . . . . .	4,295	14,576	10,204	18,360
	<u>₩ 362,883</u>	<u>284,073</u>	<u>709,977</u>	<u>563,083</u>

### 20. Income Taxes

(a) Income tax expense for the six-month periods ended June 30, 2010 and 2009 is as follows:

	2010	2009
	(In millions of Won)	
Current income taxes . . . . .	₩ 536,240	290,055
Deferred income taxes . . . . .	(11,264)	52,583
Tax credits and other carryforwards . . . . .	38,558	(147,876)
Items charged directly to shareholders' equity . . . . .	10,151	(94,963)
	<u>₩ 573,685</u>	<u>99,799</u>

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(b) The following table reconciles the expected amount of income tax expense based on statutory rates to the actual amount of taxes recorded by the Company for the six-month periods ended June 30, 2010 and 2009:

	2010	2009
	(In millions of Won)	
Net income before income tax expense . . . . .	₩ 3,207,166	854,845
Income tax expense computed at statutory rate . . . . .	776,123	206,860
Adjustments:		
Tax credit . . . . .	(135,614)	(148,312)
Others, net . . . . .	(66,824)	41,251
Income tax expense . . . . .	₩ 573,685	99,799
Effective rate (%) . . . . .	17.9%	11.7%

(c) Changes in temporary differences and deferred income taxes for the six-month period ended June 30, 2010 are as follows:

	Temporary Differences			Deferred Income Tax		
	Dec. 31, 2009	Inc. (Dec.)	June 30, 2010	Dec. 31, 2009	Inc. (Dec.)	June 30, 2010
	(In millions of Won)					
Deductible (taxable) temporary differences:						
Reserve for special repairs . . . . .	₩ (173,990)	₩ 9,488	₩ (164,502)	₩ (39,500)	₩ 2,296	₩ (37,204)
Reserve for technology developments . . . . .	(800,000)	(400,000)	(1,200,000)	(176,000)	(88,000)	(264,000)
Dividend income from related companies . . . . .	461,399	48,233	509,632	101,508	10,611	112,119
Depreciation expense . . . . .	(357,064)	513	(356,551)	(78,445)	(1,612)	(80,057)
Valuation of equity method accounted investments <sup>(*)</sup> . . . . .	(1,492,065)	(120,638)	(1,612,703)	(236,119)	21,689	(214,430)
Prepaid expenses . . . . .	73,375	6,700	80,075	17,756	1,622	19,378
Impairment loss on property, plant and equipment . . . . .	35,696	(777)	34,919	7,998	(226)	7,772
Loss on foreign currency translation . . . . .	190,953	288,643	479,596	39,783	63,423	103,206
Others . . . . .	474,039	(38,373)	435,666	99,140	(8,690)	90,450
	₩ (1,587,657)	₩ (206,211)	₩ (1,793,868)	₩ (263,879)	₩ 1,113	₩ (262,766)
Deferred income taxes recognized directly to equity:						
Capital adjustment arising from equity method accounted investments . . . . .	(655,122)	(123,487)	(778,609)	(144,127)	(27,167)	(171,294)
Gain on valuation of available-for-sale securities . . . . .	(835,211)	295,108	(540,103)	(183,746)	64,924	(118,822)
Loss on valuation of available-for-sale securities . . . . .	868,159	(125,481)	742,678	190,995	(27,606)	163,389
	₩ (622,174)	₩ 46,140	₩ (576,034)	₩ (136,878)	₩ 10,151	₩ (126,727)
Deferred tax from tax credit:						
Tax credit . . . . .				286,556	(38,558)	247,998
				₩ (114,201)	₩ (27,294)	₩ (141,495)

(\*) As of June 30, 2010, deductible temporary differences of ₩405,233 million is related to investees in which the Company's disposal of investments is unlikely to occur within five years. Therefore the income tax effect for these temporary differences was not recognized as it is not probable the deferred tax asset will be realized.

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(d) A summary of deferred tax assets and liabilities as of June 30, 2010 is as follows:

	Current	Non-Current	Total
	(In millions of Won)		
Deferred tax assets . . . . .	₩ 267,377	₩ 503,947	₩ 771,324
Deferred tax liabilities . . . . .	(19,192)	(893,627)	(912,819)
Net deferred tax assets (liabilities) . . . . .	<u>₩ 248,185</u>	<u>₩ (389,680)</u>	<u>₩ (141,495)</u>

(e) Income tax expense which is directly charged to shareholders' equity due to changes in valuation of available-for-sale securities and other capital adjustments for the six-month period ended June 30, 2010 amounted to ₩(10,151) million.

### 21. Comprehensive Income

(a) For the six-month periods ended June 30, 2010 and 2009, comprehensive income is as follows:

	2010	2009
	(In millions of Won)	
Net income . . . . .	₩ 2,633,481	755,046
Gain (loss) on valuation of available-for-sale securities . . . . .	(169,627)	294,891
Less: tax effect . . . . .	37,318	(64,876)
Changes in capital adjustments arising from equity method accounted investments . . . . .	38,696	137,712
Less: tax effect . . . . .	(7,769)	(18,633)
Comprehensive income . . . . .	<u>₩ 2,532,099</u>	<u>1,104,140</u>

(b) For the three-month periods ended on June 30, 2010 and 2009, comprehensive income is as follows:

	2010	2009
	(In millions of Won)	
Net income . . . . .	₩ 1,196,246	430,530
Gain (loss) on valuation of available-for-sale securities . . . . .	(253,978)	458,830
Less: tax effect . . . . .	55,875	(101,018)
Changes in capital adjustments arising from equity method accounted investments . . . . .	102,645	(45,997)
Less: tax effect . . . . .	(22,285)	5,412
Comprehensive income . . . . .	<u>₩ 1,078,503</u>	<u>747,757</u>

### 22. Earnings Per Share

(a) Basic earnings per share for the six-month periods ended June 30, 2010 and 2009 were as follows:

	2010	2009
	(In millions of Won except per share information)	
Net income . . . . .	₩ 2,633,481	755,046
Weighted-average number of common shares outstanding (*) . . . . .	<u>77,032,878</u>	<u>76,569,916</u>
Basic earnings per share . . . . .	<u>₩ 34,186</u>	<u>9,861</u>

(\*) Basic earnings per share is computed by dividing net income allocated to common stock, by the weighted-average number of common shares outstanding for the six-month periods ended June 30, 2010 and 2009:



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	2010	2009
Total number of common shares issued	87,186,835	87,186,835
Weighted-average number of treasury shares	(10,153,957)	(10,616,919)
Weighted-average number of common shares outstanding	77,032,878	76,569,916

(b) Basic earnings per share for the three-month periods ended June 30, 2010 and 2009 were as follows:

	2010	2009
	(In millions of Won except per share information)	
Net income	₩ 1,196,246	430,530
Weighted-average number of common shares outstanding (*)	77,032,878	76,569,916
Basic earnings per share	₩ 15,529	5,623

(\*) Basic earnings per share is computed by dividing net income allocated to common stock, by the weighted-average number of common shares outstanding for the three-month periods ended June 30, 2010 and 2009:

	2010	2009
Total number of common shares issued	87,186,835	87,186,835
Weighted-average number of treasury shares	(10,153,957)	(10,616,919)
Weighted-average number of common shares outstanding	77,032,878	76,569,916

(c) Basic earnings per share for the three-month period ended March 31, 2010 and for the year ended December 31, 2009 were ₩18,657 and ₩41,380.

### 23. Related Party Transactions

(a) As of June 30, 2010, the subsidiaries of the Company are as follows:

**Domestic (32)** . . . . POSCO E&C Co., Ltd., Posteel Co., Ltd., POSCO Coated & Color Steel Co., Ltd., POSCO Plant Engineering Co., Ltd., POSCO ICT Co., Ltd., POSCO Research Institute, Seung Kwang Co., Ltd., POSCO Architects & Consultants Co., Ltd., POSCO Specialty Steel Co., Ltd., POSTECH Venture Capital Corp., POSTECH 2006 Energy Fund, POSCO Chemtech Company Ltd.(formerly, POSCO Refractories & Environment Co., Ltd.), POSCO Terminal Co., Ltd., POSMATE Co., Ltd., Samjung Packing & Aluminum Co., Ltd., POSCO Power Corp., PHP Co., Ltd., PNR Co., Ltd., Megaasset Co., Ltd., Daewoo engineering Company, Metapolis Co., Ltd., POSCO TMC Co., Ltd.(formerly, POSCORE Co., Ltd.), Pohang Fuel Cell Co., Ltd., POSCOAST Co., Ltd., Daimyung TMS Co., Ltd., POS-HiMetal Co., Ltd., POSCO E&E Co., Ltd., Gwangyang Steel Fabrication Center, 9 Digit Co., Ltd., Sungjin Geotec Co., Ltd., Postech Early Stage Fund, POSCO Family Strategy Fund

**Foreign (58)** . . . . POSCO America Corporation, POSCO Australia Pty. Ltd., POSCO Canada Ltd., POSCAN Elkview Coal Ltd., POSCO Asia Co., Ltd., VSC POSCO Steel Corp., Dalian POSCO-CFM Coated Steel Co., Ltd., POSCO-CTPC Co., Ltd., POSCO-JKPC Co., Ltd., International Business Center Corporation, POSLILAMA E&C Co., Ltd., Zhangjiagang Pohang Stainless Steel Co., Ltd., Guangdong Pohang Coated Steel Co., Ltd., POSCO (Thailand) Co., Ltd., Myanmar POSCO Steel Co., Ltd., Zhangjiagang Posha Steel Port Co., Ltd., POSCO-JOPC Co., Ltd., POSCO Investment Co., Ltd., POSCO-MKPC SDN. BHD., Qingdao Pohang Stainless Steel Co., Ltd., POSCO (Suzhou) Automotive Processing Center Co., Ltd., POSEC-Hawaii Inc., POS-Qingdao Coil Center Co., Ltd., POS-ORE Pty. Ltd., POSCO-China Holding Corp., POSCO-Japan Co., Ltd., POSCO E&C (Zhangjiagang) Engineering

# POSCO

## Notes to Unaudited Non-Consolidated Financial Statements June 30, 2010

& Consulting Co., Ltd., POS-CD Pty. Ltd., POS-GC Pty. Ltd., POSCO-India Private. Ltd., POSCO-India Pune Steel Processing Centre Pvt. Ltd., POSCO-JNPC Co., Ltd., POSCO-Foshan Steel Processing Center Co. Ltd., POSCO E&C (Beijing) Co., Ltd., POSCO-MPC S.A. de C.V., Zhangjiagang Pohang Port Co., Ltd., POSCO-Vietnam Co., Ltd., POSCO-Mexico Co., Ltd., POSCO-India Delhi Steel Processing Centre Pvt. Ltd., POSCO (Chongqing) Automotive Processing Center Co., Ltd., POS-NP Pty. Ltd., POSCO Vietnam Processing Center Co., Ltd., Suzhou pos-core Technology Co., Ltd., POSCO-JYPC Co., Ltd., POSCO-Malaysia SDN. BHD., POS-Minerals Corporation, POSCO (Wuhu) Automotive Processing Center Co., Ltd., &TV Communications, POSCO-Philippine Manila Processing Center INC., POSCO VST Co., Ltd. POSCO-Mexico Steel Distribution Center Co., Ltd., POSCO Maharashtra Steel Private Limited., POSCO India Chennai Steel Processing Centre Pvt Ltd., POSCO Turkey Nilufer Processing Center Co., Ltd., POSCO Vietnam Hanoi Processing Center Co., Ltd., POSCO (Liaoning) Automotive Processing Center Co., Ltd., POSCO-Indonesia Jakarta Processing Center Co., Ltd., POSCO China Dalian Plate Processing Center Ltd.

(b) Significant transactions, which occurred in the ordinary course of business, with related companies for the six-month periods ended June 30, 2010 and 2009, and the related account balances as of June 30, 2010 and December 31, 2009 are as follows:

	Sales and others <sup>(1)</sup>		Purchase and others <sup>(1)</sup>		Receivables <sup>(2)</sup>		Payables <sup>(2)</sup>	
	2010	2009	2010	2009	2010	2009	2010	2009
	(In millions of Won)							
<b>Subsidiaries</b>								
POSCO E&C Co., Ltd. . . . .	₩ 3,032	3,370	₩ 1,306,382	1,060,368	₩ 893	480	₩ 452,368	437,818
Posteel Co., Ltd. . . . .	510,441	641,826	141,985	60,487	125,977	114,783	9,654	3,484
POSCO Coated & Color Steel Co., Ltd. . . . .	328,461	225,875	1,653	541	141,740	109,615	835	199
POSCO Plant Engineering Co., Ltd. . . . .	2,046	8,413	86,739	136,455	—	11	46,473	35,558
POSCO ICT Co., Ltd. . . . .	503	580	214,408	179,760	—	13	78,117	73,171
POSCO Chemtech Company Ltd. (formerly, POSCO Refractories & Environment Co., Ltd.) . . . . .	44,069	44,686	261,896	211,279	7,124	6,880	60,704	66,008
Samjung Packing & Aluminum Co., Ltd. . . . .	14,510	8,362	118,268	99,561	3,149	1,472	29,845	24,942
POSCO TMC Co., Ltd. (formerly, POSCORE Co., Ltd.) . . . . .	73,660	61,528	52	1	15,660	11,678	23	24
POSCOAST Co., Ltd. . . . .	155,342	—	27,429	—	37,231	17,492	5,535	7,572
POSCO America Corporation . . . . .	103,811	79,330	—	—	5,095	531	—	—
POSCO Canada Limited . . . . .	—	—	84,009	25,170	—	—	21,661	—
POSCO Asia Co., Ltd. . . . .	526,379	575,037	73,936	50,625	33,635	40,548	4,390	1,170
POSCO (Thailand) Co., Ltd. . . . .	66,516	14,034	76	—	542	1,768	—	—
POSCO-MKPC SDN. BHD . . . . .	31,600	7,264	—	—	—	—	—	—
Qingdao Pohang Stainless Steel Co., Ltd. . . . .	34,780	97,929	—	—	2,636	2,353	—	—
POSCO (Suzhou) Automotive Processing Center Co., Ltd. . . . .	54,435	—	—	—	—	—	—	—
POSCO-Japan Co., Ltd. . . . .	490,025	269,411	46,664	8,045	23,002	25,972	8,259	6,701
POSCO-India Pune Processing Centre Pvt. Ltd. . . . .	81,692	18,942	—	—	2,513	—	—	1
POSCO-Foshan Steel Processing Center Co., Ltd. . . . .	32,459	5,089	—	—	—	—	—	—
POSCO-MPC S.A. de C.V. . . . .	77,489	—	—	—	—	—	—	—
POSCO-Vietnam Co., Ltd. . . . .	140,442	1,917	—	—	16,357	1,934	—	—
POSCO-Mexico Co., Ltd. . . . .	108,585	22,579	—	—	4,454	—	—	—
POSCO-India Delhi Steel Processing Centre Pvt. Ltd. . . . .	39,722	2,467	76	255	—	—	—	—
POSCO (Wuhu) Automotive Processing Center Co., Ltd. . . . .	59,758	—	—	—	—	—	—	—
Others . . . . .	187,474	54,702	80,344	54,617	10,577	5,431	23,857	14,696
	3,167,231	2,143,341	2,443,917	1,887,164	430,585	340,961	741,721	671,344

# POSCO

## Notes to Unaudited Non-Consolidated Financial Statements June 30, 2010

	Sales and others <sup>(*)</sup>		Purchase and others <sup>(*)</sup>		Receivables <sup>(*)</sup>		Payables <sup>(*)</sup>	
	2010	2009	2010	2009	2010	2009	2010	2009
	(In millions of Won)							
<b>Equity method investees</b>								
eNtoB Corporation . . . . .	—	—	130,502	105,591	—	—	5,691	6,561
SNNC Co., Ltd. . . . .	906	94	268,230	155,727	174	1,974	22,660	26,963
USS-POSCO Industries . . . . .	124,252	110,640	185	7	—	18,310	—	—
Poschrome (Proprietary) Limited . . . . .	—	—	31,673	15,305	—	176	—	—
Others . . . . .	9,819	4,464	120	3,132	—	820	—	78
	<u>134,977</u>	<u>115,198</u>	<u>430,710</u>	<u>279,762</u>	<u>174</u>	<u>21,280</u>	<u>28,351</u>	<u>33,602</u>
	<u>₩ 3,302,208</u>	<u>2,258,539</u>	<u>₩ 2,874,627</u>	<u>2,166,926</u>	<u>₩ 430,759</u>	<u>362,241</u>	<u>₩ 770,072</u>	<u>704,946</u>

(\*1) Sales and others include sales, non-operating income and others; purchases and others include purchases, acquisition of property, plant and equipment, overhead expenses and others.

(\*2) Receivables include trade accounts and notes receivable and other accounts receivable and others; payables include trade accounts and notes payable, other accounts payable and others.

(c) For the six-month periods ended June 30, 2010 and 2009, details of compensation to key management officers are as follows:

	2010	2009
	(In millions of Won)	
Salaries . . . . .	₩ 8,114	5,748
Severance benefits . . . . .	3,222	3,653
Management achievement awards and others . . . . .	11,929	7,124
Total . . . . .	<u>₩ 23,265</u>	<u>16,525</u>

Key management officers include directors (including non-executive directors) and executive officials and fellow officials who have significant influence and responsibilities in the Company's business and operations. Other than the compensation which is described above, the Company granted stock appreciation rights to its key management officers. The Company recognized expense related to stock appreciation rights which were decreased by ₩10,828 million, and increased by ₩8,999 million for the six-month periods ended June 30, 2010 and 2009, respectively. (note 18)

### 24. Revenue Information

The Company has main plants in Pohang and in Gwangyang in the Republic of Korea. Sales of the plants for the six-month periods ended June 30, 2010 and 2009 were as follows:

	2010	2009
	(In millions of Won)	
Pohang . . . . .	₩ 7,990,006	7,383,095
Gwangyang . . . . .	6,824,426	5,384,230
Others . . . . .	67,789	47,974
Total . . . . .	<u>₩ 14,882,221</u>	<u>12,815,299</u>

**POSCO**  
**Notes to Unaudited Non-Consolidated Financial Statements**  
**June 30, 2010**

**25. Cost of goods sold**

Details of cost of goods sold for the three-month and six-month periods ended June 30, 2010 and 2009 are as follows:

	For the Three-Month Periods Ended June 30		For the Six-Month Periods Ended June 30	
	2010	2009	2010	2009
	(In millions of Won)			
Finished goods, semi-finished goods and by-product				
Beginning balance of inventories . . . . .	₩ 1,340,207	2,271,824	₩ 1,191,502	2,749,541
Cost of goods manufactured . . . . .	6,137,354	5,091,408	11,426,047	10,349,767
Transfer from other assets, net . . . . .	7,130	13,703	10,077	83,203
Refund of customs . . . . .	(8,001)	(2,988)	(13,178)	(5,120)
Ending balance of inventories . . . . .	(1,763,919)	(1,494,965)	(1,763,919)	(1,494,965)
	5,712,771	5,878,982	10,850,529	11,682,426
Others . . . . .	21,099	14,186	38,657	26,325
Total . . . . .	₩ 5,733,870	5,893,168	₩ 10,889,186	11,708,751

**26. The Company's plan and status for applying K-IFRS**

The Company plans to prepare its financial statements under K-IFRS from 2011. To manage the matters associated with adoption of K-IFRS, the Company has organized a separate task force, which has analyzed the impact of the adoption of K-IFRS and the Company has been in the process of modification of system. Also, the Company has trained persons in charge of adoption of K-IFRS in POSCO and its subsidiaries and it is reporting the status of K-IFRS project to the audit committee and management group periodically. Details of action plans and current status for the preparation of K-IFRS as of June 30, 2010 are as follows:

- Established separate Task Force Team for the adoption of K-IFRS in July 2008
- First phase of K-IFRS project: Analysis of the impact on adoption of K-IFRS and creating Group from August 2008 to March 2009
- Second phase of K-IFRS project: Designing stand-alone financial closing process with respect to GAAP differences from April 2009 to January 2010
- Third phase of K-IFRS project: Preparing comparative financial statements and supplementing accounting system from February 2010 up to now

**POSCO**  
**Notes to Unaudited Non-Consolidated Financial Statements**  
**June 30, 2010**

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**27. Subsequent Event**

**(a) Interim dividends**

On the Board of Directors' meeting on July 16, 2010, it was resolved that the Company will make payment of interim dividends to its ordinary share owners. The details of the interim dividends are as follows:

Gross amount of dividends (in Won) . . . . .	₩ 192,582,195,000
Number of shares . . . . .	77,032,878
Dividends per share . . . . .	₩ 2,500
Dividend ratio . . . . .	50%
Dividend payout ratio <sup>(*1)</sup> . . . . .	7.31%
Dividend yield ratio <sup>(*2)</sup> . . . . .	0.54%

(\*1) Interim Dividends/Net income

(\*2) Dividends per share/Closing stock price as of June 30, 2010 (₩466,500)

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As filed with the Securities and Exchange Commission on June 25, 2010

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**Form 20-F**

(Mark One)

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
**For the fiscal year ended December 31, 2009**

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report \_\_\_\_\_

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-13368

**POSCO**

(Exact name of Registrant as specified in its charter)

**POSCO**

(Translation of Registrant's name into English)

**The Republic of Korea**

(Jurisdiction of incorporation or organization)

**POSCO Center, 892 Daechi-4-dong, Gangnam-gu****Seoul, Korea 135-777**

(Address of principal executive offices)

**Choi, Dong-Min****POSCO Center, 892 Daechi-4-dong, Gangnam-gu,****Seoul, Korea 135-777****Telephone: +82-2-3457-0975; E-mail: dmchoi@posco.com; Facsimile: +82-2-3457-1982**

(Name, telephone, e-mail and/or facsimile number and address of company contact person)

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

**Title of Each Class****Name of Each Exchange on Which Registered**American Depositary Shares, each representing  
one-fourth of one share of common stock

New York Stock Exchange, Inc.

Common Stock, par value Won 5,000 per share \*

New York Stock Exchange, Inc. \*

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

**None**

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

**None**

**As of December 31, 2009, there were 77,032,878 shares of common stock, par value Won 5,000 per share, outstanding  
(not including 10,153,957 shares of common stock held by the company as treasury shares)**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. **Yes** ☒ **No** ☐

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. **Yes** ☐ **No** ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes** ☒ **No** ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **Yes** ☐ **No** ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

**Large accelerated filer** ☒ **Accelerated filer** ☐ **Non-accelerated filer** ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing. **U.S. GAAP** ☐ **IFRS** ☐ **Other** ☒

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. **Item 17** ☐ **Item 18** ☒

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). **Yes** ☐ **No** ☒

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



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## GLOSSARY

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

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

## **PART I**

### **Item 1. *Identity of Directors, Senior Managers and Advisors***

#### **Item 1.A. *Directors and Senior Management***

Not applicable

#### **Item 1.B. *Advisers***

Not applicable

#### **Item 1.C. *Auditors***

Not applicable

### **Item 2. *Offer Statistics and Expected Timetable***

Not applicable

#### **Item 2.A. *Offer Statistics***

Not applicable

#### **Item 2.B. *Method and Expected Timetable***

Not applicable

### **Item 3. *Key Information***

#### **Item 3.A. *Selected Financial Data***

The selected financial data presented below should be read in conjunction with our Consolidated Financial Statements and related notes thereto and “Item 5. Operating and Financial Review and Prospects” included elsewhere in this annual report. The selected financial data as of December 31, 2008 and 2009 and for each of the three years in the period ended December 31, 2009 is derived from our Consolidated Financial Statements included elsewhere in this annual report. Our Consolidated Financial Statements are prepared in accordance with Korean GAAP, which differ in certain significant respects from U.S. GAAP.

## INCOME STATEMENT DATA

	For the Year Ended December 31,					
	2005	2006	2007	2008	2009	2009 <sup>(10)</sup>
(In billions of Won and millions of dollars, except per share data)						
<b>Korean GAAP:</b>						
Sales <sup>(1)</sup>	₩26,302	₩25,842	₩31,608	₩41,743	₩36,855	US\$31,565
Cost of goods sold <sup>(2)</sup>	18,767	19,897	24,903	32,562	31,037	26,582
Selling and administrative expenses	1,451	1,556	1,785	2,006	1,949	1,670
Operating income	6,083	4,389	4,920	7,174	3,868	3,313
Interest expense	149	183	240	345	532	456
Foreign currency transaction and translation gains (losses), net	159	99	(19)	(940)	366	313
Donations	153	155	197	143	129	110
Income tax expenses	1,474	922	1,274	1,734	536	459
Net income	4,007	3,353	3,678	4,350	3,242	2,777
Net income attributable to controlling interest	4,022	3,314	3,559	4,379	3,218	2,756
Net income attributable to non-controlling interest	(15)	39	119	(29)	24	(21)
Basic and diluted earnings per share of common stock <sup>(3)</sup>	50,790	42,115	46,854	58,002	41,982	35,956
Dividends per share of common stock	8,000	8,000	10,000	10,000	8,000	6,852
<b>U.S. GAAP <sup>(4)</sup>:</b>						
Operating income	₩ 5,671	₩ 4,259	₩ 4,967	₩ 7,129	₩ 3,712	US\$ 3,179
Net income	4,097	3,432	3,677	4,084	3,609	3,091
Net income attributable to controlling interest	4,102	3,408	3,565	4,106	3,567	3,055
Net income (loss) attributable to non-controlling interest	(5)	24	112	(22)	42	36
Basic and diluted earnings per share of common stock	51,789	43,304	46,938	54,387	46,534	40

## BALANCE SHEET DATA

	As of December 31,					
	2005	2006	2007	2008	2009	2009 <sup>(10)</sup>
(In billions of Won and millions of dollars, except per share data)						
<b>Korean GAAP:</b>						
Working capital <sup>(5)</sup>	₩ 5,759	₩ 7,155	₩ 7,769	₩ 11,188	₩ 11,359	US\$ 9,729
Property, plant and equipment, net <sup>(6)</sup>	12,272	14,643	15,582	18,069	21,840	18,705
Total assets <sup>(6)</sup>	27,507	31,149	36,275	46,961	50,312	43,090
Long-term debt <sup>(7)(8)(9)</sup>	1,131	2,726	3,306	6,896	8,230	7,049
Capital stock	482	482	482	482	482	413
Total shareholders' equity <sup>(6)</sup>	19,874	22,402	25,118	28,344	31,664	27,119
<b>U.S. GAAP <sup>(4)</sup>:</b>						
Property, plant and equipment, net	₩ 12,420	₩ 14,860	₩ 15,836	₩ 18,328	₩ 22,195	US\$19,009
Total assets	27,525	31,208	36,349	47,208	51,074	43,742
Total equity	19,881	22,447	25,171	28,419	32,057	27,455

- (1) Includes sales by our consolidated sales subsidiaries of steel products purchased by such subsidiaries from third parties, including trading companies to which we sell steel products.
- (2) Includes purchases of steel products by our consolidated subsidiaries from third parties, including trading companies to which we sell steel products.
- (3) See Note 26 of Notes to Consolidated Financial Statements for method of calculation.
- (4) A description of the significant differences between Korean GAAP and U.S. GAAP as well as the reconciliation to U.S. GAAP are provided in detail in Note 31 of Notes to Consolidated Financial Statements.
- (5) "Working capital" means current assets minus current liabilities.
- (6) Reflects revaluations of assets permitted under Korean law.
- (7) Net of current portion and discount on debentures issued.



- (8) For information regarding swap transactions entered into by us, see “Item 5. Operating and Financial Review and Prospects — Item 5.A. Operating Results — Exchange Rate Fluctuations” and Note 23 of Notes to Consolidated Financial Statements.
- (9) Monetary assets and liabilities denominated in foreign currencies are translated into Won at the basic rates in effect at the balance sheet date and resulting translation gains and losses are recognized in current operations. See Notes 2 and 28 of Notes to Consolidated Financial Statements.
- (10) Translated into U.S. Dollars at the rate of Won 1,167.6 to US\$1.00, the market average exchange rate, announced by Seoul Money Brokerage Services, Ltd., on December 31, 2009. This translation should not be construed as a representation that the Won amounts represent, have been, or could be converted to U.S. Dollars at that rate or any other rate.

## EXCHANGE RATE INFORMATION

The following table sets out information concerning the market average exchange rate for the periods and dates indicated.

<u>Period</u>	<u>At End of Period</u>	<u>Average Rate <sup>(1)</sup> (Per US\$1.00)</u>	<u>High</u>	<u>Low</u>
2005 . . . . .	1,013.8	1,024.2	1,060.3	998.2
2006 . . . . .	929.6	956.1	1,031.0	918.0
2007 . . . . .	938.2	929.2	950.0	902.2
2008 . . . . .	1,257.5	1,102.6	1,509.0	934.5
2009 . . . . .	1,167.6	1,276.4	1,573.6	1,152.8
2010 (through June 24) . . . . .	1,188.2	1,152.3	1,261.5	1,104.0
January . . . . .	1,156.5	1,138.8	1,167.6	1,119.8
February . . . . .	1,158.4	1,157.1	1,172.6	1,142.7
March . . . . .	1,130.8	1,137.6	1,160.2	1,129.5
April . . . . .	1,115.5	1,117.1	1,132.5	1,104.0
May . . . . .	1,200.2	1,163.1	1,255.1	1,108.5
June (through June 24) . . . . .	1,188.2	1,215.2	1,261.5	1,176.7

Source: Seoul Money Brokerage Services, Ltd.

- (1) The average rate for each year is calculated as the average of the market average exchange rates on the last business day of each month during the relevant year (or portion thereof). The average rate for a month is calculated as the average of the market average exchange rates on each business day during the relevant month (or portion thereof).

### Item 3.B. *Capitalization and Indebtedness*

Not applicable

### Item 3.C. *Reasons for Offer and Use of Proceeds*

Not applicable

### Item 3.D. *Risk Factors*

You should carefully consider the risks described below.

***The global economic downturn in recent years has reduced worldwide demand for steel products and adversely affected our profitability. While the rate of deterioration of the global economy slowed in the second half of 2009 and into 2010, with some signs of stabilization and improvement, there can be no assurance that such recovery will continue.***

Difficulties affecting the U.S. and global financial sectors, adverse conditions and volatility in the U.S. and worldwide credit and financial markets, fluctuations in oil and commodity prices and the general weakness of the U.S. and global economy have increased the uncertainty of global economic prospects in general and have adversely affected the global and Korean economies. The global

economic downturn in recent years has had a pronounced negative effect on the global demand for steel products and their prices. While the rate of deterioration of the global economy slowed in the second half of 2009 and into 2010, with some signs of stabilization and improvement, the overall prospects for the Korean and global economy in 2010 and beyond remain uncertain.

In response to sluggish demand from our customers in industries adversely impacted by the deteriorating global economic conditions in the second half of 2008, such as automotive and construction industries, we reduced our crude steel production and sales prices in December 2008 and the first quarter of 2009. Signs that the pace of deterioration in market conditions had slowed began to appear in the second quarter of 2009, however, and demand from certain segments of our customer base, including the domestic automotive and construction industries, showed signs of recovery starting in the second quarter of 2009. In response, we began to incrementally increase our crude steel production starting in April 2009 and our production level normalized in the second half of 2009. Prices of our steel products also gradually recovered starting in the third quarter of 2009. However, there can be no assurance that such recovery will continue, and we may decide to adjust our future crude steel production or our sales prices on an on-going basis subject to market demand for our products, the production outlook of the global steel industry and global economic conditions in general. Deterioration of market conditions may result in changes in assumptions underlying the carrying value of certain assets, which in turn could result in impairment of such assets, including intangible assets such as goodwill. We expect fluctuation in demand for our steel products to continue to prevail at least in the near future, which may adversely affect our business, results of operations or financial condition.

***Korea is our most important market, and our current business and future growth could be materially and adversely affected if economic conditions in Korea deteriorate.***

We are incorporated in Korea, and a substantial portion of our operations and assets are located in Korea. In addition, Korea is our most important market, accounting for 62.6% of our total sales volume of steel products in 2009. Domestic demand for our products is affected by the condition of major steel consuming industries, such as construction, shipbuilding, automotive, electrical appliances and downstream steel processors, and the Korean economy in general. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea.

The economic indicators in Korea in recent years have shown mixed signs, and future growth of the Korean economy is subject to many factors beyond our control. Recent difficulties affecting the U.S. and global financial sectors, adverse conditions and volatility in the worldwide credit and financial markets, fluctuations in oil and commodity prices and the general weakness of the U.S. and global economy have increased the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy. Due to recent liquidity and credit concerns and volatility in the global financial markets, the value of the Won relative to the Dollar has also fluctuated significantly in recent years. Furthermore, as a result of adverse global and Korean economic conditions, there has been continuing volatility in the stock prices of Korean companies. Any future deterioration of the Korean or global economy could adversely affect our business, financial condition and results of operations.

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

- continuing difficulties in the housing and financial sectors in the United States and elsewhere and increased sovereign default risks in select countries and the resulting adverse effects on the global financial markets;
- declines in consumer confidence and a slowdown in consumer spending;
- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the Dollar or Japanese Yen exchange rates or revaluation of the Chinese renminbi), interest rates or stock markets;

- continuing adverse conditions in the economies of countries that are important export markets for Korea, such as the United States, Japan and China, or in emerging market economies in Asia or elsewhere;
- increasing delinquencies and credit defaults by retail and small- and medium-sized enterprise borrowers;
- the continued emergence of the Chinese economy, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and the relocation of the manufacturing base from Korea to China);
- the economic impact of any pending or future free trade agreements;
- social and labor unrest;
- substantial decreases in the market prices of Korean real estate;
- a decrease in tax revenues and a substantial increase in the Government's expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that, together, would lead to an increased Government budget deficit;
- financial problems or lack of progress in the restructuring of Korean conglomerates, other large troubled companies, their suppliers or the financial sector;
- loss of investor confidence arising from corporate accounting irregularities and corporate governance issues at certain Korean conglomerates;
- geo-political uncertainty and risk of further attacks by terrorist groups around the world;
- the occurrence of severe health epidemics in Korea and other parts of the world;
- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from trade disputes or disagreements in foreign policy;
- political uncertainty or increasing strife among or within political parties in Korea;
- hostilities involving oil producing countries in the Middle East and any material disruption in the supply of oil or increase in the price of oil; and
- an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States.

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

Our export sales and overseas sales to customers abroad accounted for 37.4% of our total sales volume of steel products in 2009. Our export sales volume to customers in Asia, including China, Japan, Indonesia, Thailand and Malaysia, accounted for 65.8% of our total export sales volume for steel products in 2009, and we expect our sales to these countries, especially to China, to remain important in the future. Accordingly, adverse economic and financial developments in these countries may have an adverse effect on demand for our products. Economic weakness in Asia may also adversely affect our sales to the Korean companies that export to the region, especially companies in the construction, shipbuilding, automotive, electrical appliances and downstream steel processing industries. Weaker demand in these countries, combined with addition of new steel production capacity, particularly in China, may also reduce export prices in Dollar terms of our principal products. We attempt to maintain and expand our export sales to generate foreign currency

receipts to cover our foreign currency purchases and debt service requirements. Consequently, any decrease in our export sales could also increase our foreign exchange risks.

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

The Won has fluctuated significantly against major currencies in recent years. The market average exchange rate, as announced by the Seoul Money Brokerage Services, Ltd., depreciated from Won 938.2 to US\$1.00 as of December 31, 2007 to Won 1,573.6 to US\$1.00 as of March 3, 2009 but appreciated to W1,167.6 to US\$1.00 as of December 31, 2009. The market average exchange rate, as announced by the Seoul Money Brokerage Services, Ltd., was Won 1,188.2 to US\$1.00 on June 24, 2010. Depreciation of the Won may materially affect the results of our operations because, among other things, it causes:

- an increase in the amount of Won required for us to make interest and principal payments on our foreign currency-denominated debt, which accounted for approximately 56.1% of our total long-term debt (excluding discounts on debentures issued and including current portion) as of December 31, 2009;
- an increase in Won terms in the costs of raw materials and equipment that we purchase from overseas sources and a substantial portion of our freight costs, which are denominated primarily in Dollars; and
- foreign exchange translation losses on liabilities, which lower our earnings for accounting purposes.

Appreciation of the Won, on the other hand, (i) causes our export products to be less competitive by raising our prices in Dollar terms and (ii) reduces net sales and accounts receivables in Won from export sales, which are primarily denominated in Dollars. However, because of the larger positive effects of the appreciation of the Won (i.e., the reverse of the negative effects caused by the depreciation of the Won, as discussed above), appreciation of the Won generally has a positive impact on our results of operations.

Fluctuations in the exchange rate between the Won and the Dollar will also affect the Dollar equivalent of the Won price of the shares of our common stock on the KRX KOSPI Market and, as a result, will likely affect the market price of the ADSs. These fluctuations will also affect the Dollar conversion by the depositary for the ADRs of cash dividends, if any, paid in Won on shares of common stock represented by the ADSs.

***We are dependent on imported raw materials, and significant increases in market prices of essential raw materials could adversely affect our margins and profits.***

We purchase substantially all of the principal raw materials we use from sources outside Korea, including iron ore and coal. In 2009, POSCO imported approximately 41.7 million dry metric tons of iron ore and 21.7 million wet metric tons of coal. Iron ore is imported primarily from Australia, Brazil and South Africa. Coal is imported primarily from Australia, Canada and China. Although we have not experienced significant unanticipated supply disruptions in the past, supply disruptions, which could be caused by political or other events in the countries from which we import these materials, could adversely affect our operations.

In addition, we are particularly exposed to increases in the prices of coal, iron ore and nickel, which represent the largest components of our cost of goods sold. The prices of our key raw materials have fluctuated significantly in recent years. For example, the average price of coal per wet metric ton (benchmark free on board price of Australian premium hard coking coal) was \$98 in 2007, \$300 in 2008 and \$129 in 2009. The average price of iron ore per dry metric ton (benchmark free on board price of Australian iron ore fines with iron (Fe) 60% content) was \$48.30 in 2007, \$86.80 in 2008 and

\$58.20 in 2009. Future increases in prices of our key raw materials and our inability to pass along such increases to our customers could adversely affect our margins and profits. Increased prices may also cause potential customers to defer purchase of steel products, which would have an adverse effect on our business, financial condition and results of operations.

***Excess capacity and oversupply in the global steel industry may adversely affect our profitability.***

In recent years, driven in part by strong growth in steel consumption in the developing world, particularly in China, the global steel industry has experienced renewed interest in expansion of steel production capacity. China is the largest steel producing country in the world by a significant margin, with the balance between its domestic production and demand being an important factor in the determination of global steel prices. In addition, Chinese steel exports may have a significant impact on steel prices in markets outside of China, including Korea.

The increased production capacity, combined with a decrease in demand due to the recent slowdown of the global economy, has resulted in production over-capacity in the global steel industry. Production over-capacity in the global steel industry may intensify if the slowdown of the global economy is prolonged or demand from developing countries that have experienced significant growth in the past several years does not meet the recent growth in production capacity. Production over-capacity in the global steel industry is likely to:

- reduce export prices in Dollar terms of our principal products, which in turn may reduce our sales prices in Korea;
- increase competition in the Korean market as foreign producers seek to export steel products to Korea as other markets experience a slowdown;
- negatively affect demand for our products abroad and our ability to expand export sales; and
- affect our ability to increase steel production in general.

There is no assurance that we will be able to continue to compete successfully in this economic environment or that the prolonged slowdown of the global economy or production over-capacity will not have a material adverse effect on our business, results of operations or financial condition.

***Disruptions in global credit and financial markets and the resulting governmental actions around the world could have a material adverse impact on our ability to meet our funding needs, and could cause the market value of our securities to decline.***

In recent years, disruptions and volatility in the global financial markets have resulted in increases in credit spreads and limitations on the availability of credit. Starting in mid-2007, credit markets in the United States began experiencing difficult conditions and increased volatility, which in turn adversely affected worldwide financial markets. Adverse conditions in the global credit and financial markets were further exacerbated in 2008 by the bankruptcy or acquisition of, and government assistance to, several major U.S. and European financial institutions. These developments resulted in reduced liquidity, greater volatility, widening of credit spreads and a reduction in price transparency in the U.S. and global financial markets.

In response to such developments, legislators and financial regulators in the United States and other jurisdictions, including Korea, implemented a number of policy measures designed to add stability to the financial markets and stimulate the economy, including the provision of direct and indirect assistance to distressed financial institutions. However, while the rate of deterioration of the global economy slowed in the second half of 2009 and into 2010, with some signs of stabilization and improvement, the overall prospects for the Korean and global economy in 2010 and beyond remain

uncertain. For example, in November 2009, the Dubai government announced a moratorium on the outstanding debt of Dubai World, a government-affiliated investment company. In addition, many governments worldwide, in particular in Greece and other countries in southern Europe, are showing increasing signs of fiscal stress and may experience difficulties in meeting their debt service requirements. Any of these or other developments could potentially trigger another financial and economic crisis. In addition, while many governments worldwide are considering or are in the process of implementing “exit strategies,” in the form of reduced government spending, higher interest rates or otherwise, with respect to the economic stimulus measures adopted in response to the global financial crisis, such strategies may, for reasons related to timing, magnitude or other factors, have the unintended consequence of prolonging or worsening global economic and financial difficulties. Adverse conditions and uncertainty surrounding the Korean and global economies and financial markets may have a material adverse effect on our business and our ability to meet our funding needs, as well as negatively affect the market prices of the ADSs.

***Consolidation and new market entrants in the global steel industry may increase competition.***

In recent years, there has been a trend toward industry consolidation among our competitors. For example, consolidation of Mittal and Arcelor in 2006 has created a company with approximately 10% of global steel production capacity. Competition from global steel manufacturers with expanded production capacity such as ArcelorMittal and new market entrants, especially from China and India, have resulted in significant price competition and may result in declining margins and reductions in revenue. Our larger competitors may use their resources, which may be greater than ours, against us in a variety of ways, including by making additional acquisitions, investing more aggressively in product development and capacity and displacing demand for our export products.

***Competition from steel substitute materials may reduce demand for steel products.***

Steel competes with other natural and synthetic materials that may be used as steel substitutes, such as aluminum, cement, composites, glass, plastic and wood. Government regulatory initiatives mandating the use of such materials instead of steel, whether for environmental or other reasons, as well as the development of attractive alternative substitutes for steel products, may reduce demand for steel products and adversely affect our business, results of operations or financial condition.

***Expansion of our production operations abroad is important to our long-term success, and our limited experience in the operation of our business outside Korea increases the risk that our international expansion efforts will not be successful.***

We conduct international trading and construction operations abroad, and our business relies on a global trading network comprised of overseas subsidiaries, branches and representative offices. Although many of our subsidiaries and overseas branches are located in developed countries, we also operate in numerous countries with developing economies. In addition, we intend to continue to expand our production operations internationally by carefully seeking out promising investment opportunities, particularly in China, India and Southeast Asia, in part to prepare for the eventual maturation of the Korean steel market. We may enter into joint ventures with foreign steel producers that would enable us to rely on these businesses to conduct our operations, establish local networks and coordinate our sales and marketing efforts abroad. To the extent that we enter into these arrangements, our success will depend in part on the willingness of our partner companies to dedicate sufficient resources to their partnership with us.

In other situations, we may decide to establish manufacturing facilities by ourselves instead of relying on partners. The demand and market acceptance for our products produced abroad are subject to a high level of uncertainty and are substantially dependent upon the market condition of the



global steel industry. We cannot assure you that our international expansion plan will be profitable or that we can recoup the costs related to such investments.

Expansion of our trading, construction and production operations abroad requires management attention and resources. In addition, we face additional risks associated with our expansion outside Korea, including:

- challenges caused by distance, language and cultural differences;
- higher costs associated with doing business internationally;
- legal and regulatory restrictions, including foreign exchange controls that might prevent us from repatriating cash earned in countries outside Korea;
- longer payment cycles in some countries;
- credit risk and higher levels of payment fraud;
- currency exchange risks;
- potentially adverse tax consequences;
- political and economic instability; and
- seasonal reductions in business activity during the summer months in some countries.

***We may from time to time engage in acquisitions for which we may be required to seek additional sources of capital.***

From time to time, we may selectively acquire or invest in companies or businesses that may complement our business. In order to finance these acquisitions, we intend to use cash on hand, funds from operations, issuances of equity and debt securities, and, if necessary, financings from banks and other sources as well as entering into consortiums with financial investors. However, no assurance can be given that we will obtain sufficient financing for such acquisitions or investments on terms commercially acceptable to us or at all. We also cannot assure you that such financings and related debt payment obligations will not have a material adverse impact on our financial condition, results of operations or cash flow.

***Several of our products have been and may become subject to anti-dumping or countervailing proceedings, which may have an adverse effect on our export sales.***

In recent years, several of our products have been subject to anti-dumping or countervailing proceedings, including in the United States, the European Union and China. Further increases in or new imposition of anti-dumping duties, countervailing duties, quotas or tariffs on our sales in these markets may have a material adverse effect on our exports to these regions in the future. Our export sales and overseas sales to customers in the United States, Europe and China accounted for 16.5% of our total sales volume of steel products in 2009. See “Item 4. Information on the Company — Item 4.B. Business Overview — Markets — Exports.”

***Cyclical fluctuations based on macroeconomic factors may adversely affect POSCO E&C's business and performance.***

In order to complement our steel operations, we engage in engineering and construction activities through POSCO Engineering & Construction Co., Ltd. (“POSCO E&C”), an 89.5%-owned subsidiary. The engineering and construction segment, which accounted for approximately 10.6% of our consolidated sales in 2009, is highly cyclical and tends to fluctuate based on macroeconomic factors, such as consumer confidence and income, employment levels, interest rates, inflation rates, demographic trends and policies of the Government. Although we believe that POSCO E&C's strategy of focusing on high-value-added plant construction and urban planning and development projects



such as Songdo New City has enabled it to be exposed to a lesser degree to general economic conditions in Korea in comparison to some of its domestic competitors, our construction revenues have fluctuated in the past depending on the level of domestic construction activity including new construction orders. POSCO E&C's construction operations could suffer in the future in the event of a general downturn in the construction market resulting in weaker demand, which could adversely affect POSCO E&C's business, results of operations or financial condition.

***Many of POSCO E&C's domestic and overseas construction projects are on a fixed-price basis, which could result in losses for us in the event that unforeseen additional expenses arise with respect to the project.***

Many of POSCO E&C's domestic and overseas construction projects are carried out on a fixed-price basis according to a predetermined timetable, pursuant to the terms of a fixed-price contract. Under such fixed-price contracts, POSCO E&C retains all cost savings on completed contracts but is also liable for the full amount of all cost overruns and may be required to pay damages for late delivery. The pricing of fixed-price contracts is crucial to POSCO E&C's profitability, as is its ability to quantify risks to be borne by it and to provide for contingencies in the contract accordingly.

POSCO E&C attempts to anticipate increases in costs of labor, raw materials and parts and components in its bids on fixed-price contracts. However, the costs incurred and gross profits realized on a fixed-price contract may vary from its estimates due to factors such as:

- unanticipated variations in labor and equipment productivity over the term of a contract;
- unanticipated increases in labor, raw material, parts and components, subcontracting and overhead costs, including as a result of bad weather;
- delivery delays and corrective measures for poor workmanship; and
- errors in estimates and bidding.

If unforeseen additional expenses arise over the course of a construction project, such expenses are usually borne by POSCO E&C, and its profit from the project will be correspondingly reduced or eliminated. If POSCO E&C experiences significant unforeseen additional expenses with respect to its fixed price projects, it may incur losses on such projects, which could have a material adverse effect on its financial condition and results of operations.

***POSCO E&C's domestic residential property business is highly dependent on the real estate market in Korea.***

The performance of POSCO E&C's domestic residential property business is highly dependent on the general condition of the real estate market in Korea. The construction industry in Korea is experiencing a downturn, due to excessive investment in recent years in residential property development projects, stagnation of real property prices and reduced demand for residential property, especially in areas outside of Seoul, including as a result of deteriorating conditions in the Korean economy. In addition, as liquidity and credit concerns and volatility in the global financial markets increased significantly starting in September 2008, there has been a general decline in the willingness by banks and other financial institutions in Korea to engage in project financing and other lending activities to construction companies, which may adversely impact POSCO E&C's ability to meet its desired funding needs. The Government has taken measures to support the Korean construction industry, including easing of regulations imposed on redevelopment of apartment buildings and resale restrictions in the metropolitan areas, as well as reductions in property taxes. While the Korean real estate market has steadily recovered since the second half of 2009, there can be no assurance that declines in demand or prices will not take place in the Korean real estate market in the future or that a slowdown of the Korean real estate market will not have a material adverse effect on POSCO E&C's business, results of operations or financial condition.

***We may not be able to successfully execute our diversification strategy.***

In part to prepare for the eventual maturation of the Korean steel market, our overall strategy includes securing new growth engines by diversifying into new businesses related to our steel operations that we believe will offer greater potential returns, such as liquefied natural gas production, logistics and magnesium coil and sheet production, as well as entering into new businesses not related to our steel operations such as power generation, development of alternative energy and advanced materials, information and technology related consulting services and wireless broadband Internet access service.

From time to time, we may selectively acquire or invest in companies to pursue such diversification strategy. For example, in May 2010, we were selected as the preferred bidder for a 68% interest in Daewoo International Corporation, a global trading company that primarily engages in trading of steel and raw materials as well as investing in energy development projects. Daewoo International had total revenues of Won 11,544 billion in 2009, total net income of Won 131 billion in 2009 and total assets of Won 4,695 billion as of December 31, 2009. Daewoo International Corporation has invested in a portfolio of energy exploration and production projects, including oil and gas projects located in Peru, Oman, Vietnam, Myanmar, Uzbekistan and Russia, as well as mineral projects located in Australia, Bolivia and Madagascar. Daewoo International Corporation also holds a 24% interest in Kyobo Life Insurance, Korea's third largest life insurance company in terms of market share. Our final decision to purchase the controlling interest is subject to satisfactory completion of additional due diligence of the company.

Our ability to implement our overall diversification strategy will depend on a variety of factors, some of which are beyond our control, including the availability of qualified engineers and personnel, establishment of new relationships and expansion of existing relationships with various customers and suppliers, procurement of necessary technology and know-how to engage in such businesses and access to investment capital at reasonable costs. No assurance can be given that our diversification strategy can be completed profitably.

***We are subject to environmental regulations, and our operations could expose us to substantial liabilities.***

We are subject to national and local environmental laws and regulations, including increasing pressure to reduce emission of carbon dioxide relating to our manufacturing process, and our steel manufacturing and construction operations could expose us to risk of substantial liability relating to environmental or health and safety issues, such as those resulting from discharge of pollutants and carbon dioxide into the environment, the handling, storage and disposal of solid or hazardous materials or wastes and the investigation and remediation of contaminated sites. We may be responsible for the investigation and remediation of environmental conditions at currently and formerly operated manufacturing or construction sites. We may also be subject to associated liabilities, including liabilities for natural resource damage, third party property damage or personal injury resulting from lawsuits brought by the government or private litigants. In the course of our operations, hazardous wastes may be generated at third party-owned or operated sites, and hazardous wastes may be disposed of or treated at third party-owned or operated disposal sites. If those sites become contaminated, we could also be held responsible for the cost of investigation and remediation of such sites, for any associated natural resource damage, and for civil or criminal fines or penalties.

***Failure to protect our intellectual property rights could impair our competitiveness and harm our business and future prospects.***

We believe that developing new steel manufacturing technologies that can be differentiated from those of our competitors, such as FINEX, strip casting and silicon steel manufacturing technologies, is critical to the success of our business. We take active measures to obtain protection of our intellectual property by obtaining patents and undertaking monitoring activities in our major

markets. However, we cannot assure you that the measures we are taking will effectively deter competitors from improper use of our proprietary technologies. Our competitors may misappropriate our intellectual property, disputes as to ownership of intellectual property may arise and our intellectual property may otherwise become known or independently developed by our competitors. Any failure to protect our intellectual property could impair our competitiveness and harm our business and future prospects.

***We rely on trade secrets and other unpatented proprietary know-how to maintain our competitive position, and unauthorized disclosure of our trade secrets or other unpatented proprietary know-how could negatively affect our business.***

We rely on trade secrets and unpatented proprietary know-how and information. We enter into confidentiality agreements with each of our employees and consultants upon the commencement of an employment or consulting relationship. These agreements generally provide that all inventions, ideas, discoveries, improvements and patentable material made or conceived by the individual arising out of the employment or consulting relationship and all confidential information developed or made known to the individual during the term of the relationship is our exclusive property. We cannot assure the enforceability of these types of agreements, or that they will not be breached. We also cannot be certain that we will have adequate remedies for any breach. The disclosure of our trade secrets or other know-how as a result of such a breach could adversely affect our business.

***Escalations in tension with North Korea could have an adverse effect on us and the market value of our securities.***

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In recent years, there have been heightened security concerns stemming from North Korea's nuclear weapons and long-range missile programs and increased uncertainty regarding North Korea's actions and possible responses from the international community.

In addition to conducting test flights of long-range missiles, North Korea announced in October 2006 that it had successfully conducted a nuclear test, which increased tensions in the region and elicited strong objections worldwide. In response, the United Nations Security Council passed a resolution that prohibits any United Nations member state from conducting transactions with North Korea in connection with any large-scale arms and material or technology related to missile development or weapons of mass destruction and from providing luxury goods to North Korea, imposes an asset freeze and travel ban on persons associated with North Korea's weapons program, and calls upon all United Nations member states to take cooperative action, including through inspection of cargo to or from North Korea. In response, North Korea agreed in February 2007 at the six-party multi-lateral talks with Korea, the United States, China, Japan and Russia to shut down and seal the Yongbyon nuclear facility, including the reprocessing facility, and readmit international inspectors to conduct all necessary monitoring and verifications.

In April 2009, North Korea launched a long-range rocket over the Pacific Ocean. Korea, Japan and the United States responded that the launch poses a threat to neighboring nations and that it was in violation of the United Nations Security Council resolution adopted in 2006 against nuclear tests by North Korea, and the United Nations Security Council unanimously passed a resolution that condemned North Korea for the launch and decided to tighten sanctions against North Korea. Subsequently, North Korea announced that it would permanently pull out of the six party talks and restart its nuclear program, and the International Atomic Energy Agency reported that its inspectors had been ordered to remove surveillance devices and other equipment at the Yongbyon nuclear power plant and to leave North Korea. On May 25, 2009, North Korea announced that it had successfully conducted a second nuclear test and test-fired three short-range surface-to-air missiles. In response, the United Nations Security Council unanimously passed a resolution that condemned North Korea for the nuclear test and decided to expand and tighten sanctions against North Korea.

In addition, there recently has been increased uncertainty with respect to the future of North Korea's political leadership and concern regarding its implications for economic and political stability in the region. In June 2009, U.S. and Korean officials announced that Kim Jong-il, the North Korean ruler who reportedly suffered a stroke in August 2008, designated his third son, who is reportedly in his twenties, to become his successor. The succession plan, however, remains uncertain. In addition, North Korea's economy faces severe challenges. For example, in November 2009, the North Korean government redenominated its currency at a ratio of 100 to 1 as part of a currency reform undertaken in an attempt to control inflation and reduce income gaps. Such developments may further aggravate social and political tensions within North Korea. In March 2010, a Korean warship was destroyed by an underwater explosion, killing many of the crewmen on board. In May 2010, the Government formally accused North Korea of causing the sinking and is seeking United Nations Security Council sanctions for the act. North Korea has threatened retaliation for any attempt to punish it for the act.

There can be no assurance that the level of tension on the Korean peninsula will not escalate in the future. Any further increase in tension, which may occur, for example, if North Korea experiences a leadership or economic crisis, high-level contacts break down, or military hostilities occur, could have a material adverse effect on our operations and the market value of the ADSs.

***If you surrender your ADRs to withdraw shares of our common stock, you may not be allowed to deposit the shares again to obtain ADRs.***

Under the deposit agreement, holders of shares of our common stock may deposit those shares with the ADR depositary's custodian in Korea and obtain ADRs, and holders of ADRs may surrender ADRs to the ADR depositary and receive shares of our common stock. However, under current Korean laws and regulations, the depositary bank is required to obtain our prior consent for the number of shares to be deposited in any given proposed deposit that exceeds the difference between (i) the aggregate number of shares deposited by us for the issuance of ADSs (including deposits in connection with the initial and all subsequent offerings of ADSs and stock dividends or other distributions related to these ADSs) and (ii) the number of shares on deposit with the depositary bank at the time of such proposed deposit. It is possible that we may not give the consent. As a result, if you surrender ADRs and withdraw shares of common stock, you may not be able to deposit the shares again to obtain ADRs. See "Item 10. Additional Information — Item 10.D. Exchange Controls."

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

The Commercial Code and our articles of incorporation require us, with some exceptions, to offer shareholders the right to subscribe for new shares in proportion to their existing ownership percentage whenever new shares are issued. If we issue new shares to persons other than our shareholders (See "Item 10.B. Memorandum and Articles of Association — Preemptive Rights and Issuance of Additional Shares"), a holder of our ADSs will experience dilution of such holding. If none of these exceptions is available, we will be required to grant preemptive rights when issuing additional common shares under Korean law. Under the deposit agreement governing the ADSs, if we offer any rights to subscribe for additional shares of our common stock or any rights of any other nature, the ADR depositary, after consultation with us, may make the rights available to you or use reasonable efforts to dispose of the rights on your behalf and make the net proceeds available to you. The ADR depositary, however, is not required to make available to you any rights to purchase any additional shares unless it deems that doing so is lawful and feasible and:

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

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

We are under no obligation to file any registration statement under the Securities Act to enable you to exercise preemptive rights in respect of the common shares underlying the ADSs, and we cannot assure you that any registration statement would be filed or that an exemption from the registration requirement under the Securities Act would be available. Accordingly, if a registration statement is required for you to exercise preemptive rights but is not filed by us, you will not be able to exercise your preemptive rights for additional shares and may suffer dilution of your equity interest in us.

***U.S. investors may have difficulty enforcing civil liabilities against us and our directors and senior management.***

We are incorporated in Korea with our principal executive offices located in Seoul. The majority of our directors and senior management are residents of jurisdictions outside the United States, and the majority of our assets and the assets of such persons are located outside the United States. As a result, U.S. investors may find it difficult to effect service of process within the United States upon us or such persons or to enforce outside the United States judgments obtained against us or such persons in U.S. courts, including actions predicated upon the civil liability provisions of the U.S. federal securities laws. It may also be difficult for an investor to enforce in U.S. courts judgments obtained against us or such persons in courts in jurisdictions outside the United States, including actions predicated upon the civil liability provisions of the U.S. federal securities laws. It may also be difficult for a U.S. investor to bring an action in a Korean court predicated upon the civil liability provisions of the U.S. federal securities laws against our directors and senior management and non-U.S. experts named in this annual report.

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

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

**Item 4. Information on the Company**

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

We were established by the Government on April 1, 1968, under the Commercial Code, to manufacture and distribute steel rolled products and plates in the domestic and overseas markets. The Government owned more than 70% of our equity until 1988, when the Government reduced its ownership of our common stock to 35% through a public offering and listing our shares on the KRX



KOSPI Market. In December 1998, the Government sold all of our common stock it owned directly, and The Korea Development Bank completed the sale of our shares that it owned in September 2000. The Government no longer holds any direct interest in us, and our outstanding common stock is currently held by individuals and institutions. See “Item 7. Major Shareholders and Related Party Transactions — Item 7A. Major Stockholders.”

Our legal and commercial name is POSCO. Our principal executive offices are located at POSCO Center, 892 Daechi-4-dong, Gangnam-gu, Seoul, Korea, and our telephone number is (822) 3457-0975.

## **Item 4.B. *Business Overview***

### **The Company**

We are the largest fully integrated steel producer in Korea, and one of the largest steel producers in the world, based on annual crude steel production in 2009. We produced approximately 31.7 million tons of crude steel in 2009, a substantial portion of which was produced at Pohang Works and Gwangyang Works. Currently, Pohang Works has an annual crude steel and stainless steel production capacity of 15.0 million tons, and Gwangyang Works has an annual crude steel production capacity of 18.0 million tons. We believe Pohang Works and Gwangyang Works are two of the most technologically advanced integrated steel facilities in the world. We manufacture and sell a diversified line of steel products, including hot rolled and cold rolled products, plates, wire rods, silicon steel sheets and stainless steel products, and we are able to meet a broad range of customer needs from manufacturing industries that consume steel, including automotive, shipbuilding, home appliance, engineering and machinery industries.

We sell primarily to the Korean market, with domestic sales accounting for 62.6% of our total sales volume of steel products in 2009. We believe that we had an overall market share of approximately 42.8% of the total sales volume of steel products sold in Korea in 2009. Our export sales and overseas sales to customers abroad in 2008 and 2009 accounted for 31.7% and 37.4% of our total sales volume of steel products, respectively. Our major export market is Asia, with China accounting for 33.8%, Japan 10.9% and the rest of Asia 21.1% of our total steel export sales volume in 2009.

### **Business Strategy**

Leveraging on our success during the past four decades, our goal is to strengthen our position as one of the leading steel producers in the world and strive to rank among the top three global steel companies in technology leadership, operational excellence and production capacity. In recent years, the global steel industry has undergone significant consolidation, resulting in the emergence of steel companies with expanded production capacity. We seek to achieve continued global excellence in this era of consolidation through a renewed emphasis on growth and innovation. Over the next decade, we seek to expand our position as a global company by adding significant production bases outside Korea. We also intend to secure growth by further solidifying our market position in the steel sector, while allocating additional resources into businesses that we believe will offer us greater potential returns and serve as our new growth engines, such as the engineering and construction, energy and information and technology businesses.

We seek to strengthen our competitiveness and pursue growth through the following core business strategies:

#### ***Continue to Seek Growth Opportunities in the Steel Sector***

We carefully seek out promising investment opportunities abroad, primarily in China, India, Southeast Asia and Mexico, in part to prepare for the eventual maturation of the Korean steel market. We believe that China, India, Southeast Asia and Mexico will continue to offer substantial growth

opportunities, and we plan to selectively seek investment opportunities and expand our production base in these countries.

For example, we are in the process of obtaining regulatory approvals from the Indian Government for the construction of an integrated steel mill and the development of iron ore mines in Orissa State. In Vietnam, we completed the construction of a plant in September 2009 with an annual production capacity of 1.2 million tons of cold rolled products and commenced commercial production in October 2009. In Mexico, we completed the construction of a plant in August 2009 with an annual production capacity of 0.4 million tons of cold rolled products and commenced commercial production in June 2009 to produce automotive steel sheets to supply automotive manufacturers in Mexico, Southeastern United States and South America.

We are also building a global distribution network of supply chain management centers to provide processing and logistics services and more effectively respond to changes in consumer trends in the global steel market. In 2009, we operated 42 supply chain management centers worldwide that recorded aggregate sales of 2.6 million tons of steel products. We plan to continue expanding our global network of supply chain management centers. In Korea, we plan to continue to expand our production facilities and upgrade our facilities that utilize advanced manufacturing technologies, and we plan to enhance the quality of our products through continued modernization and rationalization of our facilities.

### ***Maintain Technology Leadership***

As part of our strategy, we have identified core products that we plan to further develop, such as premium automotive steel sheets, silicon steel and API-grade steel, and we will continue to invest in developing innovative products that offer the greatest potential returns and enhance the overall quality of our products. In order to increase our competitiveness, we plan to make additional investments in the development of new manufacturing technologies, such as FINEX, strip casting, endless rolling and environment-friendly manufacturing processes. We will continue to refine FINEX, a low cost, environmentally friendly steel manufacturing process that optimizes our production capacity by utilizing non-agglomerated iron ore fines and using non-coking coal as an energy source and a reducing agent. We believe that FINEX offers considerable environmental and economic advantages through elimination of major sources of pollution such as sintering and coking plants, as well as reducing operating and raw material costs. We also plan to accelerate development of other advanced technologies, such as strip casting that directly casts coils from liquid steel and a rolling process that rolls hot rolled coils up to 40 slabs at a time. We plan to further devote additional resources into our research and development efforts and increase the proportion of our sales of higher margin, higher value-added products.

### ***Pursue Cost-Cutting through Operational and Process Innovations***

We seek to achieve cost reductions in this era of increasing raw material costs through our company-wide process for innovation and enhancing efficiency of operations. We believe that strategic cost cutting measures through utilization of efficient production methods and management discipline will strengthen our corporate competitiveness. After implementation of Six Sigma innovations in recent years, we are now implementing the Quick Six Sigma program, a customized program that we believe will enhance our corporate culture that rewards innovative ideas at all stages of our operations and enable us to benchmark successful innovations to all relevant processes within the company. We will also strive to invest more in human resources development to nurture employees who are capable of working in the global environment.

### ***Secure Procurement of Raw Materials through Strategic Investments***

We purchase substantially all of the principal raw materials we use, including iron ore, coal and nickel, from sources outside Korea. Import prices of many of the principal raw materials, including iron



ore and nickel, have fluctuated substantially in recent years. To secure adequate procurement of principal raw materials, we have invested and will continue to explore additional investment opportunities in various raw material development projects abroad, as well as enter into long-term contracts with leading suppliers of raw materials, principally in Australia and Brazil.

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

We will continue to selectively seek opportunities in growth industries to diversify our business both vertically and horizontally. New businesses not related to our steel operations in which we intend to focus our diversification include power generation, alternative energy development and information and technology.

POSCO Power Corporation, our wholly-owned subsidiary that is the largest private power generation company in Korea, completed construction of a fuel cell manufacturing plant with an annual production capacity of 50 megawatts in Pohang in 2008 with the objective of enhancing the company's ability to meet the growing demands for clean and renewable energy. Through POSCO ICT Co., Ltd., a 61.9%-owned subsidiary, we also engage in information and technology consulting services as well as automation and system integration engineering services. POSCO E&C, our consolidated subsidiary in which we hold an 89.5% interest, is one of the leading engineering and construction companies in Korea that primarily engages in the planning, design and construction of industrial plants and architectural works and civil engineering.

In May 2010, we were also selected as the preferred bidder for a 68% interest in Daewoo International Corporation, a global trading company that primarily engages in trading of steel and raw materials as well as investing in energy development projects. Daewoo International had total revenues of Won 11,544 billion in 2009, total net income of Won 131 billion in 2009 and total assets of Won 4,695 billion as of December 31, 2009. Daewoo International Corporation has invested in a portfolio of energy exploration and production projects, including oil and gas projects located in Peru, Oman, Vietnam, Myanmar, Uzbekistan and Russia, as well as mineral projects located in Australia, Bolivia and Madagascar. Daewoo International Corporation also holds a 24% interest in Kyobo Life Insurance, Korea's third largest life insurance company in terms of market share. Our final decision to purchase the controlling interest is subject to satisfactory completion of additional due diligence of the company.

We will continue to selectively seek opportunities to identify new growth engines and diversify our operations.

### **Major Products**

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

- hot rolled products;
- plates;
- wire rods;
- cold rolled products;
- silicon steel sheets; and
- stainless steel products.

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

For the Year Ended December 31,										
Steel Products	2005		2006		2007		2008		2009	
	Billions of Won	%	Billions of Won	%	Billions of Won	%	Billions of Won	%	Billions of Won	%
Hot rolled products . . . . .	5,877	25.0	4,650	20.8	4,495	16.1	6,950	19.4	5,907	18.8
Plates . . . . .	2,253	9.6	2,380	10.7	2,847	10.2	4,710	13.2	4,336	13.8
Wire rods . . . . .	1,528	6.5	1,243	5.6	1,458	5.2	2,236	6.2	2,078	6.6
Cold rolled products . . . . .	7,527	32.0	6,765	30.3	8,672	31.1	11,751	32.8	10,151	32.3
Silicon steel sheets . . . . .	688	2.9	681	3.0	1,105	4.0	1,613	4.5	1,522	4.8
Stainless steel products . . . . .	4,543	19.3	5,751	25.8	8,268	29.7	7,271	20.3	6,160	19.6
Others . . . . .	1,132	4.7	859	3.8	1,003	3.7	1,305	3.6	1,313	4.2
Total . . . . .	<u>23,547</u>	<u>100.0</u>	<u>22,329</u>	<u>100.0</u>	<u>27,848</u>	<u>100.0</u>	<u>35,836</u>	<u>100.0</u>	<u>31,467</u>	<u>100.0</u>

For the Year Ended December 31,										
Steel Products	2005		2006		2007		2008		2009	
	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%
Hot rolled products . . . . .	10,330	33.2	9,604	31.0	8,221	25.6	8,684	25.9	8,009	25.8
Plates . . . . .	3,193	10.3	3,615	11.7	3,926	12.2	4,853	14.5	4,555	14.7
Wire rods . . . . .	2,366	7.6	2,153	6.9	2,222	6.9	2,524	7.5	2,414	7.8
Cold rolled products . . . . .	10,468	33.6	10,864	35.1	12,146	37.8	12,736	38.0	11,249	36.2
Silicon steel sheets . . . . .	737	2.4	686	2.2	934	2.9	1,049	3.1	915	2.9
Stainless steel products . . . . .	1,919	6.2	2,260	7.3	2,694	8.4	2,060	6.1	2,280	7.3
Others . . . . .	2,100	6.7	1,802	5.8	1,967	6.2	1,616	4.8	1,632	5.3
Total . . . . .	<u>31,115</u>	<u>100.0</u>	<u>30,984</u>	<u>100.0</u>	<u>32,110</u>	<u>100.0</u>	<u>33,522</u>	<u>100.0</u>	<u>31,054</u>	<u>100.0</u>

The sales revenues and sales volumes in the tables above represent the steel product sales of our consolidated entities which are steel-related companies but do not include the non-steel product sales of these entities. They include sales by our consolidated sales subsidiaries of steel products purchased by these subsidiaries from third parties, including trading companies to which we sell steel products. The sales of steel products purchased from third parties amounted to approximately 1.0 million tons in 2005, 0.8 million tons in 2006, 1.0 million tons in 2007, 0.9 million tons in 2008 and 0.5 million tons in 2009, accounting for Won 807 billion in 2005, Won 470 billion in 2006, Won 623 billion in 2007, Won 799 billion in 2008 and Won 396 billion in 2009, respectively.

### ***Hot Rolled Products***

Hot rolled coils and sheets have many different industrial applications. They are used to manufacture structural steel used in the construction of buildings, industrial pipes and tanks, and automobile chassis. Hot rolled coil is also manufactured in a wide range of widths and thickness as the feedstock for higher value-added products such as cold rolled products and silicon steel sheets.

Our deliveries of hot rolled products amounted to 8.0 million tons in 2009, representing 25.8% of our total sales volume of steel products. The Korean market accounted for 5.2 million tons or 65.3% of our hot rolled product sales in 2009, representing a domestic market share of approximately 40%. The largest customers of our hot rolled products are downstream steelmakers in Korea who use the products to manufacture pipes and cold rolled products.

Hot rolled products constitute one of our two largest product categories in terms of sales volume and the third largest product category in terms of revenue. In 2009, our sales volume of hot rolled products decreased by 7.8% compared to 2008 primarily due to a decrease in demand from downstream steelmakers in Korea.

## ***Plates***

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

Our deliveries of plates amounted to 4.6 million tons in 2009, representing 14.7% of our total sales volume of steel products. The Korean market accounted for 4.2 million tons or 91.2% of our plate sales in 2009, representing a domestic market share of approximately 35%. The Korean shipbuilding industry, which uses plates to manufacture chemical tankers, rigs, bulk carriers and containers, and the construction industry are our largest customers of plates.

In 2009, our sales volume of plates decreased by 6.1% compared to 2008 primarily due to a decrease in demand from the shipbuilding industry. Although new orders for vessels decreased significantly since the global economic downturn, demand from the shipbuilding industry remained relatively stable in 2009 due to the industry's backlog of shipbuilding orders.

## ***Wire Rods***

Wire rods are used mainly by manufacturers of wire, fasteners, nails, bolts, nuts and welding rods. Wire rods are also used in the manufacture of coil springs, tension bars and tire cords in the automotive industry.

Our deliveries of wire rods amounted to 2.4 million tons in 2009, representing 7.8% of our total sales volume of steel products. The Korean market accounted for 1.7 million tons or 69.7% of our wire rod sales in 2009, representing a domestic market share of approximately 60%. The largest customers for our wire rods are manufacturers of wire ropes and fasteners.

In 2009, our sales volume of wire rods decreased by 4.4% compared to 2008 primarily due to a decrease in demand from the automotive industry.

## ***Cold Rolled Products***

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

Our deliveries of cold rolled products amounted to 11.2 million tons in 2009, representing 36.2% of our total sales volume of steel products. The Korean market accounted for 5.9 million tons or 52.4% of our cold rolled product sales in 2009, representing a domestic market share of approximately 55%.

Cold rolled products constitute our largest product category in terms of sales volume and revenue. Prior to the global economic downturn, sales of cold rolled products experienced growth due to an increase in demand from the automotive industry. However, our sales volume of cold rolled products in 2009 decreased by 11.7% compared to our sales volume in 2008 primarily due to a decrease in demand from the automotive industry in the first quarter of 2009, which subsequently showed recovery starting in the second quarter of 2009.

## ***Silicon Steel Sheets***

Silicon steel sheets are used mainly in the manufacture of power transformers and generators and rotating machines.

Our deliveries of silicon steel sheets amounted to 915 thousand tons in 2009, representing 2.9% of our total sales volume of steel products. The Korean market accounted for 338 thousand tons or 36.9% of our silicon steel sheet sales in 2009, representing a domestic market share of approximately 95%.

In 2009, our sales volume of silicon steel sheets decreased by 12.8% compared to 2008 due to a decrease in demand from manufacturers of power transformers and generators.

### ***Stainless Steel Products***

Stainless steel products are used to manufacture household goods and are also used by the chemical industry, paper mills, the aviation industry, the automotive industry, the construction industry and the food processing industry.

Our deliveries of stainless steel products amounted to 2.3 million tons in 2009, representing 7.3% of our total sales volume of steel products. The Korean market accounted for 0.8 million tons or 34.5% of our stainless steel product sales in 2009, representing a domestic market share of approximately 60%.

Stainless steel products constitute our second largest product category in terms of revenue. Although sales of stainless steel products accounted for only 7.3% of our total sales volume in 2009, they represented 19.6% of our total revenues from sales of steel products in 2009. Our sales volume of stainless steel products increased by 10.7% in 2009 compared to 2008 due to an increase in demand from the automotive industry and the household goods industry.

### ***Others***

Other products include lower value-added semi-finished products such as pig iron, billets, blooms and slab.

### **Markets**

Korea is our most important market. Domestic sales represented 62.6% of our total sales volume of steel products in 2009. Our export sales and overseas sales to customers abroad represented 37.4% of our total sales volume of steel products in 2009. Our sales strategy has been to devote our production primarily to satisfy domestic demand, while seeking export sales to utilize capacity to the fullest extent and to expand our international market presence.

### ***Domestic Market***

The total Korean market for steel products amounted to 45.4 million tons in 2009. We sold a total of 19.4 million tons of steel products in Korea in 2009, maintaining an overall domestic market share of approximately 42.8% for such period.

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

Source	For the Year Ended December 31,									
	2005		2006		2007		2008		2009	
	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%
POSCO's sales . . . . .	22,880	48.5	20,991	42.3	21,256	38.6	22,912	39.1	19,447	42.8
Other Korean steel companies' sales . . . . .	15,957	33.9	18,052	36.4	21,224	38.5	20,658	35.3	16,931	37.3
Imports <sup>(1)</sup> . . . . .	8,287	17.6	10,591	21.3	12,628	22.9	15,002	25.6	9,033	19.9
Total domestic sales <sup>(1)</sup> . . . . .	<u>47,124</u>	<u>100.0</u>	<u>49,634</u>	<u>100.0</u>	<u>55,108</u>	<u>100.0</u>	<u>58,572</u>	<u>100.0</u>	<u>45,411</u>	<u>100.0</u>

(1) Source: 2009 Official Statistics, Korea Iron & Steel Association.

Total sales volume of steel products in Korea increased by 5.3% in 2006, 11.0% in 2007 and 6.3% in 2008 primarily due to an increase in demand from the shipbuilding and automotive industries during such period, but decreased by 22.5% in 2009 in response to sluggish demand from customers in the industries adversely impacted by deteriorating global economic conditions, such as the automotive and construction industries.

From 2005 to 2008, our domestic sales volume decreased from 22.9 million tons in 2005 to 21.0 million tons in 2006 but increased to 22.9 million tons in 2008, in part due to our efforts to increase export sales volume from 2005 to 2006 due to more favorable prices overseas as well as an increase in demand from overseas for our high value added products during such periods. In 2009, our domestic sales volume decreased to 19.4 million tons principally due to the weak demand for steel products in certain key industries such as the automotive and construction industries. Our market share decreased from 48.5% in 2005 to 38.6% in 2007 before rebounding to 39.1% in 2008 and further increasing to 42.8% in 2009.

Domestic sales volume of other Korean steel companies, such as Hyundai Steel Co., Ltd. and Dongbu Steel Co., Ltd., increased from 16.0 million tons in 2005 to 21.2 million tons in 2007 primarily due to an increase in their production capacity, and the aggregate market share of other Korean steel companies increased from 33.9% in 2005 to 38.5% in 2007. In 2008, in part due to our decision to sell a greater portion of our sales volume to consumers in Korea due to more favorable domestic prices, domestic sales volume of other Korean steel producers decreased by 2.7% to 20.7 million tons and their aggregate market share decreased to 35.3%. In 2009, domestic sales volume of other Korean steel producers further decreased by 18.0% to 16.9 million tons in 2009 as the general demand for steel products decreased in response to the economic downturn in Korea in the first half of 2009.

In recent years, domestic consumers of steel products have also relied on imports from foreign competitors, primarily from China and Japan. Import volume of steel products steadily increased from 8.3 million tons in 2005 to 15.0 million tons in 2008, resulting in an increase in their aggregate domestic market share from 17.6% in 2005 to 25.6% in 2008. However, due to the global economic downturn, import volume of steel products decreased by 39.8% to 9.0 million tons of steel products in 2009, resulting in a decrease in market share to 19.9%.

We sell in Korea higher value-added and other finished products to end-users and semi-finished products to other steel manufacturers for further processing. Local distribution companies and sales affiliates sell finished steel products to low-volume customers. We provide service technicians for large customers and distributors in each important product area.

## Exports

Our export sales and overseas sales to customers abroad represented 37.4% of our total sales volume of steel products in 2009, 65.8% of which was generated from exports sales and overseas sales to customers in Asian countries. Our export sales and overseas sales to customers abroad in terms of sales volume increased by 9.4% to 11.6 million tons in 2009. In response to weak domestic demand for steel products in the first half of 2009, we strategically focused on increasing our sales to customers abroad in 2009. The tables below set out our export sales and overseas sales to customers abroad in terms of sales volume of steel products by geographical market and by product for the periods indicated.

Region	For the Year Ended December 31,									
	2005		2006		2007		2008		2009	
	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%
China . . . . .	2,640	32.1	2,524	25.3	3,186	29.4	2,551	24.0	3,928	33.8
Japan . . . . .	1,843	22.4	1,959	19.6	2,137	19.7	1,953	18.4	1,264	10.9
Asia (other than China and Japan) . . . . .	1,636	19.9	1,895	19.0	2,112	19.5	2,332	22.0	2,449	21.1
North America . . . . .	761	9.2	963	9.6	756	7.0	760	7.2	742	6.4
Europe . . . . .	34	0.4	318	3.2	546	5.0	510	4.8	463	4.0
Others . . . . .	1,320	16.0	2,335	23.3	2,117	19.4	2,504	23.6	2,761	23.8
Total . . . . .	8,234	100.0	9,994	100.0	10,854	100.0	10,610	100.0	11,608	100.0

	For the Year Ended December 31,									
	2005		2006		2007		2008		2009	
	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%
<b>Steel Products</b>										
Hot rolled products . . . . .	1,960	23.8	2,477	24.8	1,531	14.1	2,018	19.0	2,776	23.9
Plates . . . . .	229	2.8	228	2.3	231	2.1	206	1.9	401	3.5
Wire rods . . . . .	333	4.1	498	5.0	502	4.6	605	5.7	731	6.3
Cold rolled products . . . . .	4,142	50.3	4,774	47.8	6,186	57.0	5,775	54.4	5,359	46.2
Silicon steel sheets . . . . .	262	3.2	369	3.7	511	4.7	576	5.4	577	5.0
Stainless steel products . . . . .	1,032	12.5	1,245	12.4	1,695	15.6	1,203	11.3	1,494	12.9
Others . . . . .	276	3.3	403	4.0	198	1.9	227	2.3	270	2.3
Total . . . . .	8,234	100.0	9,994	100.0	10,854	100.0	10,610	100.0	11,608	100.0

The table below sets out our total sales, including non-steel sales, by geographical location of customers for the periods indicated.

Geographical Location of Customers	For the Year Ended December 31,		
	2007	2008	2009
	(In billions of Won)		
Korea . . . . .	₩ 19,970	₩ 26,887	₩ 22,529
China . . . . .	4,504	4,876	5,049
Asia (other than China and Japan) . . . . .	2,042	3,139	2,899
Japan . . . . .	1,742	2,044	1,387
North America . . . . .	732	801	752
Other . . . . .	2,618	3,996	4,239
Total . . . . .	31,608	41,743	36,855

The above tables include sales by our consolidated sales subsidiaries of steel products purchased by these subsidiaries from third parties, including trading companies to which we sell steel products.

The table below sets out the world's apparent crude steel use for the periods indicated.

	For the Year Ended December 31,				
	2005	2006	2007	2008	2009
Apparent crude steel use (million metric tons) . . . . .	1,113	1,178	1,250	1,197	1,121
Percentage of annual increase (decrease). . . . .	2.0%	5.8%	6.1%	(4.2)%	(6.3)

Source: World Steel Association.

Recent difficulties affecting the U.S. and global financial sectors, adverse conditions and volatility in the U.S. and worldwide credit and financial markets, fluctuations in oil and commodity prices and the general weakness of the U.S. and global economies have increased the uncertainty of global economic prospects in general and have adversely affected the global and Korean economies. Such developments have weakened global demand in steel consumption. The World Steel Association forecasts that global apparent crude steel use is expected to increase by 10.7% to 1,241 million metric tons in 2010 after declining by 6.3% (1,121 million metric tons) in 2009.

In recent years, driven in part by strong growth in steel consumption in China, the global steel industry has experienced renewed interest in expansion of steel production capacity. World Steel Dynamics estimated the global crude steel production capacity to increase from 1,483 million tons in 2008 to 1,543 million tons in 2009 and expects the production capacity to increase slightly in 2010. The increased production capacity, combined with weakening demand due primarily to the recent slowdown of the global economy, has resulted in production over-capacity in the global steel industry. Production over-capacity in the global steel industry may intensify if the slowdown of the global



economy is prolonged or demand from developing countries that have experienced significant growth in the past several years does not meet the recent growth in production capacity.

We distribute our export products mostly through Korean trading companies and our overseas sales subsidiaries. Our largest export market in 2009 was China, which accounted for 33.8% of our export volume of steel products, including sales by our overseas subsidiaries. The principal products exported to China are cold rolled products and stainless steel products. Our exports to China amounted to 3.2 million tons in 2007, 2.6 million tons in 2008 and 3.9 million tons in 2009. Our sales volume to China decreased by 19.9% in 2008 due to weak market conditions in the second half of 2008. Our exports to China rebounded and increased by 54.0% in 2009 primarily due to a strong increase in demand from Chinese customers in 2009. Our exports to Japan increased from 2.0 million tons in 2006 to 2.1 million tons in 2007 primarily due to a general increase in the Japanese market price of our products. Sales volume to Japan decreased by 8.6% to 2.0 million tons in 2008 and further decreased by 35.2% to 1.3 million tons in 2009 as we elected to focus our sales efforts in China and other markets with greater growth opportunities. Sales volume to Asian countries other than China and Japan increased from 2.1 million tons in 2007 to 2.3 million tons in 2008 and further increased to 2.4 million tons in 2009 primarily due to our decision to export more to such countries because of relatively more stable market conditions of the Southeast Asian region compared to China and Japan.

Our sales volume to the United States and Europe remained stable at an aggregate of 1.3 million tons in each of 2007 and 2008, and decreased to 1.2 million tons in 2009. A significant part of our sales in North America are made to USS-POSCO Industries ("UPI"), a 50-50 joint venture between U.S. Steel Corporation and us. We sell hot rolled products to UPI, which uses such products to manufacture cold rolled and galvanized steel products and tin-plate products for sale in the United States. Our sales to UPI were 494 thousand tons in 2007, 519 thousand tons in 2008 and 325 thousand tons in 2009.

### ***Anti-Dumping and Countervailing Proceedings***

In the United States, a number of our products have been subject to anti-dumping and countervailing proceedings since 1992. As a result of these proceedings, our sales of corrosion resistant steel are subject to a countervailing duty margin of 0.10% and an anti-dumping duty margin of 0.01% (which is effectively zero pursuant to the de minimis margin rule). Our sales of stainless steel plates are subject to an anti-dumping duty of 1.19% and our sales of stainless steel sheets are subject to an anti-dumping duty of 0.98%.

In China, we are subject to an anti-dumping duty of 11% on our sales of stainless cold rolled steel since December 2000. However, we entered into a suspension agreement in December 2000 with China and agreed to certain price undertakings. Since then, we have been exporting certain types of stainless cold rolled steel products to China that are exempt from such anti-dumping duty.

In India, our sales of stainless cold rolled steel have been subject to an anti-dumping duty ranging from \$62.61 per ton to \$234.98 per ton starting in November 2009 for a five-year period.

Recently, several countries have initiated anti-dumping investigations and other safeguard proceedings relating to our global sales operation. In Indonesia and Thailand, our sales of hot rolled products are subject to anti-dumping proceedings. Furthermore, Russia has initiated investigations into our sales of stainless steel products.

Our products that have been subject to anti-dumping or countervailing proceedings in the aggregate have not accounted for a material portion of our total sales in recent years. Consequently, the anti-dumping or countervailing duties imposed on our products have not had a material adverse effect on our total sales. However, there can be no assurance that further increases in or new imposition of dumping duties, countervailing duties, quotas or tariffs on our sales in the United States,



China, Europe or elsewhere may not have a material adverse effect on our exports to these or other regions in the future.

## **Pricing Policy**

We determine the sales price of our products based on market conditions. In setting prices, we take into account our costs, including those of raw materials, supply and demand in the Korean market, exchange rates, and conditions in the international steel market.

Our export prices can fluctuate considerably over time, depending on market conditions and other factors. The export prices of our higher value-added steel products in the largest markets are determined considering the prices of similar products charged by our competitors. Our export prices in Dollar terms increased in 2007 and 2008 due to strong overseas demand, particularly from China and Japan, and increase in prices of raw materials such as iron ore and coal. However, we reduced our export prices in late 2008 in response to the intensification of the global financial crisis and continued to reduce our export prices in the first half of 2009. Starting in the third quarter of 2009, our export prices gradually started to recover due to an increase in demand driven by improvement in business confidence and higher level of economic activities as well as a decrease in our inventory level. We may decide to adjust our future sales prices on an on-going basis subject to market demand for our products, prices of raw materials, the production outlook of the global steel industry and global economic conditions in general.

## **Raw Materials**

### ***Steel Production***

The principal raw materials used in producing steel through the basic oxygen steelmaking method are iron ore and coal. We import all of the coal and virtually all of the iron ore that we use. In 2009, POSCO imported approximately 41.7 million dry metric tons of iron ore and 21.7 million wet metric tons of coal. Iron ore is imported primarily from Australia, Brazil and South Africa. Coal is imported primarily from Australia, Canada and China.

In 2009, we purchased most of our iron ore and coal imports pursuant to long-term contracts. The long-term contracts generally have terms of three to ten years and provide for periodic price adjustments to the then-market prices. The long-term contracts to purchase iron ore and coal generally provide for annual adjustments to the purchase prices to be determined through negotiation between the supplier and us, which are typically retroactively implemented starting on April 1 of each year. Such price negotiations are driven by various factors, including the global economic outlook, global market prices of raw materials and steel products, supply and demand outlook of raw materials and production costs of raw materials. Typically, globally influenced buyers and sellers of raw materials determine benchmark prices of raw materials, based on which other buyers and sellers negotiate their prices after taking into consideration the quality of raw materials and other factors. We typically have an option to increase or decrease the fixed purchase amounts up to 5% or 10% each year. We or the suppliers may cancel the long-term contracts only if performance under the contracts is prevented by causes beyond our or their control and these causes continue for a specified period.

We also make investments in exploration and production projects abroad to enhance our ability to meet the requirements for high-quality raw materials, either as part of a consortium or through acquisition of a minority interest. We purchased approximately 18.3% of our iron ore and coal imports in 2009 from foreign mines in which we have made investments. Our major investments include an investment of A\$424 million in July 2008 to acquire a 10% interest in Macarthur Coal Ltd. to secure approximately 1.0 million tons of coal per year. In April 2008, we also invested \$200 million in a consortium with Pallinghurst Resources LLP, American Metals & Coal International, Inc. and Investee Limited to pursue various mining opportunities. As the first co-investment by the consortium, we acquired a 13% interest in a manganese project in Kalahari, South Africa, to secure approximately 130 thousand tons of manganese ore per year.

In December 2008, we invested \$500 million to acquire a 6.5% interest in Nacional Minérios S.A., an iron ore mining company in Brazil, in a consortium with Japanese steel manufacturers and trading companies. In 2009, we started importing iron ore from the Brazilian venture and we expect to secure approximately 5.0 million tons annually by 2012. In July 2009, we also invested A\$7.8 million to acquire a 16.64% interest in Jupiter Mines Ltd. to secure approximately 3.75 million tons of iron ore per year. We also made an initial investment of A\$248 million in January 2010 to acquire a 3.75% interest in Roy Hill Holdings Pty., Ltd. We plan to increase our total shareholding interest in Roy Hill Holdings Pty., Ltd. by up to 15% by 2013 to secure approximately 8.25 million tons of iron ore per year. We will continue to seek opportunities to enter into additional strategic relationships that would enhance our ability to meet the requirements for principal raw materials.

The average price of coal per wet metric ton (benchmark free on board price of Australian premium hard coking coal) was \$98 in 2007, \$300 in 2008 and \$129 in 2009. The average price of iron ore per dry metric ton (benchmark free on board price of Australian iron ore fines with iron (Fe) 60% content) was \$48.30 in 2007, \$86.80 in 2008 and \$58.20 in 2009. We currently do not depend on any single country or supplier for our coal or iron ore.

### ***Stainless Steel Production***

The principal raw materials for the production of stainless steel are wrought nickel, ferrochrome, stainless steel scrap and carbon steel scrap. We purchase a substantial portion of our requirements for wrought nickel from leading producers in Australia, Indonesia, New Caledonia and Japan, as well as Korea. A substantial portion of the requirements for ferrochrome are purchased from producers in South Africa, India and Kazakhstan. Most of the requirements for stainless steel scrap are sourced from domestic and overseas suppliers in Japan, United States, European Union and Southeast Asian countries. As for the requirements for carbon steel scrap, scrap from the Pohang Steelworks is also utilized. The average price of nickel per ton (including insurance and freight costs) decreased from \$37,230 in 2007 to \$21,111 in 2008, and further decreased to \$14,655 in 2009. The average price of scrap iron per ton (including insurance and freight costs) increased from \$330 in 2007 to \$462 in 2008 but decreased to \$307 in 2009.

In order to secure stable sources of nickel for stainless steel production, we entered into a joint venture in May 2006 with Société Minière du Sud Pacifique S.A. to establish SNNC Co., Ltd. ("SNNC") a company primarily engaged in nickel smelting. We hold a 49% interest in SNNC and Société Minière du Sud Pacifique S.A., a major mining company based in New Caledonia, holds the remaining 51% interest. SNNC operates a nickel smelting works with a production capacity of 30 thousand tons of nickel per year.

### ***Transportation***

Since 1983, we have retained a fleet of dedicated bulk carriers to transport our raw materials through long-term contracts with shipping companies in Korea. These dedicated bulk carriers transported approximately 87% of our coal and iron ore in 2009, with the remaining 13% transported by other vessels through chartering contracts. All imported raw materials are unloaded at our port facilities in Pohang and Gwangyang. Costs of transportation of iron ore and coal represented approximately 15% and 8% of the total cost of such materials in 2009.

### ***The Steelmaking Process***

Our major production facilities, Pohang Works and Gwangyang Works, produce steel by the basic oxygen steelmaking method. The stainless steel plant at Pohang Works produces stainless steel by the electric arc furnace method. Continuous casting improves product quality by imparting a homogenous structure to the steel. Pohang Works and Gwangyang Works produce all of their products through continuous casting.

## ***Steel — Basic Oxygen Steelmaking Method***

First, molten pig iron is produced in a blast furnace from iron ore, which is the basic raw material used in steelmaking. Molten pig iron is then refined into molten steel in converters by blowing pure oxygen at high pressure to remove impurities. Different desired steel properties may also be obtained by regulating the chemical contents.

At this point, molten steel is made into semi-finished products such as slab, blooms or billets at the continuous casting machine. Slab, blooms and billets are produced at different standardized sizes and shapes. Slab, blooms and billets are semi-finished lower margin products that we either use to produce our further processed products or sell to other steelmakers that produce further processed steel products.

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

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

Stainless steel is produced from stainless steel scrap, chrome, nickel and steel scrap using an electric arc furnace. Stainless steel is then processed into higher value-added products by methods similar to those used for steel production. Stainless steel slab are produced at a continuous casting mill. The slab are processed at hot rolling mills into stainless steel hot coil, which can be further processed at cold strip mills to produce stainless cold rolled steel products.

## **Competition**

### ***Domestic Market***

We are the largest fully integrated steel producer in Korea. We generally face fragmented competition in the domestic market. In hot rolled products, where we had a market share of approximately 40% in 2009, we face competition from a Korean steel producer that operates mini-mills and produces hot rolled coil products from slabs and from various foreign producers, primarily from China and Japan. In cold rolled products and stainless steel products, where we had a market share of approximately 55% and 60%, respectively, in 2009, we compete with smaller specialized domestic manufacturers and various foreign producers, primarily from China and Japan. For a discussion of domestic market shares, see “— Markets — Domestic Market.”

We may face increased competition in the future from new specialized or integrated domestic manufacturers of steel products in the Korean market. Our biggest competitors in Korea are Hyundai Steel Co., Ltd. with an annual crude steel production of approximately 9.9 million tons and Dongbu Steel Co., Ltd. with an annual crude steel production of approximately 2.8 million tons. Hyundai Steel Co., Ltd. completed construction of an integrated steel mill with an annual capacity of 4 million tons and commenced its operation in January 2010.

The Korean Government does not impose quotas on or provide subsidies to local steel producers. As a World Trade Organization signatory, Korea has also removed all steel tariffs.

### ***Export Markets***

The competitors in our export markets include all the leading steel manufacturers of the world. In recent years, there has been a trend toward industry consolidation among our competitors, and smaller competitors in the global steel market today may become larger competitors in the future. For example, Mittal Steel's takeover of Arcelor in 2006 created a company with approximately 10% of global steel production capacity. Competition from global steel manufacturers with expanded

production capacity such as ArcelorMittal, and new market entrants, especially from China and India, could result in a significant increase in competition. Major competitive factors include range of products offered, quality, price, delivery performance and customer service. Our larger competitors may use their resources, which may be greater than ours, against us in a variety of ways, including by making additional acquisitions, investing more aggressively in product development and capacity and displacing demand for our export products.

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

## **Subsidiaries and Global Joint Ventures**

### ***Steel Production***

In order to effectively implement our strategic initiatives and to solidify our leadership position in the global steel industry, we have established various subsidiaries and global joint ventures around the world.

We established POSCO Specialty Steel Co., Ltd. as a wholly-owned subsidiary in Korea in February 1997. POSCO Specialty Steel produces high-quality steel products for the automotive, machinery, nuclear power plant, shipbuilding, aeronautics and electronics industries. Production facilities operated by POSCO Specialty Steel have an aggregate annual production capacity of 842 thousand tons of wire rods, round bars, steel pipes and semi-finished products. POSCO Specialty Steel Co., Ltd. produced 673 thousand tons of such products in 2009.

In order to expand our sale of value-added products, we established POSCO Coated and Color Sheet Co., Ltd. by merging a coated steel manufacturer and a color sheet manufacturer in March 1999. POSCO Coated and Color Sheet produces 600 thousand tons a year of both galvanized and aluminized steel sheets widely used in the construction, automotive parts and home appliances industries. POSCO Coated and Color Sheet also produces color sheets with an annual capacity of 350 thousand tons that are mainly used for interior and exterior materials and home appliances.

We entered into an agreement with Sagang Group Co. to establish Zhangjiagang Pohang Stainless Steel Co., Ltd., a joint venture company in China for the manufacture and sale of stainless cold rolled steel products. We have an 82.5% interest in the joint venture (including 23.9% interest held by POSCO China Holding Corporation). The plant commenced production of stainless cold rolled steel products in December 1998. The joint venture also completed the construction of new mills in July 2006 with additional annual production capacity of approximately 800 thousand tons of stainless hot rolled products. Zhangjiagang Pohang Stainless Steel produced 747 thousand tons of stainless steel products in 2009.

We established Qingdao Pohang Stainless Steel Co., Ltd., a wholly owned subsidiary set up to manufacture and sell stainless cold rolled steel products in China. Construction of the plant operated by Qingdao Pohang Steel began in April 2003 and became operational in December 2004, with an annual production capacity of 180 thousand tons of stainless cold rolled steel products. Qingdao Pohang Steel produced 152 thousand tons of such products in 2009.

In August 2003, we entered into a joint venture agreement with Benxi Iron and Steel Group in China to establish Benxi Steel POSCO Cold Rolled Sheet Co., Ltd. and build a cold rolling mill with annual production capacity of 1.9 million tons. The cold rolling mill became operational in March 2006 and produced 1.5 million tons of such products in 2009. We currently hold a 25% interest in this joint venture.

In November 2003, we launched POSCO China Holding Corporation, a wholly-owned holding company for our investments in China. POSCO China Holding Corporation also provides support to our Chinese investment projects and affiliated companies with their marketing efforts in China and solidifies their business relationships with clients and suppliers.

In addition to the above investments, we are carefully seeking out additional promising investment opportunities abroad. In June 2005, we entered into a memorandum of understanding with Orissa State Government of India for the construction of an integrated steel mill and the development of iron ore mines in Orissa State. We estimate the aggregate costs of the initial phase of construction and mine development to be approximately \$3.7 billion and an additional cost of approximately \$8.3 billion in order to increase the annual production capacity to 12 million tons of plates and hot rolled products. In 2008, we obtained stage one clearance for 2,959 acres of forest land from the Indian Supreme Court, and acquired approximately 500 acres of land for the construction of a steel mill and a port. In the process of acquiring land for construction, we have provided rehabilitation and resettlement packages (including construction of 60 transit homes) for local residents affected by our project. Currently, we are in the process of acquiring approximately 4,000 acres of land for the construction and obtaining regulatory approvals and mining rights for the development of iron ore mines.

We entered into an agreement with Nippon Steel Corporation to establish POSCO Vietnam Co., Ltd., a joint venture company in Vietnam for the manufacture and sale of cold rolled steel products. We have an 85% interest in the joint venture. We completed the construction of a plant in September 2009 with an annual production capacity of 1.2 million tons of cold rolled products and commenced commercial production.

In Mexico, we completed the construction of a plant in August 2009 with an annual production capacity of 0.4 million tons of cold rolled products and commenced commercial production to supply automotive manufacturers in Mexico, Southeastern United States and South America.

In the United States, we entered into a joint venture in March 2007 with US Steel and SeAH to establish United Spiral Pipe to produce American Petroleum Institute-compliant pipes ("API Pipes") targeting customers in the United States, Canada and Mexico. We hold a 35% interest in the company. US Steel and we each supply 50% of the hot rolled steel required for the production of pipes. In response to weak demand for the API Pipes in recent years, United Spiral Pipe is currently producing non-API Pipes that are used for general construction piling purposes. We started test production of such products in February 2010, and we expect to restart production of API Pipes upon recovery of the market.

In order to secure an alternative sales source for stainless hot rolled steel products and an export base for expanding into the Southeast Asia stainless steel markets, we acquired a 15% interest in Thainox Stainless Public Company Limited, a major stainless steel manufacturer in Thailand, in 2007.

We have also established supply chain management centers around the world to provide processing and logistics services such as cutting flat steel products to smaller sizes to meet customers' needs. In 2009, our 42 supply chain management centers recorded aggregate sales of 2.6 million tons of steel products.

### ***Steel Trading***

Our trading activities consist of exporting and importing a wide range of steel products that are both obtained from and supplied to POSCO, as well as between other suppliers and purchasers in Korea and overseas. To strengthen our global market presence, we are coordinating these trading activities through a global trading network comprised of overseas subsidiaries, branches and representative offices. Such subsidiaries and offices support our trading activities by locating suitable local suppliers and purchasers on behalf of ourselves as well as customers, identifying business opportunities and providing information regarding local market conditions. Our consolidated subsidiaries engaged in steel trading include POSCO Steel Service & Sales Co., Ltd. that primarily focuses in the domestic market, and POSCO Asia Company Limited located in Hong Kong, POSCO Japan Co., Ltd. located in Tokyo, Japan and POSCO America Corporation located in New Jersey, U.S.A.



## ***Engineering and Construction***

POSCO E&C is one of the leading engineering and construction companies in Korea, primarily engaged in the planning, design and construction of industrial plants and architectural works and civil engineering projects. In particular, POSCO E&C has established itself as one of the premier engineering and construction companies in Korea through:

- its strong and stable customer base; and
- its cutting-edge technological expertise obtained from construction of advanced integrated steel plants, as well as participation in numerous modernization and rationalization projects at our Pohang Works and Gwangyang Works.

Leveraging its technical know-how and track record of building some of the leading industrial complexes in Korea, POSCO E&C has also focused on diversifying its operations into construction of high-end apartment complexes and participating in a wider range of architectural works and civil engineering projects, as well as engaging in urban planning and development projects and expanding its operations abroad. One of its landmark urban planning and development projects includes the development of a 5.7 million-square meter area of Songdo International City in Incheon, which POSCO E&C is co-developing with Gale International, a respected real estate developer based in the United States. POSCO E&C also invested approximately Won 319 billion in April 2008 to acquire an 88.7% equity interest in Daewoo Engineering Company, a leading engineering company in Korea with expertise in chemical and petrochemical, energy, industrial plant and civil works.

## ***Energy***

We have accumulated several decades of experience and know-how in a wide range of energy-related fields, including natural gas and other forms of power generation. As part of our diversification efforts, we strive to identify appropriate opportunities for power generation, renewable energy projects, liquefied natural gas logistics and natural gas exploration.

In order to make inroads into the power generation business, in 2006 we completed the acquisition of the largest domestic private power generation company that operates a liquefied natural gas combined cycle power plant with total power generation capacity of 1,800 megawatts and renamed it POSCO Power Corporation. In 2008, POSCO Power Corporation commenced construction of a liquefied natural gas combined cycle power plant in Incheon with total power generation capacity of 1,200 megawatts. Construction of the liquefied natural gas combined cycle plant is expected to be completed in 2011. POSCO Power Corporation plans to continue to expand its power generation capacity. In order to meet the increasing demand for clean and renewable sources of energy, POSCO Power Corporation signed a strategic partnership agreement in February 2007 with FuelCell Energy, a global leader in molten carbonate fuel cell technology, pursuant to which POSCO Power Corporation will explore opportunities to expand into the stationary fuel cell market. POSCO Power Corporation completed construction of a fuel cell manufacturing plant with an annual production capacity of 50 megawatts in Pohang in 2008 with the objective of enhancing the company's ability to meet the growing demands for clean and renewable energy.

In an effort to reduce our dependency on oil and to comply with the carbon emissions regulations of the United Nations Framework Convention on Climate Change, we became the first company in Korea in the private sector to import liquefied natural gas in 2005 and have been using natural gas in lieu of oil for energy generation at our steel production facilities. We constructed the Gwangyang liquefied natural gas receiving terminal, which is equipped with two 100,000 cubic meter storage tanks. In July 2007, we began expanding the terminal to increase the storage capacity from 200,000 cubic meters to 365,000 cubic meters by May 2011.

We are also actively seeking business opportunities in the exploration and production of oil and natural gas. In 2007, we participated in the Aral Sea Exploration Project in the Republic of Uzbekistan ("Uzbekistan"), purchasing a 9.8% interest from the Korea National Oil Corporation. Additionally, we

acquired a 12.5% interest in 2008 in the Namangan-Tergachi and Chust-Pap Oil and Gas Exploration Project in Uzbekistan. In May 2010, we were also selected as the preferred bidder for a 68% interest in Daewoo International Corporation, a global trading company that primarily engages in trading of steel and raw materials as well as investing in energy development projects. Daewoo International had total revenues of Won 11,544 billion in 2009, total net income of Won 131 billion in 2009 and total assets of Won 4,695 billion as of December 31, 2009. Daewoo International Corporation has invested in a portfolio of energy exploration and production projects, including oil and gas projects located in Peru, Oman, Vietnam, Myanmar, Uzbekistan and Russia, as well as mineral projects located in Australia, Bolivia and Madagascar. Our final decision to purchase the controlling interest is subject to satisfactory completion of additional due diligence of the company.

### **Others**

We acquired or established several subsidiaries that address specific services to support the operations of Pohang Works and Gwangyang Works. POSCON Co., Ltd., acquired in 1986, provides industrial engineering services to member companies of the POSCO Group and manufacturing services utilizing automation technology. POSDATA Co., Ltd., founded in 1989, provides information and technology consulting and system network integration and outsourcing services. In January 2010, POSDATA Co., Ltd. merged with POSCON Co., Ltd. and changed its name to POSCO ICT Co., Ltd.

POSCO Machinery & Engineering Co., Ltd. and POSCO Machinery Co., Ltd. were established to perform maintenance of our manufacturing equipment. POSCO Refractories and Environment Company Ltd. manufactures refractories and industrial furnaces.

We also entered into a joint venture with Mitsui Corporation of Japan and hold a 51.0% interest in POSCO Terminal Co., Ltd. that provides logistics services related to storage and transportation of raw materials used in steel production and other industries. Facilities operated by POSCO Terminal Co., Ltd. currently have an annual handling capacity of 6.3 million tons. We also entered into a joint venture with Nippon Steel Corporation and hold a 70.0% interest in POSCO-Nippon Steel RHF Joint Venture Co., Ltd. that supplies direct reduced iron and recycling services of dry dust generated in our steelworks.

### **Insurance**

As of December 31, 2009, our property, plant and equipment are insured against fire and other casualty losses up to Won 16,947 billion. In addition, we carry general insurance for vehicles and accident compensation insurance for our employees to the extent we consider appropriate.

### **Item 4.C. Organizational Structure**

The following table sets out the jurisdiction of incorporation and our ownership interests of our significant subsidiaries:

<b>Name</b>	<b>Jurisdiction of Incorporation</b>	<b>Percentage of Ownership</b>
POSCO Engineering & Construction Co., Ltd. . . . .	Korea	89.5%
POSCO Power Corporation. . . . .	Korea	100.0%
Zhangjiagang Pohang Stainless Steel Co., Ltd. . . . .	China	82.5%
POSCO Specialty Steel Co., Ltd. . . . .	Korea	100.0%
POSCO Steel Service & Sale Co., Ltd. . . . .	Korea	95.3%
POSCO ICT Co., Ltd. . . . .	Korea	61.9%

### **Item 4.D. Property, Plants and Equipment**

Our principal properties are Pohang Works, which is located at Youngil Bay on the southeastern coast of Korea, and Gwangyang Works, which is located in Gwangyang City in the southwestern region of Korea. We expect to increase our production capacity in the future when we



increase our capacity as part of our facilities expansion or as a result of continued modernization and rationalization of our existing facilities. For a discussion of major items of our capital expenditures currently in progress, see “Item 5. Operating and Financial Review and Prospects — Item 5.B. Liquidity and Capital Resources — Liquidity — Capital Expenditures and Capital Expansion.”

## Pohang Works

Construction of Pohang Works began in 1970 and ended in 1983. Pohang Works currently has an annual crude steel and stainless steel production capacity of 15.0 million tons. Pohang Works produces a wide variety of steel products. Products produced at Pohang Works include hot rolled sheets, plates, wire rods and cold rolled sheets, as well as specialty steel products such as stainless steel sheets and silicon steel sheets. These products can also be customized to meet the specifications of our customers.

Situated on a site of 8.9 million square meters at Youngil Bay on the southeastern coast of Korea, Pohang Works consists of 40 plants, including iron-making, crude steelmaking and continuous casting and other rolling facilities. Pohang Works also has docking facilities capable of accommodating ships as large as 200,000 tons for unloading raw materials, storage areas for up to 34 days’ supply of raw materials and separate docking facilities for ships carrying products for export. Pohang Works is equipped with a highly advanced computerized production-management system allowing constant monitoring and control of the production process.

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

	For the Year Ended December 31,				
	2005	2006	2007	2008	2009
Crude steel and stainless steel production capacity (million tons per year) . . . . .	13.30	13.30	14.30	15.00	15.00
Actual crude steel and stainless steel output (million tons) . . .	13.36	12.60	13.66	14.94	14.34
Capacity utilization rate (%) <sup>(1)</sup> . . . . .	100.4	94.7	95.5	99.6	95.6

(1) Calculated by dividing actual crude steel and stainless steel output by the actual crude steel and stainless steel production capacity for the relevant period as determined by us.

## Gwangyang Works

Construction of Gwangyang Works began in 1985 on a site of 13.7 million square meters reclaimed from the sea in Gwangyang City in the southwestern region of Korea. Gwangyang Works currently has an annual crude steel production capacity of 18.0 million tons. Gwangyang Works specializes in high volume production of a limited number of steel products. Products manufactured at Gwangyang Works include both hot and cold rolled types.

Gwangyang Works is comprised of 43 plants, including iron-making plants, steelmaking plants, continuous casting plants, hot strip mills and thin-slab hot rolling plants. The site also features docking and unloading facilities for raw materials capable of accommodating ships of as large as 300,000 tons for unloading raw materials, storage areas for 38 days’ supply of raw materials and separate docking facilities for ships carrying products for export.

We believe Gwangyang Works is one of the most technologically advanced integrated steel facilities in the world. Gwangyang Works has a completely automated, linear production system that enables the whole production process, from iron-making to finished products, to take place without interruption. This advanced system reduces the production time for hot rolled products to only four hours. Like Pohang Works, Gwangyang Works is equipped with a highly advanced computerized production-management system allowing constant monitoring and control of the production process.

Capacity utilization has kept pace with increases in capacity. The following table sets out Gwangyang Works' capacity utilization rates for the periods indicated.

	For the Year Ended December 31,				
	2005	2006	2007	2008	2009
Crude steel production capacity (million tons per year) . . . . .	16.70	16.70	16.70	18.00	18.00
Actual crude steel output (million tons) . . . . .	17.19	17.45	17.41	18.20	15.19
Capacity utilization rate (%) <sup>(1)</sup> . . . . .	102.9	104.5	104.2	101.1	84.4

(1) Calculated by dividing actual crude steel output by the actual crude steel production capacity for the relevant period as determined by us.

## The Environment

We believe we are in compliance with applicable environmental laws and regulations in all material respects. Our levels of pollution control are higher than those mandated by Government standards. We established an on-line environmental monitoring system with real-time feedback on pollutant levels and a forecast system of pollutant concentration in surrounding areas. We also undergo periodic environmental inspection by both internal and external inspectors in accordance with ISO 14001 standards to monitor execution and maintenance of our environmental management plan. We recently invested in comprehensive flue gas treatment facilities at some of our sinter plants, dust collector at steelmaking plants and coke wastewater treatment facilities. In addition, we recycle most of the by-products from the steelmaking process. We also have been developing environmentally friendly products such as chrome-free steel sheets in an effort to compete with products from the European Union, the United States and Japan and to meet strengthened environmental regulations. Anticipating the trend toward increasing regulation of chrome in various steel products, we introduced chrome-free steel products meeting international environmental standards in 2006 that are used to manufacture automotive oil tanks.

We plan to continue to invest in developing more environmentally friendly steel manufacturing processes. We commenced research and development for a new steel manufacturing technology called FINEX in 1992 jointly with the Research Institute of Industrial Science and Technology and VOEST Alpine, an Australian company, and we completed the construction of our first FINEX plant in May 2007 with an annual steel production capacity of 1.5 million tons. We increased the annual steel production capacity to 2.1 million tons in 2008. We will continue to refine FINEX, a low cost, environmentally friendly steel manufacturing process that we believe optimizes our production capacity by utilizing non-agglomerated iron ore fines and using non-coking coal as an energy source and a reducing agent. We believe that FINEX offers considerable environmental and economic advantages by eliminating major sources of pollution such as sinter and coke plants, as well as decreasing operating and raw material costs.

In response to increasingly strict regulation on greenhouse gas emissions as outlined in the Kyoto Protocol, we engage in various Clean Development Mechanism ("CDM") projects to strive to reduce carbon dioxide emissions during the steel manufacturing process and acquire certified emission reductions. For instance, in July 2008, we obtained an approval issued by the CDM Executive Board governed by the United Nations Framework Convention on Climate Change for the operation of a hydroelectric power plant. Additionally, in joint efforts with Nippon Steel Corporation, we are in the process of developing a low-emission Rotary Hearth Furnace facility to be located at Gwangyang Works. As part of our commitment to global forest conservation, we also established an entity in Uruguay to engage in afforestation and reforestation projects.

POSCO spent Won 494 billion in 2007, Won 215 billion in 2008 and Won 297 billion in 2009 on anti-pollution facilities. In 2009, approximately 10% of our investments in facilities were dedicated to investing in low-emission, anti-pollution facilities.

#### **Item 4A. *Unresolved Staff Comments***

We do not have any unresolved comments from the Securities and Exchange Commission staff regarding our periodic reports under the Exchange Act of 1934.

#### **Item 5. *Operating and Financial Review and Prospects***

##### **Item 5.A. *Operating Results***

The following discussion and analysis is based on our consolidated financial statements, which have been prepared in accordance with Korean GAAP. Korean GAAP varies in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 31 to the Consolidated Financial Statements.

##### **Overview**

We are the largest fully integrated steel producer in Korea. We have four reportable operating segments — a steel segment, an engineering and construction segment, a trading segment and a segment that contains operations of all other entities which fall below the reporting thresholds. The steel segment includes production of steel products and sale of such products. The engineering and construction segment includes planning, designing and construction of industrial plants, civil engineering projects and commercial and residential buildings, both in Korea and overseas. The trading segment consists of exporting and importing a wide range of steel products that are both obtained from and supplied to POSCO, as well as between other suppliers and purchasers in Korea and overseas. The “others” segment includes power generation, liquefied natural gas production, network and system integration, logistics and magnesium coil and sheet production. See Note 30 of Notes to Consolidated Financial Statements.

One of the major factors contributing to our historical performance has been the growth of the Korean economy, and our future performance will depend at least in part on Korea’s general economic growth and prospects. For a description of recent developments that have had and may continue to have an adverse effect on our results of operations and financial condition, see “Item 3. Key Information — Item 3.D. Risk Factors — Korea is our most important market, and our current business and future growth could be materially and adversely affected if economic conditions in Korea deteriorate.” A number of other factors have had or are expected to have a material impact on our results of operations, financial condition and capital expenditures. These factors include:

- our sales volume, unit prices and product mix;
- costs and production efficiency;
- exchange rate fluctuations; and
- transition to International Financial Reporting Standards starting in 2011.

As a result of these factors, our financial results in the past may not be indicative of future results or trends in those results.

##### ***Sales Volume, Prices and Product Mix***

In recent years, our net sales have been affected by the following factors:

- the demand for our products in the Korean market and our capacity to meet that demand;
- our ability to compete for sales in the export market;
- price levels; and
- our ability to improve our product mix.

Domestic demand for our products is affected by the condition of major steel consuming industries, such as construction, shipbuilding, automotive, electrical appliances and downstream steel processors, and the Korean economy in general.

Our crude steel output increased from 32.8 million tons in 2007 to 34.7 million tons in 2008, and sales volume increased from 32.1 million tons in 2007 to 33.5 million tons in 2008 primarily due to an increase in production resulting from commencement of operation of the dephosphorization converter at Gwangyang Works and productivity improvement. In 2009, our crude steel output decreased to 31.7 million tons and sales volume decreased to 31.1 million tons. In response to sluggish demand from our customers in industries adversely impacted by deteriorating global economic conditions in the second half of 2008, such as automotive and construction industries, we reduced our crude steel production and sales prices in December 2008 and the first quarter of 2009. Signs that the pace of deterioration in market conditions had slowed began to appear in the second quarter of 2009, however, and demand from certain segments of our customer base, including the domestic automotive and construction industries, showed signs of recovery starting in the second quarter of 2009. In response, we began to incrementally increase our crude steel production starting in April 2009 and our production level normalized in the second half of 2009. As a result of production cuts in the first half of 2009, prices for our steel products remained depressed until the third quarter of 2009, during which time prices started to recover and continued to gradually increase up to the end of 2009.

In 2008, unit sales price in Won for all of our principal product lines increased, and the weighted average unit prices for our products increased by 23.3%, in part due to depreciation of the Won against the Dollar in 2008 that contributed to an increase in our export prices in Won terms. The average exchange rate of the Won against the Dollar depreciated from Won 929.2 per Dollar in 2007 to Won 1,102.6 per Dollar in 2008. Unit sales price of hot rolled products, which accounted for 25.9% of total sales volume, increased by 46.4% in 2008. Unit sales price of wire rods, which accounted for 7.5% of total sales volume, increased by 35% in 2008. Unit sales price of plates, which accounted for 14.5% of total sales volume, increased by 33.8% in 2008. Unit sales price of silicon steel sheets, which accounted for 3.1% of total sales volume, increased by 30% in 2008. Unit sales price of cold rolled products, which accounted for 38% of total sales volume, increased by 29.2% in 2008. Unit sales price of stainless steel products, which accounted for 6.1% of total sales volume, increased by 15% in 2008.

In 2009, unit sales price in Won for our principal product lines, other than silicon steel sheets, decreased, and the weighted average unit prices for our products decreased by 5.2% in 2009 compared to 2008 despite a depreciation in the average value of the Won against the Dollar in 2009 compared to 2008 that contributed to an increase in our export prices in Won terms. The average exchange rate of the Won against the Dollar depreciated from Won 1,102.6 per Dollar in 2008 to Won 1,276.4 per Dollar in 2009. Unit sales price of stainless steel products, which accounted for 7.3% of total sales volume, decreased by 23.5% in 2009. Unit sales price of hot rolled products, which accounted for 25.8% of total sales volume, decreased by 7.8% in 2009. Unit sales price of wire rods, which accounted for 7.8% of total sales volume, decreased by 2.8% in 2009. Unit sales price of cold rolled products, which accounted for 36.2% of total sales volume, decreased by 2.2% in 2009. Unit sales price of plates, which accounted for 14.7% of total sales volume, decreased by 1.9% in 2009. On the other hand, unit sales price of silicon steel sheets, which accounted for 2.9% of total sales volume, increased by 8.1% in 2009.

Our export prices in Dollar terms increased in 2008 driven by increases in prices of raw materials such as iron ore and coal. Partly in response to the weakening demand resulting from the global economic downturn, however, our export prices in dollar terms decreased in the first half of 2009. Starting in the third quarter of 2009, our export prices in dollar terms gradually started to recover due to an increase in demand driven by improvement in business confidence and higher level of economic activities as well as a decrease in our inventory level. We may decide to adjust our future export sales prices on an on-going basis subject to market demand for our products, the production

outlook of the global steel industry and global economic conditions in general. See “Item 4. Information on the Company — Item 4.B. Business Overview — Markets — Exports.”

The table below sets out the average unit sales prices for our semi-finished and finished steel products for the periods indicated.

Products	For the Year Ended December 31,		
	2007	2008	2009
	(In thousands of Won per ton)		
Hot rolled products . . . . .	₩ 546.8	₩ 800.3	₩ 737.5
Plates . . . . .	725.2	970.5	951.9
Wire rods . . . . .	656.2	885.9	860.8
Cold rolled products . . . . .	714.0	922.7	902.4
Silicon steel sheets. . . . .	1,183.1	1,537.7	1,663.4
Stainless steel products . . . . .	3,069.0	3,529.6	2,701.8
Others . . . . .	509.9	807.5	804.5
Average <sup>(1)</sup> . . . . .	₩ 867.3	₩ 1,069.0	₩ 1,013.3

(1) “Average” prices are based on the weighted average, by sales volume, of our sales for the listed products. See “Item 4. Information on the Company — Item 4.B. Business Overview — Major Products.”

### **Costs and Production Efficiency**

Our major costs and operating expenses are raw material purchases, depreciation, labor and other purchases. The table below sets out a breakdown of our total costs and operating expenses as a percentage of our net sales for the periods indicated.

	For the Year Ended December 31,		
	2007	2008	2009
	(Percentage of net sales)		
Cost of goods sold . . . . .	78.8%	78.0%	84.2%
Selling and administrative expenses <sup>(1)</sup> . . . . .	5.6	4.8	5.3
Total operating expenses . . . . .	84.4	82.8	89.5
Gross margin . . . . .	21.2	22.0	15.8
Operating margin . . . . .	15.6	17.2	10.5

(1) See Note 24 of Notes to Consolidated Financial Statements.

Our gross margin and operating margin decreased significantly in 2009 as we faced a difficult business environment in the first half of 2009. We are closely monitoring changes in market conditions and we implemented the following measures in 2009 to address challenges posed by the global economic downturn:

- pursuing cost reduction through enhancing product designs, improving productivity and reducing transportation costs;
- focusing on marketing activities to increase our domestic market share and export sales; and
- establishing a special sales committee to more effectively respond to changes in market trends and preparing responses to various scenarios of future sales.

Our production efficiency prior to the recent global economic downturn had benefited from operation near or in excess of stated capacity levels. Production capacity represents our maximum production capacity that can be achieved with an optimal level of operations of our facilities. In 2009, we reduced our crude steel production in the first quarter of the year but began to incrementally increase our crude steel production starting in April 2009, and our production level normalized in the second half of 2009. See “Item 4. Information on the Company — Item 4.D. Property, Plants and Equipment.”

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

	For the Year Ended December 31,		
	2007	2008	2009
Crude steel and stainless steel production capacity (million tons per year) <sup>(1)</sup> . . .	32.8	34.6	34.6
Actual crude steel and stainless steel output (million tons) . . . . .	32.8	34.7	31.7
Capacity utilization rate (%) . . . . .	99.9	100.3	91.6
Steel product sales (million tons) <sup>(2)</sup> . . . . .	32.1	33.5	31.1

(1) Includes production capacity of POSCO Specialty Steel Co., Ltd. and Zhangjiagang Pohang Stainless Steel Co., Ltd.

(2) Includes sales by our consolidated sales subsidiaries of steel products purchased by them from third parties, including trading companies to which we sell steel products. These sales amounted to approximately 1.0 million tons in 2007, 0.9 million tons in 2008 and 0.5 million tons in 2009.

## Exchange Rate Fluctuations

The Won has fluctuated significantly against major currencies in recent years, which has affected our results of operations and liquidity. The market average exchange rate, as announced by the Seoul Money Brokerage Services, Ltd., depreciated from Won 938.2 to US\$1.00 as of December 31, 2007 to Won 1,573.6 to US\$1.00 as of March 3, 2009 but appreciated to W1,167.6 to US\$1.00 as of December 31, 2009. The market average exchange rate, as announced by the Seoul Money Brokerage Services, Ltd., was Won 1,188.2 to US\$1.00 on June 24, 2010. Depreciation of the Won may materially affect the results of our operations because, among other things, it causes:

- an increase in the amount of Won required for us to make interest and principal payments on our foreign currency-denominated debt, which accounted for approximately 50.5% of our total long-term debt (excluding discounts on debentures issued and including current portion) as of December 31, 2009;
- an increase in Won terms in the costs of raw materials and equipment that we purchase from overseas sources and a substantial portion of our freight costs, which are denominated in Dollars; and
- foreign exchange translation losses on liabilities, which lower our earnings for accounting purposes.

Appreciation of the Won, on the other hand, (i) causes our export products to be less competitive by raising our prices in Dollar terms and (ii) reduces net sales and accounts receivables in Won from export sales, which are primarily denominated in Dollars. However, because of the larger positive effects of the appreciation of the Won (i.e., the reverse of the negative effects caused by the depreciation of the Won, as discussed above), appreciation of the Won generally has a positive impact on our results of operations. See “Item 3. Key Information — Item 3.A. Selected Financial Data — Exchange Rate Information.”

We attempt to minimize our exposure to currency fluctuations by attempting to maintain export sales, which result in foreign currency receipts, at a level that covers foreign currency obligations to the extent feasible. As a result, a decrease in our export sales could increase our foreign exchange risks. From time to time we also enter into cross currency swap agreements in the management of our interest rate and currency risks and currency forward contracts with financial institutions to reduce the fluctuation risk of future cash flows. As of December 31, 2009, we had entered into swap contracts, currency forward contracts and currency future contracts. The net valuation loss of our derivatives contracts was Won 43 billion and the net transaction gain was Won 10 billion in 2009. We may incur further losses under our existing contracts or any swap or other derivative product transactions entered into in the future. See Note 23 of Notes to Consolidated Financial Statements.



### ***Transition to International Financial Reporting Standards Starting in 2011***

In March 2007, the Financial Services Commission and the Korea Accounting Institute announced a road map for the adoption of the Korean equivalent of International Financial Reporting Standards ("Korean IFRS"), pursuant to which all listed companies in Korea will be required to prepare their annual financial statements under Korean IFRS beginning in 2011. All standards and interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee have been adopted for Korean IFRS. In preparation of such adoption, we began preparing our internal financial statements under both Korean GAAP and Korean IFRS starting in January 2010.

### ***Inflation***

Inflation in Korea, which was 2.5% in 2007, 4.7% in 2008 and 2.8% in 2009, has not had a material impact on our results of operations in recent years.

### **Critical Accounting Estimates**

Our financial statements are prepared in accordance with Korean GAAP and reconciled to U.S. GAAP. The preparation of these financial statements under Korean GAAP as well as the U.S. GAAP reconciliation requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. We have identified the following areas where we believe assumptions and estimates are particularly critical to the financial statements:

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

We maintain an allowance for doubtful accounts for exposures in our receivable balances that represent our estimate of probable losses in our short-term and long-term receivable balances from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate and negatively impact their ability to make payments, additional allowances may be required. Determining the allowance for doubtful accounts requires significant management judgment and estimates including, among others, the credit worthiness of our customers, experience of historical collection patterns, potential events and circumstances affecting future collections and the ongoing risk assessment of our customers' ability to pay.

Trade account receivables are analyzed on a regular basis and, upon our becoming aware of a customer's inability to meet its financial commitments to us, we reduce the value of the receivable is reduced through a charge to the allowance for doubtful accounts. In addition, we record a charge to the allowance for doubtful accounts upon receipt of customer claims in connection with sales that management estimates are unlikely to be collected in full. As of December 31, 2009, the percentage of allowance for doubtful accounts to gross account receivables was 4.52%.

Specifically, allowance for doubtful accounts are recorded when any of the following loss events occurs: (i) there is objective evidence as to uncollectibility of the account observed through bankruptcy, default or involuntary dissolution of the customer; (ii) we lose a lawsuit against the customer or our right of claim gets extinguished; (iii) our costs to collect the account exceed the payments to be received; or (iv) dispute with the customer over the collection of the account persists over three years.

The actual average annual uncollected percentage rate of accounts receivables resulting in write-offs for the three years in the period ended December 31, 2009 was 1.33%. These historical results, as well as current known conditions impacting the collectability of our accounts receivable balances, are significant factors for us when we estimate the amount of the necessary allowance for doubtful accounts. Historically, losses from uncollectible accounts receivables have been within



expectations and in line with the allowances established. However, unforeseen circumstances such as adverse market conditions that deviate significantly from our estimates may require us to change the timing of, and make additional allowances to, our receivable balances. In this case, our results of operations, financial condition and net worth could be materially and adversely affected.

### ***Valuation of Investment Securities and Derivatives***

We invest in various financial instruments including debt and equity securities and derivatives. Depending on the accounting treatment specific to each type of financial instrument, an estimate of fair value is required to determine the instrument's effect on our consolidated financial statements.

If available, quoted market prices provide the best indication of fair value. We determine the fair value of our financial instruments using quoted market prices when available, including quotes from dealers trading those securities. If quoted market prices are not available, we determine the fair value based on pricing or valuation models, quoted prices of instruments with similar characteristics, or discounted cash flows. Determining the fair value of unlisted financial instruments involves a significant degree of management resources and judgment as no quoted prices exist and such securities are generally very thinly traded. The fair value of unlisted equity securities held for investment (excluding those of affiliates and subsidiaries) is based on the latest obtainable net asset value of the investees, which often reflects cost or other reference events. Derivatives for which quoted market prices are not available are valued using valuation models such as the discounted cash flow method. The key inputs used in the valuation of such derivatives depend upon the type of derivative and the nature of the underlying instrument and include interest rate yield curves, foreign exchange rates, the spot price of the underlying instrument, volatility and correlation. The fair values based on pricing and valuation models, discounted cash flow analysis, or net asset values are subject to various assumptions used that, if changed, could significantly affect the fair value of the investments.

When the fair value of a listed equity security or the net equity value of an unlisted equity security declines compared to acquisition cost and is not expected to recover (impaired investment security), the value of the equity security is adjusted to its fair value or net asset value, with the valuation loss charged to current operations. When the fair value of a held-to-maturity or an available-for-sale investment debt security declines compared to the acquisition cost and is not expected to recover (impaired investment security), the carrying value of the debt security is adjusted to its fair value with the resulting valuation loss charged to current operations.

As part of this impairment review, the investee's operating results, net asset value and future performance forecasts as well as general market conditions are taken into consideration. If we believe, based on this review, that the market value of an equity security or a debt security may realistically be expected to recover, the loss will continue to be classified as temporary. If economic or specific industry trends worsen beyond our estimates, valuation losses previously determined to be recoverable may need to be charged as a valuation loss in current operations.

Significant management judgment is involved in the evaluation of declines in value of individual investments. The estimates and assumptions used by our management to evaluate declines in value can be impacted by many factors, such as the financial condition, earnings capacity and near-term prospects of the company in which we have invested, the length of time and the extent to which fair value has been less than cost, and our intent and ability to hold the related security for a period of time sufficient to allow for any recovery in market value. The evaluation of these investments is also subject to the overall condition of the economy and its impact on the capital markets. Any changes in these assumptions could significantly affect the valuation and timing of recognition of valuation losses classified as other than temporary.

We have estimated fair values of material non-marketable securities. We estimated these fair values based on pricing or valuation models, quoted prices of instruments with similar characteristics, or discounted cash flow models. The discounted cash flow model valuation technique is based on the

estimated cash flow projections of the underlying investee. Key assumptions and estimates include market conditions, revenue growth rates, operating margin rates, income tax rates, depreciation and amortization rates, the level of capital expenditures, working capital amounts and the discount rates. These estimates are based on historical results of the investee and other market data. In these cash flows projections, the two most significant estimates are the discount rates and revenue growth rates. If the discount rates used in these valuations were increased by one percentage point, then the estimated fair values would have decreased by 17% in total. In addition, if the revenue growth rate assumptions were decreased by 1% in the cash flow models, then the estimated fair values would have decreased by 7% in total.

We recognized losses on impairment of investments of Won 12 billion in 2007, Won 121 billion in 2008 and Won 286 billion in 2009. Loss on impairment of investments increased in 2009 primarily due to an impairment loss of Won 209 billion as a result of objective evidence that indicated an impairment in our investment in LG Powercom.

Historically, our estimates and assumptions used to evaluate impairment of investments have been within expectations. However, unforeseen circumstances such as adverse market conditions that deviate significantly from our estimates may require us to recognize additional losses on impairment of investments. We base our fair value estimates on assumptions we believe to be reasonable, but which are unpredictable and inherently uncertain. The use of alternative estimates and assumptions could increase or decrease the estimated fair values of our investments and potentially result in different impacts on our results of operations.

### ***Long-lived Assets***

The depreciable lives and salvage values of our long-lived assets are estimated and reviewed each year based on industry practices and prior experience to reflect economic lives of long-lived assets. Also, these assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. There were no significant changes in assumption to estimated useful lives or salvage value assumptions in 2007, 2008 and 2009. The recoverable amount is measured at the greater of net selling price or value in use. When the book value of long-lived asset exceeds the recoverable value of the asset due to obsolescence, physical damage or a decline in market value and such amount is material, the impairment of asset is recognized and the asset's carrying value is reduced to its recoverable value and the resulting impairment loss is charged to current operations. Such recoverable value is based on our estimates of the future use of assets that is subject to changes in market conditions.

Our estimates of the useful lives and recoverable values of long-lived assets are based on historical trends adjusted to reflect our best estimate of future market and operating conditions. Also, our estimates include the expected future period in which the future cash flows are expected to be generated from continuing use of the assets that we review for impairment and cash outflows to prepare the assets for use that can be directly attributed or allocated on a reasonable and consistent basis. If applicable, estimates also include net cash flows to be received or paid for the disposal of the assets at the end of their useful lives. As a result of the impairment review, when the sum of the discounted future cash flows expected to be generated by the assets is less than the book value of the assets, we recognize impairment losses based on the recoverable value of those assets. We make a number of significant assumptions and estimates in the application of the discounted cash flow model to forecast cash flows, including business prospects, market conditions, selling prices and sales volume of products, costs of production and funding sources. The estimated cash flow forecast amounts are derived from the most recent financial budgets for the next five years. For periods beyond the five year forecast period, we use a terminal value approach to estimate the cash flows for the remaining years based on an expected estimated growth rate. This estimated growth rate is based on actual historical results. As of December 31, 2009, we estimated an average discount rate of 10.94% and an average rate of revenue growth of 5.5%. However, given the current economic environment, it is likely that the estimates and assumptions will be more volatile than they have been

in the past. Further impairment charges may be required if triggering events occur, such as adverse market conditions, that suggest deterioration in an asset's recoverability or fair value. Assessment of the timing of when such declines become other than temporary and the amount of such impairment is a matter of significant judgment. Results in actual transactions could differ from those estimates used to evaluate the impairment of such long-lived assets. If our future cash flow projections are not realized, either because of an extended recessionary period or other unforeseen events, impairment charges may be required in future periods.

If the estimated average discount rates used in these valuations were increased by one percentage point, then the estimated fair values would have decreased by 15% in total. If the estimated average rate of revenue growth rate were decreased by 1%, then the estimated fair values would have decreased by 17% in total.

### ***Inventories***

Inventories are stated at the lower of cost or net realizable value. Costs of inventories are determined using the moving-weighted average or weighted average method while materials-in-transit are determined using the specific identification method. Amounts of inventory are written down to net realizable value due to losses occurring in the normal course of business and the allowance is reported as a contra inventory account, while the related charge is recognized in cost of goods sold.

The net realizable value is determined based on the latest selling price available at the end of each quarter taking into account the directly attributable selling costs. The latest selling price is the base price which is the negotiated selling price based upon the recent transactions entered into with major customers. Considering that our inventory turnover is approximately two months and inventories at balance sheet date would be sold during the following two months, we perform valuation of inventories using the base price as of the balance sheet date and adjust for significant changes in selling price occurring subsequent to the balance sheet date. The selling price range used for determining the net realizable value of our inventories ranged from the inventory cost amount less 4.1% of gross profit margin to the inventory cost amount plus 30.8% of gross profit margin. For inventories in which expected selling prices are less than the cost amount, the necessary adjustment to write down the inventories to net realizable value is made.

### ***Deferred Income Tax Assets***

In assessing the realization of our deferred income tax assets, our management considers whether it is probable that a portion or all of the deferred income tax assets will not be realized. The ultimate realization of our deferred income tax assets is dependent on whether we are able to generate future taxable income in specific tax jurisdictions during the periods in which temporary differences become deductible.

Our management has scheduled the expected future reversals of the temporary differences and projected future taxable income in making this assessment. However, changes in our evaluation of our deferred income tax assets from period to period could have a significant effect on our net results and financial condition.

## **Operating Results**

### ***2009 Compared to 2008***

Our sales in 2009 decreased by 11.7% to Won 36,855 billion from Won 41,743 billion in 2008 primarily due to a 7.4% decrease in the sales volume of our steel products as well as a decrease of 5.2% in the average unit sales price per ton of our steel products, as discussed in “— Overview — Sales Volume, Prices and Product Mix” above.

Sales volume of silicon steel sheets, which accounted for 2.9% of total sales volume, showed the greatest decrease among our major steel product categories in 2009 with a decrease of 12.8%.

Sales volume of cold rolled products, which accounted for 36.2% of total sales volume, decreased by 11.7%. Sales volume of hot rolled products, which accounted for 25.8% of total sales volume, decreased by 7.8%. Sales volume of plates, which accounted for 14.7% of total sales volume, decreased by 6.1%. Sales volume of wire rods, which accounted for 7.8% of total sales volume, decreased by 4.4%. On the other hand, sales volume of stainless steel products, which accounted for 7.3% of total sales volume, increased by 10.7%. See “Item 4. Information on the Company — Item 4.B. Business Overview — Major Products.”

Our sales to domestic customers in 2009 compared to 2008 decreased by 16.2% in terms of sales revenues (including sales of non-steel products and services) and decreased by 15.1% in terms of sales volume of steel products. In 2009, our sales to domestic customers accounted for approximately 62.6% of our total sales volume of steel products, compared to 68.3% in 2008. The decrease in domestic sales revenues in 2009 compared to 2008 was attributable primarily to a decrease in our sales volume to domestic customers as we strategically focused on increasing our sales to customers abroad in 2009 due to weak domestic demand and, to a lesser extent, a decrease in the price of steel products sold in Korea.

Our export sales and overseas sales to customers abroad in 2009 decreased by 3.6% in terms of sales revenues (including sales of non-steel products and services). The decrease in export sales and overseas sales to customers abroad in terms of sales revenues in 2009 compared to 2008 was attributable to a decrease in the price of steel products sold abroad, which was offset in part by an increase in sales volume to customers abroad. In response to weak domestic demand for steel products in the first half of 2009, we strategically focused on increasing our sales to customers abroad in 2009. In part due to such strategy, our export sales and overseas to customers abroad in 2009 increased by 9.4% in terms of sales volume of steel products compared to 2008, and export sales and overseas sales to customers abroad as a percentage of total sales volume increased to 37.4% of our total sales volume of steel products in 2009 compared to 31.7% in 2008.

Gross profit in 2009 decreased by 36.6% to Won 5,818 billion from Won 9,180 billion in 2008, and gross margin in 2009 decreased to 15.8% from 22.0% in 2008 as the 11.7% decrease in sales discussed above outpaced a 4.7% decrease in cost of goods sold in 2009 to Won 31,037 billion from Won 32,562 billion in 2008. The decrease in sales in 2009 outpaced the decrease in cost of goods sold as the impact from decreases in sales prices of our steel products resulting from weak global market conditions was greater than the cost savings resulting from decreases in the average prices of key raw materials.

The decrease in cost of goods sold was attributable primarily to a decrease in our sales volume of steel products discussed above as well as decreases in the average prices of key raw materials. The average price of coal per wet metric ton (benchmark free on board price of Australian premium hard coking coal) decreased significantly by 57.0% to \$129 in 2009 from \$300 in 2008, and the average price of iron ore per dry metric ton (benchmark free on board price of Australian iron ore fines with iron (Fe) 60% content) decreased by 32.9% to \$58.20 in 2009 from \$86.80 in 2008. The average price of nickel per ton (including insurance and freight costs) decreased by 30.6% to \$14,655 in 2009 compared to \$21,111 in 2008. The impact from these factors was partially offset by a 6.9% increase in our depreciation and amortization expenses included in cost of goods sold to Won 2,429 billion in 2009 from Won 2,273 billion in 2008 primarily due to an increase in capital investments in our facilities in recent years for production of higher value-added products.

Operating income in 2009 decreased by 46.1% to Won 3,868 billion from Won 7,174 billion in 2008. Operating margin decreased to 10.5% in 2009 from 17.2% in 2008, as selling and administrative expenses decreased by 2.8% in 2009 to Won 1,949 billion from Won 2,006 billion in 2008. The decrease in selling and administrative expenses resulted primarily from decreases in transportation and storage expenses, the impact of which was partially offset by increases in fees and charges and stock compensation expenses. Our transportation and storage expenses in 2009 decreased by 17.0% to Won 648 billion from Won 781 billion in 2008 primarily resulting from a

decrease in oil prices in 2009 compared to 2008. Fees and charges, which include certain administrative fees and professional service fees, increased by 27.4% to Won 158 billion in 2009 from Won 124 billion in 2008 primarily as a result of increases in service fees and expenses incurred by our subsidiaries as well as increases in management and tax consulting expenses in 2009. We recognized stock compensation expenses, which are categorized under “others,” of Won 36 billion in 2009 primarily as a result of an increase in the benchmark average stock price used to calculate stock compensation in 2009 compared to 2008. We did not recognize any stock compensation expense in 2008.

Our net income decreased by 25.5% to Won 3,242 billion in 2009 from Won 4,350 billion in 2008 primarily due to the 46.1% decrease in operating income discussed above, increases in interest expense and loss on impairment of investments and net loss on valuation of derivatives in 2009 compared to net gain on valuation of derivatives in 2008, the aggregate impact of which was partially offset by net gain on foreign currency translation in 2009 compared to net loss on foreign currency translation in 2008, net gain on derivative transactions in 2009 compared to net loss on derivative transactions in 2008, an increase in gain on disposal of property, plant and equipment and the disposition of other long-term assets by POSCO E&C.

Our interest expense in 2009 increased by 54.2% to Won 532 billion from Won 345 billion in 2008 primarily due to an increase in our long-term debt, which was offset in part by a general decrease in interest rates in Korea in 2009. Our loss on impairment of investments in 2009 increased by 136.4% to Won 286 billion from Won 121 billion in 2008 primarily due to an impairment loss of Won 209 billion as a result of objective evidence that indicated an impairment in our investment in LG Powercom. We recorded net loss on valuation of derivatives of Won 43 billion in 2009 compared to net gain on valuation of derivatives of Won 58 billion in 2008 as the market average exchange rate of the Won against the U.S. dollar depreciated from Won 938.2 to US\$1.00 as of December 31, 2007 to Won 1,257.5 to US\$1.00 as of December 31, 2008 but appreciated to US\$1.00 as of December 31, 2009.

These effects, together with the 46.1% decrease in operating income discussed above, were partially offset by net gain on foreign currency translation of Won 436 billion in 2009 compared to net loss on foreign currency translation of Won 811 billion in 2008 and net gain on derivative transactions of Won 10 billion in 2009 compared to net loss on derivative transactions of Won 62 billion in 2008 as the Won fluctuated against the U.S. dollar as described above. In addition, our gain on disposal of property, plant and equipment in 2009 increased by 485.7% to Won 82 billion from Won 14 billion in 2008 primarily due to the gain from disposition of a research center by POSCO E&C in 2009. Our gain on disposal of other long-term assets increased by 387.5% to Won 234 billion in 2009 from Won 48 billion in 2008 primarily due to the disposition of shares of POS-Plaza in Shanghai by POSCO E&C.

Our effective tax rate was 14.3% in 2009 compared to 28.4% in 2008. The decrease in effective tax rate in 2009 was mainly due to an increase in tax credit to Won 371 billion in 2009 from Won 168 billion in 2008 as well as a tax refund of Won 140 billion in 2009 representing additional tax payments made in the prior year. The statutory income tax rate applicable to us, including resident tax surcharges, decreased to 24.2% in 2009 from 27.5% in 2008.

### ***Segment Results — Steel***

Our sales to external customers decreased by 10.3% to Won 34,503 billion in 2009 from Won 38,448 billion in 2008. After adjusting for inter-segment transactions, our net sales decreased by 10.9% to Won 28,413 billion in 2009 from Won 31,901 billion in 2008, primarily as a result of a decrease in our sales volume of steel products and a decrease in the average unit sales price per ton of steel products sold by us.

Operating income decreased by 51.5% to Won 3,217 billion in 2009 from Won 6,629 billion in 2008, as the 10.9% decrease in the segment's net sales more than outpaced decreases in cost of



goods sold and selling and administrative expenses, primarily due to reasons discussed above. Operating margin, which is operating income as a percentage of total sales prior to adjusting for inter-company sales, decreased to 9.3% in 2009 from 17.2% in 2008. Depreciation and amortization increased by 9.1% to Won 2,369 billion in 2009 from Won 2,171 billion in 2008, primarily due to an increase in capital investment in our facilities in recent years for production of higher value-added products.

### ***Segment Results — Engineering and Construction***

Our sales to external customers increased by 40.4% to Won 7,760 billion in 2009 from Won 5,528 billion in 2008. After adjusting for inter-segment transactions, our net sales increased by 6.4% to Won 3,908 billion in 2009 from Won 3,672 billion in 2008, primarily due to an increase in sales from POSCO E&C's overseas operations from its thermal power plant construction projects in Chile.

Operating income increased by 21.8% to Won 346 billion in 2009 from Won 284 billion in 2008, primarily due to an increase in the volume of POSCO E&C's construction projects. The segment's operating margin, which is operating income as a percentage of total sales prior to adjusting for inter-company sales, decreased to 4.5% in 2009 from 5.1% in 2008 as the market conditions in the domestic construction industry weakened in 2009, resulting in an increase in competition.

### ***Segment Results — Trading***

Our sales to external customers decreased by 27.2% to Won 4,120 billion in 2009 from Won 5,657 billion in 2008, primarily due to a decrease in the trading volume as well as the average unit sales price per ton of steel products sold. After adjusting for inter-segment transactions, our net sales decreased by 30.1% to Won 2,982 billion in 2009 from Won 4,265 billion in 2008.

Operating income decreased by 32.7% to Won 33 billion in 2009 from Won 49 billion in 2008, and the segment's operating margin, which is operating income as a percentage of total sales prior to adjusting for inter-company sales, decreased to 0.8% in 2009 from 0.9% in 2008.

### ***Segment Results — Others***

The "others" segment includes power generation, liquefied natural gas production, network and system integration, logistics and magnesium coil and sheet production. Our sales to external customers decreased by 8.8% to Won 3,420 billion in 2009 from Won 3,749 billion in 2008. Our sales decreased in 2009 primarily due to a decrease in revenues of POSCO Power Corporation resulting from lower production utilization rate, the impact of which was offset in part by an increase in revenues of POSCO Refractories & Environment Co., Ltd. After adjusting for inter-segment transactions, our net sales decreased by 18.5% to Won 1,552 billion in 2009 from Won 1,905 billion in 2008.

Operating income decreased by 45.1% to Won 268 billion in 2009 from Won 488 billion in 2008. The segment's operating margin, which is operating income as a percentage of total sales prior to adjusting for inter-company sales, decreased to 7.8% in 2009 from 13.0% in 2008. Our operating income decreased in 2009 primarily due to a decrease in operating income of POSCON Co., Ltd. Depreciation and amortization increased by 37.3% to Won 206 billion in 2009 from Won 150 billion in 2008, primarily due to an increase in capital investment by POSCO Power Corporation, including completion of a fuel cell manufacturing plant with an annual production capacity of 50 megawatts in Pohang in 2008.

### ***2008 Compared to 2007***

Our sales in 2008 increased by 32.1% to Won 41,743 billion from Won 31,608 billion in 2007, reflecting an increase of 23.3% in the average unit sales price per ton of our steel products, as

discussed in “— Overview — Sales Volume, Prices and Product Mix” above, and a 4.4% increase in the sales volume of our steel products.

Sales volume of plates, which accounted for 14.5% of total sales volume, showed the greatest increase among our major steel product categories in 2008 with an increase of 23.6%. Sales volume of wire rods, which accounted for 7.5% of total sales volume, increased by 13.6%. Sales volume of silicon steel sheets, which accounted for 3.1% of total sales volume, increased by 12.3%. Sales volume of hot rolled products, which accounted for 25.9% of total sales volume, increased by 5.6%. Sales volume of cold rolled products, which accounted for 38% of total sales volume, increased by 4.9%. On the other hand, sales volume of stainless steel products, which accounted for 6.1% of total sales volume, decreased by 23.6%. See “Item 4. Information on the Company — Item 4.B. Business Overview — Major Products.”

Our sales to domestic customers in 2008 compared to 2007 increased by 34.6% in terms of sales revenues (including sales of non-steel products and services) and increased by 7.8% in terms of sales volume of steel products. In 2008, our sales to domestic customers accounted for approximately 68.3% of our total sales volume of steel products, compared to 66.2% in 2007. The increase in domestic sales revenues in 2008 compared to 2007 was attributable primarily to an increase in the price of steel products sold in Korea and, to a lesser extent, an increase in sales volume to domestic customers.

Our export sales and overseas sales to customers abroad in 2008 increased by 27.6% in terms of sales revenues (including sales of non-steel products and services) and decreased by 2.2% in terms of sales volume of steel products compared to 2007. Export sales and overseas sales to customers abroad as a percentage of total sales volume decreased to 31.7% of our total sales volume of steel products in 2008 compared to 33.8% in 2007. The increase in export sales and overseas sales to customers abroad in terms of sales revenues in 2008 compared to 2007 was attributable to an increase in the price of steel products sold abroad, which was offset in part by a decrease in sales volume to customers abroad.

Gross profit in 2008 increased by 36.9% to Won 9,180 billion from Won 6,705 billion in 2007. Gross margin in 2008 increased to 22.0% from 21.2% in 2007 due to the 32.1% increase in sales discussed above, which outpaced a 30.8% increase in cost of goods sold in 2008 to Won 32,562 billion from Won 24,903 billion in 2007. In 2008, the increase in our sales outpaced the increase in our cost of goods sold as the strong demand for some of our products in the first half of 2008 enabled us to increase our sales prices at a greater pace than the increase in our raw material costs.

The increase in cost of goods sold was attributable primarily to increases in the prices of iron ore and coal as well as an increase in our sales volume of steel products, which factors more than offset the impact from our cost savings programs to reduce raw material costs and steel production costs related to sintering and coking processes and a decrease in the price of nickel. The average price of coal per wet metric ton (benchmark free on board price of Australian premium hard coking coal), increased more than three-fold to \$300 in 2008 from \$98 in 2007, and the average price of iron ore per dry metric ton (benchmark free on board price of Australian iron ore fines with iron (Fe) 64% content) increased by 78.8% to \$93 in 2008 from \$52 in 2007. On the other hand, the average price of nickel per ton (including insurance and freight costs) decreased by 43.3% to \$21,111 in 2008 from \$37,230 in 2007. Depreciation and amortization increased by 11.9% to Won 2,379 billion in 2008 from Won 2,127 billion in 2007, primarily due to an increase in capital investment in our facilities for production of higher value-added products.

Operating income in 2008 increased by 45.8% to Won 7,174 billion from Won 4,920 billion in 2007. Operating margin increased to 17.2% in 2008 from 15.6% in 2007, as selling and administrative expenses increased by 12.4% in 2008 to Won 2,006 billion from Won 1,785 billion in 2007. The increase in selling and administrative expenses resulted principally from increases in selling expenses, labor-related expenses, research and development and fees and charges, the aggregate impact of



which was partially offset by a decrease in stock compensation expense. Selling expenses increased by 28% to Won 883 billion in 2008 from Won 690 billion in 2007 primarily due to an increase in our sales volume, as well as an increase in transportation costs primarily resulting from an increase in oil prices during the first half of 2008. Our labor-related expenses included in selling and administrative expenses, which consist of salaries and wages, other employee benefit and provision for severance benefits, increased by 21.4% to Won 469 billion in 2008 from Won 387 billion in 2007, primarily as a result of an increase in incentive pay as our sales increased in 2008, as well as an increase in the number of employees of our subsidiaries. An increase of 79.0% in research and development expenses to Won 95 billion in 2008 from Won 53 billion in 2007 resulted primarily from our increased research efforts in connection with the development of fuel cell technology. Fees and charges increased by 27.8% to Won 124 billion in 2008 from Won 97 billion in 2007, primarily as a result of increases in service fees and expenses incurred by our subsidiaries, as well as increases in management and tax consulting expenses in 2008. There was no stock compensation expense in 2008 compared with Won 124 billion of stock compensation expense in 2007 which was due to an increase in the market value of our shares in 2007.

Our net income increased by 18.3% to Won 4,350 billion in 2008 from Won 3,678 billion in 2007 primarily due to the 45.8% increase in operating income discussed above, an increase in interest and dividend income and a reversal of stock compensation expense, the aggregate impact of which was partially offset by increases in net loss on foreign currency translation, net loss on foreign currency transactions, loss on impairment of investments and interest expenses.

Our interest and dividend income increased by 54.3% to Won 362 billion in 2008 from Won 235 billion in 2007 primarily attributable to an increase in our interest-earning assets. We also recognized a Won 55 billion reversal of stock compensation expense in 2008 compared to no such reversal in 2007 reflecting adjustments made due to a decrease in the market value of our shares in 2008.

These effects, together with a 45.8% increase in operating income discussed above, were partially offset by the following:

- We recorded a substantial increase in net loss on foreign currency translation to Won 811 billion in 2008 from Won 46 billion in 2007, as well as net loss on foreign currency transaction of Won 129 billion in 2008 compared to net gain on foreign currency transaction of Won 28 billion in 2007, primarily due to greater depreciation of the Won against the Dollar in 2008 compared to 2007.
- We recognized a 947% increase in loss on impairment of investments to Won 121 billion in 2008 from Won 12 billion in 2007, primarily due to an impairment loss resulting from a decrease in the fair value of our July 2008 investment in Macarthur Coal Limited.
- Our interest expense increased by 43.7% to Won 345 billion in 2008 from Won 240 billion in 2007 primarily due to increases in our outstanding long-term debt and short-term borrowings.

Our effective tax rate was 28.4% in 2008 compared to 26% in 2007. The increase in effective tax rate in 2008 was mainly due to a decrease in deferred tax assets resulting from reduction of statutory tax rates applicable to future periods. The statutory income tax rate applicable to us, including resident tax surcharges, remained the same at 27.5% in 2008 compared to 2007.

### ***Segment Results — Steel***

Our sales to external customers increased by 31.7% to Won 38,448 billion in 2008 from Won 29,184 billion in 2007, primarily as a result of an increase in the average unit sales price per ton of steel products sold by us and, to a lesser extent, an increase in our sales volume of steel products. After adjusting for inter-segment transactions, our net sales increased by 30.6% to Won 31,901 billion in 2008 from Won 24,427 billion in 2007.

Operating income increased by 46.2% to Won 6,629 billion in 2008 from Won 4,534 billion in 2007, as a 31.7% increase in the segment's sales more than outpaced increases in cost of goods sold and selling and administrative expenses. Operating margin, which is operating income as a percentage of total sales prior to adjusting for inter-company sales, increased to 17.2% in 2008 from 15.5% in 2007. Depreciation and amortization increased by 11.9% to Won 2,171 billion in 2008 from Won 1,941 billion in 2007, primarily due to an increase in capital investment in our facilities for production of higher value-added products.

### ***Segment Results — Engineering and Construction***

Our sales to external customers increased by 45.4% to Won 5,528 billion in 2008 from Won 3,802 billion in 2007, primarily due to an increase in sales from POSCO E&C's overseas operations from its thermal power plant construction projects in Chile. After adjusting for inter-segment transactions, our net sales increased by 35.5% to Won 3,672 billion in 2008 from Won 2,710 billion in 2007.

Operating income decreased by 0.2% to Won 284 billion in 2008 from Won 285 billion in 2007, primarily due to a decrease in profit margins of POSCO E&C's construction projects resulting from a downturn in the construction industry in Korea due to excessive investment in recent years in the residential property development projects, stagnation of real property prices and reduced demand for residential property, especially in areas outside of Seoul. Accordingly, the segment's operating margin, which is operating income as a percentage of total sales prior to adjusting for inter-company sales, decreased to 5.1% in 2008 from 7.5% in 2007.

### ***Segment Results — Trading***

Our sales to external customers increased by 40.8% to Won 5,657 billion in 2008 from Won 4,018 billion in 2007, primarily due to an increase in the average unit sales price per ton of steel products sold and, to a lesser extent, an increase in trading volume. After adjusting for inter-segment transactions, our net sales increased by 35.7% to Won 4,265 billion in 2008 from Won 3,143 billion in 2007.

Operating income increased by 58.1% to Won 49 billion in 2008 from Won 31 billion in 2007, primarily due to an increase in the sales prices of steel products as well as trading volume. The segment's operating margin, which is operating income as a percentage of total sales prior to adjusting for inter-company sales, increased to 0.9% in 2008 from 0.8% in 2007.

### ***Segment Results — Others***

The "others" segment includes power generation, liquefied natural gas production, network and system integration, logistics and magnesium coil and sheet production. Our sales to external customers increased by 38.1% to Won 3,749 billion in 2008 from Won 2,715 billion in 2007. Our sales increased in 2008 primarily due to an increase in sales from our coal trading business, which in turn was due to a substantial increase in the price of coal in 2008 compared to 2007. After adjusting for inter-segment transactions, our net sales increased by 43.4% to Won 1,905 billion in 2008 from Won 1,328 billion in 2007.

Operating income increased by 160.2% to Won 488 billion in 2008 from Won 188 billion in 2007. The segment's operating margin, which is operating income as a percentage of total sales prior to adjusting for inter-company sales, increased to 13.0% in 2008 from 6.9% in 2007. Our operating income increased in 2008 primarily due to an increase in operating income from our coal trading business, which in turn was due to a substantial increase in the price of coal in 2008 compared to 2007. Depreciation and amortization increased by 7.2% to Won 150 billion in 2008 from Won 140 billion in 2007, primarily due to an increase in capital investment by POSCO Power Corporation, including completion of a fuel cell manufacturing plant with an annual production capacity of 50 megawatts in Pohang in 2008.

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

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

	For the Year Ended December 31,		
	2007	2008	2009
	(In billions of Won)		
Net cash provided by operating activities . . . . .	₩ 5,553	₩ 3,687	₩ 8,633
Net cash used in investing activities . . . . .	4,264	5,803	9,717
Net cash provided by (used in) financing activities . . . . .	(1,001)	3,117	862
Cash and cash equivalents at beginning of period . . . . .	936	1,293	2,491
Cash and cash equivalents at end of period . . . . .	1,293	2,491	2,199
Net increase in cash and cash equivalents . . . . .	356	1,198	(292)

### Capital Requirements

Historically, uses of cash consisted principally of purchases of property, plant and equipment and other assets, payments of outstanding debt and payments of dividends.

Net cash used in investing activities was Won 4,264 billion in 2007, Won 5,803 billion in 2008 and Won 9,717 billion in 2009. These amounts included purchases of property, plant and equipment of Won 2,892 billion in 2007, Won 4,093 billion in 2008 and Won 6,407 billion in 2009. We recorded net acquisition of short-term financial instruments of Won 973 billion in 2007, Won 53 billion in 2008 and Won 4,012 billion in 2009. We also recorded net acquisition of available-for-sale securities of Won 1,170 billion in 2007, Won 1,331 billion in 2008 and Won 352 billion in 2009.

In our financing activities, we used cash of Won 6,600 billion in 2007, Won 9,043 billion in 2008 and Won 5,836 billion in 2009 for repayments of short-term borrowings, and Won 527 billion in 2007, Won 861 billion in 2008, Won 1,349 billion in 2009, for repayments of outstanding long-term debt.

We paid dividends on common stock in the amount of Won 655 billion in 2007, Won 755 billion in 2008 and Won 689 billion in 2009.

We anticipate that capital expenditures and repayments of outstanding debt will represent the most significant uses of funds for the next several years. From time to time, we may also require capital for investments involving acquisitions and strategic relationships and repurchase of our shares from the market as treasury stock. Our total capital expenditures (acquisition of property, plant and equipment) were Won 6,407 billion in 2009 and we currently plan to increase our capital expenditures in 2010, which we may adjust on an on-going basis subject to market demand for our products, the production outlook of the global steel industry and global economic conditions in general. We may delay or not implement some of our current capital expenditure plans based on our assessment of such market conditions. However, our failure to undertake planned expenditures on steel-producing facilities could adversely affect the modernization of our production facilities and our ability to produce higher value-added products.

Payments of contractual obligations and commitments will also require considerable resources. In the ordinary course of our business, we routinely enter into commercial commitments for various aspects of our operations, as well as issue guarantees for indebtedness of our affiliated companies and others. As of December 31, 2009, we issued guarantees of Won 2,103 billion for the repayment of loans of affiliated companies and Won 984 billion for the repayment of loans of non-affiliated companies. See note 16 of notes to our Consolidated Financial Statements. The following table sets

forth the amount of long-term debt, capital lease and operating lease obligations as of December 31, 2009.

Contractual Obligations	Payments Due by Period				
	Total	Less Than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years
		(In billions of Won)			
Long-term debt obligations (a) . . . . .	9,087	787	3,695	3,850	755
Interest payments on long-term debt (b) . . . . .	1,021	365	470	186	—
Capital lease obligations (c) . . . . .	24	7	10	3	4
Operating lease obligations (d) . . . . .	11	6	4	1	0
Purchase obligations (e) . . . . .	34,918	6,138	10,720	8,613	9,447
Accrued severance benefits (f) . . . . .	921	49	130	142	600
Total . . . . .	<u>45,982</u>	<u>7,352</u>	<u>15,029</u>	<u>12,795</u>	<u>10,806</u>

- (a) Includes the current portion and premium on bond redemption but excludes amortization of discount on debentures and issuance costs.
- (b) As of December 31, 2009, a portion of our long-term debt carried variable interest rates. We used the interest rate in effect as of December 31, 2009 in calculating the interest payments on long-term debt for the periods indicated.
- (c) We entered into a capital lease contract with Ilshin Shipping Co., Ltd. for a vessel for transporting plates and other products.
- (d) We, including certain subsidiaries, acquired certain tools and equipment under operating lease agreements with Macquarie Capital Korea Co., Ltd. and others.
- (e) Our purchase obligations include long-term contracts to purchase iron ore, coal, liquefied natural gas and other raw materials. These contracts generally have terms of three to ten years and provide for periodic price adjustments to then-market prices. As of December 31, 2009, 364 million tons of iron ore and 59 million tons of coal remained to be purchased under long-term contracts. In addition, on July 1, 2005, we entered into an agreement with Tangguh Liquefied Natural Gas ("LNG") Consortium in Indonesia to purchase 550 thousand tons of LNG annually for 20 years. Purchase price under the agreement with Tangguh LNG Consortium is variable based on the monthly standard oil price (as represented by the Japan Customs-cleared Crude Price), subject to a ceiling. We used the market price in effect as of December 31, 2009 in calculating the iron ore, coal and liquefied natural gas purchase obligations described above for the periods indicated.
- (f) Represents, as of December 31, 2009, the expected amount of severance benefits that we will be required to pay under applicable Korean law to all of our employees when they reach their normal retirement age. The amounts were determined based on the employees' current salary rates and the number of service years that will be accumulated upon their retirement. These amounts do not include amounts that may be paid to employees who cease to work at the company before their normal retirement age.

## Capital Resources

We have traditionally met our working capital and other capital requirements principally from cash provided by operations, while raising the remainder of our requirements primarily through long-term debt and short-term borrowings.

Our primary sources of cash have been cash provided by operating activities and proceeds of long-term debt and short-term borrowings, and we expect that these sources will continue to be our principal sources of cash in the future. From time to time, we may also generate cash through sale of treasury shares.

Our net cash provided by operating activities was Won 5,553 billion in 2007, Won 3,687 billion in 2008 and Won 8,633 billion in 2009.

Our net cash provided by operating activities decreased by 33.6%, or Won 1,866 billion, to Won 3,687 billion in 2008 compared to Won 5,553 billion 2007. Our sales increased by 32.1%, or Won 10,135 billion, in 2008 compared to 2007, primarily reflecting a 23.3% increase in the average unit sales price per ton of our steel products and a 4.4% increase in the sales volume of our steel products, as discussed above, which increased gross cash inflow from our sales activities. However, sluggish demand from our customers in industries adversely impacted by deteriorating global economic conditions in the second half of 2008, such as the automotive and construction industries, led to a significant increase in the inventory level and a delay in recoupment of cash used in production activities, including purchase of raw materials. Such developments resulted in an overall decrease of net cash provided by operating activities in 2008 compared to 2007.

Our net cash provided by operating activities increased by 134.1%, or Won 4,946 billion, to Won 8,633 billion in 2009 compared to Won 3,687 billion in 2008. Our sales decreased by 11.7%, or Won 4,888 billion, primarily reflecting a 7.4% decrease in the sales volume of our steel products as well as a 5.2% decrease in the average unit sales price per ton of our steel products, as discussed above, which decreased gross cash inflow from our sales activities. In addition, cash used for payment of income tax in 2009 increased significantly due to an increase in our income level in 2008. However, our overall net cash provided by operating activities increased significantly in 2009 compared to 2008 as we focused on decreasing our inventory level. Decrease in inventories in 2009 primarily reflected a decrease in the volume of inventories due to a reduction of our crude steel production in the first quarter of 2009 as well as a decrease in the price of steel products in 2009. In response to weak demand from certain segments of our customers in industries adversely impacted by deteriorating global economic conditions in the first quarter of 2009, such as the domestic automotive and construction industries, we reduced our crude steel production in the first quarter of 2009. In addition, we have taken the following steps in 2009 to reduce our inventory level:

- setting inventory targets for each product type and segment;
- monitoring sales activities through our newly-established special sales committee;
- focusing on reducing inventories older than 30 days; and
- setting up a system to report inventories older than 30 days to a responsible sales manager.

Our trade accounts and notes receivables also decreased in 2009, which typically occur in an economic recovery. We have taken the following steps in 2009 to reduce our accounts and notes receivable level:

- increasing management oversight on the accounts receivable turnover ratio;
- strengthening efforts to collect from delinquent customers and maintaining adequate level of collateral; and
- converting to cash settlement for customers with high risk of insolvency.

Aggregate cash proceeds from issuance of short-term borrowings were Won 6,811 billion in 2007, Won 10,234 billion in 2008 and Won 5,828 billion in 2009. Aggregate cash proceeds from issuance of long-term debt were Won 1,054 billion in 2007, Won 3,455 billion in 2008 and Won 2,696 billion in 2009. Total long-term debt, including current portion but excluding discount on debentures issued, were Won 3,790 billion as of December 31, 2007, Won 7,666 billion as of December 31, 2008 and Won 9,017 billion as of December 31, 2009, and total short-term borrowings were Won 1,572 billion as of December 31, 2007, Won 3,254 billion as of December 31, 2008 and Won 3,226 billion as of December 31, 2009.

We periodically increase our short-term borrowings and adjust our long-term debt financing levels depending on changes in our capital requirements. For example, our outstanding long-term debt increased substantially in 2008 and 2009 in order to procure funding for our capital expenditure plans



and purchase of raw materials. We also generated cash of Won 407 billion in 2007, Won 365 billion in 2008 and Won 249 billion in 2009 from the sale of our treasury shares.

We believe that we have sufficient working capital available to us for our current requirements and that we have a variety of alternatives available to us to satisfy our financial requirements to the extent that they are not met by funds generated by operations, including the issuance of debt and equity securities and bank borrowings denominated in Won and various foreign currencies. However, our ability to rely on some of these alternatives could be affected by factors such as the liquidity of the Korean and the global financial markets, prevailing interest rates, our credit rating and the Government's policies regarding Won currency and foreign currency borrowings. For example, the credit shortage in the global credit market prevented us from accessing the international debt capital markets in the fourth quarter of 2008 and early 2009. In response, we issued Won 500 billion principal amount of debt securities in January 2009 in Korea at a relatively low interest rate due to our strong domestic credit ratings. In addition, we accessed the international debt capital markets as soon as we were able to do so and issued \$700 million principal amount of debt securities in a global offering in March 2009.

## Liquidity

Our liquidity is affected by exchange rate fluctuations. See “— Overview — Exchange Rate Fluctuations.” Approximately 36.8% of our sales in 2007, 35.6% of our sales in 2008 and 38.9% of our sales in 2009 were denominated in foreign currencies, of which approximately 90% were denominated in Dollars and around 10% in Yen and which were derived almost entirely from export sales. As of December 31, 2009, approximately 50.5% of our long-term debt (excluding discounts on debentures issued and including current portion) was denominated in foreign currencies, principally in Dollars and Yen. We have incurred foreign currency debt in the past principally due to the cost of Won-denominated financing in Korea, which had historically been higher than for Dollar or Yen-denominated financings.

Our liquidity is also affected by our capital expenditures and raw materials purchases. Cash used for purchases of property, plant and equipment was Won 2,892 billion in 2007, Won 4,093 billion in 2008 and Won 6,407 billion in 2009. We have entered into several long-term contracts to purchase iron ore, coal and other raw materials. The long-term contracts generally have terms of three to ten years and provide for periodic price adjustments to then-market prices. As of December 31, 2009, 364 million tons of iron ore and 59 million tons of coal remained to be purchased under long-term contracts. We may face unanticipated increases in capital expenditures and raw materials purchases. There can be no assurance that we will be able to secure funds on satisfactory terms from financial institutions or other sources that are sufficient for our unanticipated needs.

We had a working capital (current assets minus current liabilities) surplus of Won 7,769 billion as of December 31, 2007, Won 11,188 billion as of December 31, 2008 and Won 11,359 billion as of December 31, 2009. As of December 31, 2009, POSCO had unused credit lines of Won 1,031 billion out of total available credit lines of Won 2,242 billion. We have not had, and do not believe that we will have, difficulty gaining access to short-term financing sufficient to meet our current requirements.

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

	As of December 31,		
	2007	2008	2009
	(In billions of Won)		
Cash and cash equivalents, net of government grants . . . . .	₩ 1,293	₩ 2,490	₩ 2,197
Short-term financial instruments . . . . .	1,743	1,827	5,820
Trading securities . . . . .	1,287	1,238	506
Trade accounts and notes receivable, net of allowance for doubtful accounts and present value discount . . . . .	4,036	5,894	5,145
Inventories, net . . . . .	4,902	8,662	5,153

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

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

	As of December 31,		
	2007	2008	2009
	(In billions of Won)		
Trade accounts and notes payable . . . . .	₩ 2,247	₩ 3,070	₩ 2,735
Short-term borrowings . . . . .	1,572	3,254	3,226
Income tax payable . . . . .	931	2,083	394
Current portion of long-term debt, net of discount on debentures issued . . . . .	483	770	787

### **Capital Expenditures and Capacity Expansion**

Our capital expenditures for 2007, 2008 and 2009 amounted to Won 2,892 billion, Won 4,093 billion and Won 6,407 billion, respectively. We currently plan to increase our capital expenditures in 2010, which we may adjust on an on-going basis subject to market demand for our products, the production outlook of the global steel industry and global economic conditions in general. We may delay or not implement some of our current capital expenditure plans based on our assessment of such market conditions.

Our current capital investment in production facilities emphasizes capacity rationalization, increased production of higher value-added products and improvements in the efficiency of older facilities in order to reduce operating costs. The following table sets out the major items of POSCO's capital expenditures as of December 31, 2009:

Project	Expected Completion Date	Total Cost of Project (In billions of Won)	Estimated Remaining Cost of Completion as of December 31, 2009
<b>Pohang Works:</b>			
Construction of a new steelmaking plant . . . . .	June 2010	1,397	411
Renovation of no. 4 furnace . . . . .	December 2010	441	81
Installation of grained coal re-rolling drum . . . . .	April 2010	160	111
<b>Gwangyang Works:</b>			
Construction of no. 5 sintering plant and no. 5 coke plant . . . . .	December 2011	1,987	1,504
Construction of a new steel plate plant . . . . .	July 2010	1,791	355
<b>Pohang and Gwangyang Works:</b>			
Raw materials treatment facility upgrades . . . . .	March 2016	916	683

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

Our consolidated financial statements are prepared in accordance with Korean GAAP, which differ in significant respects from U.S. GAAP. For a discussion of the significant differences between Korean GAAP and U.S. GAAP, see Note 31 of Notes to Consolidated Financial Statements.

Our net income in accordance with U.S. GAAP was Won 3,609 billion in 2009 compared to net income of Won 4,084 billion in 2008 and Won 3,677 billion in 2007 primarily due to the factors discussed in "— Operating Results." Our net income under U.S. GAAP of Won 3,609 billion in 2009 is 11.3% higher than our net income under Korean GAAP of Won 3,242 billion. See Note 31(a) of Notes to Consolidated Financial Statements.



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

In December 2007, the FASB issued ASC Topic 810, Consolidation (FAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements — an amendment of Accounting Research Bulletin No. 51” (“FAS 160”)). ASC Topic 810 requires all entities to report noncontrolling interests in subsidiaries (also known as minority interests) as a separate component of equity in the consolidated statement of financial position, to clearly identify consolidated net income attributable to the parent and to the noncontrolling interest on the face of the consolidated statement of income and to provide sufficient disclosure that clearly identifies and distinguishes between the interest of the parent and the interests of noncontrolling owners. ASC Topic 810 also establishes accounting and reporting standards for changes in a parent’s ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. We adopted ASC Topic 810 in 2009 and it was retrospectively applied to all period presented. The adoption of this ASC did not have a material impact on our U.S. GAAP financial information.

In December 2007, the FASB issued ASC Topic 805, Business Combinations, (SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS 141R”)). ASC Topic 805 establishes principles and requirements for how the acquirer in business combinations should recognize and measure identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. ASC Topic 805 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. There was no significant business combination in 2009.

### **Item 5.C. *Research and Development, Patents and Licenses, Etc.***

We maintain a research and development program to carry out basic research and applied technology development activities. Our technology development department works closely with the Pohang University of Science & Technology, Korea’s first research-oriented college founded by us in 1986, and the Research Institute of Industrial Science and Technology, Korea’s first private comprehensive research institute founded by us in 1987. As of December 31, 2009, Pohang University of Science & Technology and the Research Institute of Industrial Science and Technology employed a total of approximately 863 researchers.

In 1994, we founded the POSCO Technical Research Laboratory to carry out applied research and technology development activities. As of December 31, 2009, the Technical Research Laboratory employed a total of 422 researchers.

We recorded research and development expenses of Won 290 billion as cost of goods sold in 2007, Won 361 billion in 2008 and Won 368 billion in 2009, as well as research and development expenses of Won 53 billion as selling and administrative expenses in 2007, Won 95 billion in 2008 and Won 84 billion in 2009.

Our research and development program has filed over twenty-nine thousand industrial rights applications relating to steel-making technology, approximately one-fourth of which were registered as of December 31, 2009, and has successfully applied many of these to the improvement of our manufacturing process.

### **Item 5.D. *Trend Information***

These matters are discussed under Item 5.A. and Item 5.B. above where relevant.

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

As of December 31, 2007, 2008 and 2009, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

**Item 5.F. *Tabular Disclosure of Contractual Obligations***

These matters are discussed under Item 5.B. above where relevant.

**Item 5.G. *Safe Harbor***

See “Item 3. Key Information — Item 3.D. Risk Factors — This annual report contains “forward-looking statements” that are subject to various risks and uncertainties.

**Item 6. *Directors, Senior Management and Employees*****Item 6.A. *Directors and Senior Management*****Board of Directors**

Our board of directors has the ultimate responsibility for the management of our business affairs. Under our articles of incorporation, our board is to consist of five directors who are to also act as our executive officers (“Inside Directors”) and eight directors who are to be outside directors (“Outside Directors”). Our shareholders elect both the Inside Directors and Outside Directors at a general meeting of shareholders. Candidates for Inside Director are recommended to shareholders by the board of directors after the board reviews such candidates’ qualifications and candidates for Outside Director are recommended to the shareholders by a separate board committee consisting of three Outside Directors and one Inside Director (“Director Candidate Recommendation Committee”) after the committee reviews such candidates’ qualifications. Any shareholder holding our outstanding shares with voting rights may suggest candidates for Outside Directors to the Director Candidate Recommendation Committee.

Our board of directors maintains the following six sub-committees:

- the Director Candidate Recommendation Committee;
- the Evaluation and Compensation Committee;
- the Finance and Operation Committee;
- the Executive Management Committee;
- the Audit Committee; and
- the Related Party Transactions Committee.

Our board committees are described in greater detail below under “— Item 6.C. Board Practices.”

Under the Commercial Code and our articles of incorporation, one Chairman should be elected among the Outside Directors and several Representative Directors may be elected among the Inside Directors by our board of directors’ resolution.

## Inside Directors

Our current Inside Directors are:

Name	Position	Responsibilities and Division	Years as Director	Years with POSCO	Age	Expiration of Term of Office
Chung, Joon-Yang . . . . .	Chief Executive Officer and Representative Director	—	6	35	62	February 2012
Choi, Jong-Tae . . . . .	President and Representative Director	Chief Financial and Planning Officer	2	36	60	February 2011
Park, Han-Yong . . . . .	Senior Executive Vice President	Chief Staff Officer	0	31	59	February 2012
Oh, Chang-Kwan . . . . .	Senior Executive Vice President	Head of Stainless Steel Business Division	0	32	57	February 2012
Kim, Jin-Il . . . . .	Senior Executive Vice President	Head of Carbon Steel Business Division	0	35	57	February 2012

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

## Outside Directors

Our current Outside Directors are set out in the table below. Each of our Outside Directors meets the applicable independence standards set forth under the rules of the FSCMA.

Name	Position	Principal Occupation	Years as Director	Age	Expiration of Term of Office
Ahn, Charles . . . . .	Presiding Director of the Board of Directors	Chairman of the Board, AhnLab, Inc.	5	48	February 2011
Sun, Wook . . . . .	Director	Former CEO, Nongshim Co., Ltd.	5	65	February 2011
Park, Sang-Yong . . . . .	Director	Professor, Yonsei University	2	59	February 2011
Yoo, Jang-Hee . . . . .	Director	President, East Asian Economic Association	1	69	February 2012
Han, Joon-Ho . . . . .	Director	CEO and Vice Chairman, Samchully Co., Ltd.	1	64	February 2012
Lee, Young-Sun . . . . .	Director	President, Hallym University	1	62	February 2012
Kim, Byung-Ki . . . . .	Director	Former President and Research Fellow, Samsung Economic Research Institute	1	60	February 2012
Lee, Chang-Hee . . . . .	Director	Professor, Seoul National University	1	50	February 2012

The term of office of the Directors is up to three (3) years. Each Director's term expires at the close of the ordinary general meeting of shareholders convened in respect of the fiscal year that is the last one to end during such Director's tenure.

## Senior Management

In addition to the Inside Directors who are also our executive officers, we have the following executive officers:

Name	Position	Responsibility and Division	Years with POSCO	Age
Kwon, Young-Tae . . . . .	Senior Executive Vice President	Raw Materials Procurement Dept.	35	60

<b>Name</b>	<b>Position</b>	<b>Responsibility and Division</b>	<b>Years with POSCO</b>	<b>Age</b>
Kim, Sang-Young . . . . .	Senior Executive Vice President	Corporate Communication Dept.	23	58
Cho, Noi-Ha . . . . .	Executive Vice President	Chief Technology Officer	32	57
Yoon, Yong-Won . . . . .	Executive Vice President	Head of Growth and Investment Division	32	58
Park, Ki-Hong . . . . .	Executive Vice President	Corporate Strategy Dept., Green Development Project Dept., Chief Risk Management Officer	4	52
Choo, Wung-Yong . . . . .	Executive Vice President	General Superintendent (Technical Research Laboratories)	27	57
Yoo, Kwang-Jae . . . . .	Executive Vice President	Stainless Steel Business Division	32	58
Kim, Joon-Sik . . . . .	Executive Vice President	General Superintendent (Gwangyang Works)	29	56
Jang, Young-Ik . . . . .	Executive Vice President	Stainless Steel Raw Materials Procurement Dept.	31	56
Cho, Bong-Rae . . . . .	Executive Vice President	General Superintendent (Pohang Works)	30	57
Shin, Jung-Suk . . . . .	Executive Vice President	Chief Marketing Officer	31	57
Baek, Sung-Kwan . . . . .	Senior Vice President	Steel Business Dept. II	29	54
Lee, Kyung-Hoon . . . . .	Senior Vice President	Environment and Energy Dept.	31	56
Jang, Sung-Hwan . . . . .	Senior Vice President	Deputy General Superintendent (Administration, Pohang Works)	29	55
Lee, Hoo-Geun . . . . .	Senior Vice President	FINEX Research and Development Project Dept. (Pohang Works)	27	52
Woo, Jong-Soo . . . . .	Senior Vice President	European Union Office	30	54
Kang, Chang-Gyun . . . . .	Senior Vice President	Corporate Synergy Dept.	30	54
Lee, Jung-Sik . . . . .	Senior Vice President	Technology Strategy Dept.	30	55
Suh, Young-Sea . . . . .	Senior Vice President	Stainless Steel Marketing Dept.	26	54
Park, Myung-Kil . . . . .	Senior Vice President	Procurement Service Center, Corporate Collaboration and Prosperity Dept.	24	51
Lee, Young-Hoon . . . . .	Senior Vice President	Finance Dept.	24	50
Hwang, Eun-Yeon . . . . .	Senior Vice President	Marketing Strategy Dept.	23	51
Kim, Yeung-Gyu . . . . .	Senior Vice President	Human Resources and Innovation Dept.	27	55
Park, Kui-Chan . . . . .	Senior Vice President	Dept. of External Affairs, Global Research and Development Center Project Dept.	3	53
Park, Sung-Ho . . . . .	Senior Vice President	Deputy General Superintendent (Technical Research Laboratories)	27	53
Shin, Young-Kwan . . . . .	Senior Vice President	Cold Rolled Products Marketing Dept.	25	52
Oh, In-Hwan . . . . .	Senior Vice President	Automotive Flat Products Marketing Dept.	28	51
Yeon, Kyu-Sung . . . . .	Senior Vice President	Deputy General Superintendent (Maintenance, Pohang Works)	25	51
Lee, Kyoung-Mok . . . . .	Senior Vice President	Deputy General Superintendent (Iron and Steel Making, Pohang Works)	28	54
Jeon, Woo-Sig . . . . .	Senior Vice President	Strategic Business Dept.	24	50
Kim, Young-Hun . . . . .	Senior Vice President	Corporate Future Creation Academy	28	52
Choi, Jeong-Woo . . . . .	Senior Vice President	Corporate Audit Dept.	25	53
Cho, Sang-Ho . . . . .	Senior Vice President	Magnesium Business Dept.	27	54
Lee, Myung-Chul . . . . .	Senior Vice President	Energy Business Dept.	22	51
An, Tong-Il . . . . .	Senior Vice President	Deputy General Superintendent (Maintenance, Gwangyang Works)	23	51
Yae, Jae-Hen . . . . .	Senior Vice President	Labor and Outside Services Dept.	25	54
Choi, Kyu-Seok . . . . .	Senior Vice President	Information Planning Dept.	24	52
Min, Kyung-Zoon . . . . .	Senior Vice President	Deputy General Superintendent (Hot and Cold Rolling, Gwangyang Works)	26	52
Kim, Won-Ki . . . . .	Senior Vice President	POSCO-South Asia Co., Ltd.	28	53

<b>Name</b>	<b>Position</b>	<b>Responsibility and Division</b>	<b>Years with POSCO</b>	<b>Age</b>
Nam, Sik . . . . .	Senior Vice President	POSCO-Vietnam Co., Ltd.	27	53
Ko, Suk-Bum . . . . .	Senior Vice President	Deputy General Superintendent (Administration, Gwangyang Works)	25	52
Kim, Hag-Dong . . . . .	Senior Vice President	Deputy General Superintendent (Iron and Steel Making, Gwangyang Works)	25	51
Kim, Sun-Won . . . . .	Senior Vice President	Order Processing and Technical Service Dept.	27	52
Son, Gi-Jin . . . . .	Senior Vice President	Corporate Contribution Dept.	27	50
Kim, Dong-Chul . . . . .	Senior Vice President	Steel Business Dept. I	24	54
Kim, Jhi-Yong . . . . .	Senior Vice President	Advanced Materials Business Dept.	17	48
Jeon, Cheol . . . . .	Senior Vice President	Stainless Steel Production and Technology	27	53
Kim, Yong-Min . . . . .	Senior Vice President	Zhangjiagang Pohang Stainless Steel Co., Ltd.	27	52
Lee, Young-Ki . . . . .	Senior Vice President	Deputy General Superintendent (Hot and Cold Rolling, Pohang Works)	24	50
Yu, Seong . . . . .	Senior Vice President	POSCO-Japan Co., Ltd.	24	53
Shin, Jae-Chul . . . . .	Senior Vice President	Hot Rolled Products Marketing Dept.	24	49
Kim, Se-Hyun . . . . .	Senior Vice President	Productivity Research Center	0	50
Oh, In-Kyung . . . . .	Senior Vice President	Global Leadership Center	0	49

## **Item 6.B. Compensation**

### **Compensation of Directors and Officers**

Salaries and bonuses for Inside Directors and salaries for Directors are paid in accordance with standards decided by the board of directors within the limitation of directors remuneration approved by the annual general meeting of shareholders. In addition, executive officers' compensation is paid in accordance with standards decided by the board of directors. The aggregate compensation paid and accrued to all Directors and executive officers was approximately Won 21.1 billion in 2009 and the aggregate amount set aside or accrued by us to provide pension and retirement benefits to such persons was Won 5.5 billion in 2009.

We have also granted stock options to some of our Directors and executive officers. See “— Item 6.E. Share Ownership” for a list of stock options granted to our Directors and executive officers. At the annual shareholders' meeting held in February 2006 our shareholders elected to terminate the stock option program. Stock options granted prior to this meeting remain valid and outstanding pursuant to the articles of incorporation in effect at the time of the issuance of the stock option.

## **Item 6.C. Board Practices**

### **Director Candidate Recommendation Committee**

The Director Candidate Recommendation Committee comprises three Outside Directors, Han, Joon-Ho (committee chair), Lee, Young-Sun, Lee, Chang-Hee and one Inside Director, Park, Han-Yong. The Director Candidate Recommendation Committee reviews the qualifications of potential candidates and proposes nominees to serve on our board of directors as an Outside Director. Any shareholder holding our outstanding shares with voting rights may suggest candidates for Outside Directors to the Director Candidate Recommendation Committee.

### **Evaluation and Compensation Committee**

The Evaluation and Compensation Committee comprises four Outside Directors, Lee, Young-Sun (committee chair), Ahn, Charles, Yoo, Jang-Hee and Kim, Byung-Ki. The Evaluation and

Compensation Committee's primary responsibilities include establishing evaluation procedures and compensation plans for executive officers and taking necessary measures to execute such plans.

### **Finance and Operation Committee**

The Finance and Operation Committee is comprised of three Outside Directors, Yoo, Jang-Hee (committee chair), Han, Joon-Ho, Kim, Byung-Ki and two Inside Directors, Choi, Jong-Tae and Kim, Jin-II. This committee is an operational committee that oversees decisions with respect to finance and operational matters, including making assessments with respect to potential capital investments and evaluating prospective capital-raising activities.

### **Executive Management Committee**

The Executive Management Committee comprises five Inside Directors: Chung, Joon-Yang (committee chair), Choi, Jong-Tae, Park, Han-Yong, Oh, Chang-Kwan and Kim, Jin-II. This committee oversees decisions with respect to our operational and management matters, including review of management's proposals of new strategic initiatives, as well as deliberation over critical internal matters related to organization structure and development of personnel.

### **Audit Committee**

Under Korean law and our articles of incorporation, we are required to have an Audit Committee. The Audit Committee may be composed of three or more directors; all members of the Audit Committee must be Outside Directors. Audit Committee members must also meet the applicable independence criteria set forth under the rules and regulations of the Sarbanes-Oxley Act of 2002. Members of the Audit Committee are elected by the shareholders at the ordinary general meeting of shareholders. We currently have an Audit Committee composed of three Outside Directors. Members of our Audit Committee are Park, Sang-Yong (committee chair), Sun, Wook and Lee, Chang-Hee.

The duties of the Audit Committee include:

- engaging independent auditors;
- approving independent audit fees;
- approving audit and non-audit services;
- reviewing annual financial statements;
- reviewing audit results and reports, including management comments and recommendations;
- reviewing our system of controls and policies, including those covering conflicts of interest and business ethics; and
- examining improprieties or suspected improprieties.

In addition, in connection with general meetings of stockholders, the committee examines the agenda for, and financial statements and other reports to be submitted by, the board of directors at each general meeting of stockholders. Our internal and external auditors report directly to the Audit Committee. The committee holds regular meetings at least once each quarter, and more frequently as needed.

### **Related Party Transactions Committee**

The Related Party Transaction Committee is comprised of three Outside Directors, Park, Sang-Yong (committee chair), Sun, Wook and Lee, Chang-Hee. This committee reviews related party and other internal transactions and ensures compliance with the Monopoly Regulation and Fair Trade Act.



## Item 6.D. *Employees*

As of December 31, 2009, we had 29,811 employees, including 13,295 persons employed by our subsidiaries, almost all of whom were employed within Korea. Of the total number of employees, approximately 80% are technicians and skilled laborers and 20% are administrative staff. We use subcontractors for maintenance, cleaning and transport activities. We had 29,730 employees, including 13,023 persons employed by our subsidiaries, as of December 31, 2008, and 28,543 employees, including 11,236 persons employed by our subsidiaries, as of December 31, 2007. To improve operational efficiency and increase labor productivity, we plan to reduce the number of our employees in future years through natural attrition. However, we expect the number of persons employed by our subsidiaries in growth industries to increase in the future.

We consider our relations with our work force to be excellent. We have never experienced a work stoppage or strike. Wages of our employees are among the highest of manufacturing companies in Korea. In addition to a base monthly wage, employees receive periodic bonuses and allowances. Base wages are determined annually following consultation between the management and employee representatives, who are currently elected outside the framework of the POSCO labor union. A labor union was formed by our employees in June 1988. Union membership peaked at 19,026 employees at the beginning of 1991, but has steadily declined since then. As of December 31, 2009, only 15 of our employees were members of the POSCO labor union.

We maintain a retirement plan, as required by Korean labor law, pursuant to which employees terminating their employment after one year or more of service are entitled to receive a lump-sum payment based on the length of their service and their total compensation at the time of termination. We are required to transfer a portion of retirement and severance benefit amounts accrued by our employees to the National Pension Fund. The amounts so transferred reduce the retirement and severance benefit amounts payable to retiring employees by us at the time of their retirement. We also provide a wide range of fringe benefits to our employees, including housing, housing loans, company-provided hospitals and schools, a company-sponsored pension program, an employee welfare fund, industrial disaster insurance, and cultural and athletic facilities.

As of December 31, 2009, our employees owned, through our employee stock ownership association, approximately 0.01% of our common stock in their association accounts and 3.05% of our common stock in their employee accounts.

## Item 6.E. *Share Ownership*

### Common Stock

The persons who are currently our Directors or executive officers held, as a group, 16,303 common shares as of June 24, 2010, the most recent practicable date for which this information is available. The table below shows the ownership of our common shares by Directors and executive officers.

<u>Shareholders</u>	<u>Number of Common Shares Owned</u>
Yoon, Yong-Won . . . . .	1,978
Choi, Jong-Tae . . . . .	1,573
Chung, Joon-Yang . . . . .	1,400
Kim, Hag-Dong . . . . .	805
Cho, Noi-Ha . . . . .	600
Yoo, Kwang-Jae . . . . .	502
Kwon, Young-Tae . . . . .	500
Oh, Chang-Kwan . . . . .	400
Woo, Jong-Soo . . . . .	391
Kim, Young-Hun . . . . .	361
Min, Kyung-Zoon . . . . .	330
Lee, Kyoung-Mok . . . . .	322

<b>Shareholders</b>	<b>Number of Common Shares Owned</b>
Oh, In-Hwan . . . . .	320
Yae, Jae-Hen . . . . .	320
Son, Gi-Jin . . . . .	320
Kim, Dong-Chul . . . . .	320
Jeon, Cheol . . . . .	320
Lee, Kyung-Hoon . . . . .	319
Lee, Hoo-Geun . . . . .	298
Lee, Jung-Sik . . . . .	296
Park, Sung-Ho . . . . .	296
Kim, Sang-Young . . . . .	293
Cho, Sang Ho . . . . .	281
Chang, Song-Hwan . . . . .	260
Kim, Yong-Min . . . . .	251
Kim, Sun-Won . . . . .	243
Shin, Jae-Chul . . . . .	243
Jang, Young-Ik . . . . .	242
Nam, Sik . . . . .	241
Suh, Young-Sea . . . . .	236
Kim, Joon-Sik . . . . .	232
Lee, Young-Ki . . . . .	219
Baek, Sung-Kwan . . . . .	207
Shin, Jung-Suk . . . . .	205
Kim, Won-Ki . . . . .	192
Yu, Seong . . . . .	168
Kim, Jhi-Yong . . . . .	143
Kim, Jin-Il . . . . .	140
Hwang, Eun-Yeon . . . . .	119
Choo, Wung-Yong . . . . .	104
Cho, Bong-Rae . . . . .	104
Choi, Jeong-Woo . . . . .	100
Yeon, Kyu-Sung . . . . .	95
Ko, Suk-Bum . . . . .	95
Lee, Young-Hoon . . . . .	78
Shin, Young-Kwan . . . . .	67
Kim, Yeung-Gyu . . . . .	50
Park, Kui-Chan . . . . .	36
Park, Han-Yong . . . . .	12
Total . . . . .	<u>16,303</u>

## Stock Options

The following table sets forth information regarding the stock options we have granted to our current Directors and executive officers as of March 31, 2010. With respect to the options granted, we may elect either to issue shares of common stock, distribute treasury stock or pay in cash the difference between the exercise and the market price at the date of exercise. The options may be exercised by a person who has continued employment with POSCO for two or more years from the

date on which the options are granted. Expiration date of options is seven years from the date on which the options are granted. All of the stock options below relate to our common stock.

At the annual shareholders' meeting held in February 2006, our shareholders elected to terminate the stock option program. Stock options granted prior to this meeting remain valid and outstanding pursuant to the articles of incorporation in effect at the time of the issuance of the stock option.

Directors	Grant Date	Exercise Period		Exercise Price	Granted Options	Exercised Options	Exercisable Options
		From	To				
Chung, Joon-Yang	April 27, 2002	4/28/2004	4/27/2009	136,400	9,316	9,316	0
	July 23, 2004	7/24/2006	7/23/2011	151,700	4,900	4,900	0
Choi, Jong-Tae	July 23, 2001	7/24/2003	7/23/2008	98,900	9,037	9,037	0
	April 26, 2003	4/27/2005	4/26/2010	102,900	1,921	1,921	0
Oh, Chang-Kwan	April 27, 2002	4/28/2004	4/27/2009	136,400	9,316	9,316	0
Kim, Jin-Il	April 26, 2003	4/27/2005	4/26/2010	102,900	9,604	9,604	0
Ahn, Charles	April 28, 2005	4/29/2007	4/28/2012	194,900	2,000	0	2,000
Sun, Wook	April 28, 2005	4/29/2007	4/28/2012	194,900	2,000	0	2,000

Executive Officers	Grant Date	Exercise Period		Exercise Price	Granted Options	Exercised Options	Exercisable Options
		From	To				
Kwon, Young-Tae	September 18, 2002	9/19/2004	9/18/2009	116,100	9,316	9,316	0
Kim, Sang-Young	July 23, 2004	7/24/2006	7/23/2011	151,700	9,800	0	9,800
Cho, Noi-Ha	April 28, 2005	4/29/2007	4/28/2012	194,900	10,000	0	10,000
Yoon, Yong-Won	April 28, 2005	4/29/2007	4/28/2012	194,900	10,000	10,000	0
Yoo, Kwang-Jae	April 28, 2005	4/29/2007	4/28/2012	194,900	10,000	10,000	0

## Item 7. Major Shareholders and Related Party Transactions

### Item 7.A. Major Shareholders

The following table sets forth certain information relating to the shareholders of our common stock issued as of December 31, 2009.

Shareholders	Number of Shares Owned	Percentage
National Pension Service <sup>(1)</sup>	4,733,593	5.43
Nippon Steel Corporation <sup>(2)</sup>	4,394,712	5.04
Mirae Asset Investments Co., Ltd.	2,817,800	3.23
SK Telecom	2,481,310	2.85
Pohang University of Science and Technology	2,000,000	2.29
Directors and executive officers as a group	14,489	0.02
Public <sup>(3)</sup>	60,590,974	69.50
POSCO (held in the form of treasury stock)	7,792,072	8.94
POSCO (held through treasury stock fund)	2,361,885	2.71
Total issued shares of common stock	87,186,835	100.00%

(1) National Pension Service sold shares to decrease its number of shareholding from 4,733,593 (5.43%) as of December 31, 2009 to 4,427,612 (5.08%) as of January 26, 2010.

(2) Held in the form of ADRs.

(3) Includes ADRs.

As of December 31, 2009, there were 16,514,756 shares of common stock outstanding in the form of ADRs, representing 18.94% of the total issued and outstanding shares of common stock.

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

We have issued guarantees of Won 577 billion as of December 31, 2007, Won 1,934 billion as of December 31, 2008 and Won 2,103 billion as of December 31, 2009, in favor of affiliated and related companies. We have also engaged in various transactions with our subsidiaries and affiliated companies. See Note 29 of Notes to Consolidated Financial Statements.

As of December 31, 2007, 2008 and 2009, we had no loans outstanding to our executive officers and Directors.

## **Item 7.C. *Interests of Experts and Counsel***

**Not applicable**

## **Item 8. *Financial Information***

### **Item 8.A. *Consolidated Statements and Other Financial Information***

See “Item 18. Financial Statements” and pages F-1 through F-105.

## **Legal Proceedings**

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

The National Tax Service conducts periodic comprehensive tax audits of companies operating in Korea. In June 2010, the National Tax Service began its latest round of comprehensive tax audit on us, which results have not been issued as of the date of this annual report.

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

## **DIVIDENDS**

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

The table below sets out the annual dividends declared on the outstanding common stock to shareholders of record on December 31 of the years indicated and the interim dividends declared on the outstanding common stock to shareholders of record on June 30 of the years indicated. A total of 87,186,835 shares of common stock were issued at the end of 2009. Of these shares, 77,032,878 shares were outstanding and 7,792,072 shares were held by us in treasury and 2,361,885 shares were held through our treasury stock fund. The annual dividends set out for each of the years below were paid in the immediately following year.

<b>Year</b>	<b>Annual Dividend per Common Stock to Public</b>	<b>Interim Dividend per Common Stock (In Won)</b>	<b>Average Total Dividend per Common Stock</b>
2004 .....	6,500	1,500	8,000
2005 .....	6,000	2,000	8,000
2006 .....	6,000	2,000	8,000
2007 .....	7,500	2,500	10,000
2008 .....	7,500	2,500	10,000
2009 .....	6,500	1,500	8,000

Owners of the ADSs are entitled to receive any dividends payable in respect of the underlying shares of common stock.

Historically, we have paid to holders of record of our common stock an annual dividend. However, we can give no assurance that we will continue to declare and pay any dividends in the future.

#### **Item 8.B. Significant Changes**

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our Consolidated Financial Statements included in this annual report.

#### **Item 9. The Offer and Listing**

##### **Item 9.A. Offer and Listing Details**

##### **Market Price Information**

###### **Notes**

Not applicable

## Common Stock

The principal trading market for our common stock is the KRX KOSPI Market. Our common stock, which is in registered form and has a par value of Won 5,000 per share, has been listed on the first section of the KRX KOSPI Market since June 1988 under the identifying code 005490. The table below shows the high and low trading prices and the average daily volume of trading activity on the KRX KOSPI Market for our common stock since January 1, 2005.

	Price		Average Daily Trading Volume
	High	Low	
	(In Won)		(Number of Shares)
2005			
First Quarter . . . . .	225,500	176,500	285,371
Second Quarter . . . . .	203,000	174,500	297,524
Third Quarter . . . . .	240,500	182,000	281,567
Fourth Quarter . . . . .	236,500	199,500	327,639
2006			
First Quarter . . . . .	251,500	196,500	420,095
Second Quarter . . . . .	287,000	217,500	380,671
Third Quarter . . . . .	254,000	225,500	270,661
Fourth Quarter . . . . .	318,500	239,000	244,757
2007			
First Quarter . . . . .	395,000	286,500	296,883
Second Quarter . . . . .	481,000	366,000	246,291
Third Quarter . . . . .	673,000	443,500	298,177
Fourth Quarter . . . . .	765,000	557,000	331,286
2008			
First Quarter . . . . .	575,000	437,000	334,157
Second Quarter . . . . .	594,000	450,000	382,083
Third Quarter . . . . .	544,000	410,000	389,984
Fourth Quarter . . . . .	436,500	242,000	600,141
2009			
First Quarter . . . . .	430,000	303,000	389,081
Second Quarter . . . . .	435,000	369,000	390,866
Third Quarter . . . . .	519,000	420,000	324,403
Fourth Quarter . . . . .	619,000	472,500	293,724
2010			
First Quarter . . . . .	625,000	516,000	255,173
January . . . . .	625,000	536,000	270,987
February . . . . .	558,000	516,000	229,990
March . . . . .	565,000	528,000	262,546
Second Quarter (through June 24) . . . . .	560,000	434,500	346,944
April . . . . .	560,000	499,000	348,418
May . . . . .	488,000	434,500	383,223
June (through June 24) . . . . .	507,000	447,000	304,488

## ADSs

Our common stock is also listed on the New York Stock Exchange, the London Stock Exchange and the Tokyo Stock Exchange in the form of ADSs. The ADSs have been issued by The Bank of New York Mellon as ADR depositary and are listed on the New York Stock Exchange under the symbol "PKX." One ADS represents one-fourth of one share of common stock. As of December 31, 2009, 16,514,756 ADSs were outstanding, representing 18.94% shares of common stock.



The table below shows the high and low trading prices and the average daily volume of trading activity on the New York Stock Exchange for our ADSs since January 1, 2005.

	Price		Average Daily Trading Volume (Number of ADSs)
	High	Low	
	(In US\$)		
2005			
First Quarter . . . . .	54.85	41.22	866,811
Second Quarter . . . . .	49.70	43.75	790,208
Third Quarter . . . . .	57.08	44.12	606,928
Fourth Quarter . . . . .	56.01	47.85	671,024
2006			
First Quarter . . . . .	63.80	48.97	812,089
Second Quarter . . . . .	74.41	56.07	922,906
Third Quarter . . . . .	66.88	58.59	760,752
Fourth Quarter . . . . .	84.88	63.00	748,789
2007			
First Quarter . . . . .	106.88	76.49	770,003
Second Quarter . . . . .	129.60	99.34	712,996
Third Quarter . . . . .	184.54	124.50	809,315
Fourth Quarter . . . . .	195.89	147.17	721,160
2008			
First Quarter . . . . .	147.74	108.41	418,434
Second Quarter . . . . .	147.05	112.80	249,329
Third Quarter . . . . .	133.73	88.35	294,629
Fourth Quarter . . . . .	89.00	47.14	355,604
2009			
First Quarter . . . . .	79.11	47.14	212,268
Second Quarter . . . . .	89.00	69.23	168,527
Third Quarter . . . . .	108.08	80.73	491,455
Fourth Quarter . . . . .	131.47	100.00	458,775
2010			
First Quarter . . . . .	140.10	108.23	429,700
January . . . . .	140.10	112.95	515,886
February . . . . .	120.30	108.23	386,190
March . . . . .	124.96	115.16	394,445
Second Quarter (through June 24) . . . . .	124.83	88.78	563,909
April . . . . .	124.83	112.16	415,490
May . . . . .	110.35	88.78	696,461
June (through June 24) . . . . .	105.14	89.32	589,786

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

**Not applicable**

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

##### **The Korean Securities Market**

On January 27, 2005, the Korea Exchange was established pursuant to the Korea Securities and Futures Exchange Act by consolidating the Korea Stock Exchange, the Korea Futures Exchange, the KOSDAQ Stock Market, Inc., or the KOSDAQ, and the KOSDAQ Committee of the Korea Securities Dealers Association, which had formerly managed the KOSDAQ. There are three different markets operated by the Korea Exchange: the KRX KOSPI Market, the KRX KOSDAQ Market, and the KRX Derivatives Market. The Korea Exchange has two trading floors located in Seoul, one for the

KRX KOSPI Market and one for the KRX KOSDAQ Market, and one trading floor in Busan for the KRX Derivatives Market. The Korea Exchange is a limited liability company, the shares of which are held by (i) investment brokers and investment dealers that were formerly members of the Korea Futures Exchange or the Korea Stock Exchange and (ii) the stockholders of the KOSDAQ. Currently, the Korea Exchange is the only stock exchange in Korea and is operated by membership, having as its members most of the Korean investment brokers and investment dealers and some Korean branches of foreign investment brokers and investment dealers.

According to data published by the Korea Exchange, as of December 31, 2009, the aggregate market value of equity securities listed on the KRX KOSPI Market and the KRX KOSDAQ Market was approximately Won 1,009 trillion, and the average daily trading volume of equity securities for 2009 was approximately 1,255 million shares with an average transaction value of Won 7,858 billion. The Korea Exchange has the power in some circumstances to suspend trading in the shares of a given company or to de-list a security pursuant to the Regulation on Listing on the Korea Exchange. The Korea Exchange also restricts share price movements. All listed companies are required to file accounting reports annually, semi-annually and quarterly and to release immediately all information that may affect trading in a security.

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

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

Movements in KOSPI are set out in the following table together with the associated dividend yields and price earnings ratios.

Year	Opening	High	Low	Closing	Period Average	
					Dividend Yield <sup>(1)(2)</sup> (Percent)	Price Earnings Ratio <sup>(2)(3)</sup>
1985	139.53	163.37	131.40	163.37	5.3	5.2
1986	161.40	279.67	153.85	272.61	4.3	7.6
1987	264.82	525.11	264.82	525.11	2.6	10.9
1988	532.04	922.56	527.89	907.20	2.4	11.2
1989	919.61	1,007.77	844.75	909.72	2.0	13.9
1990	908.59	928.82	566.27	696.11	2.2	12.8
1991	679.75	763.10	586.51	610.92	2.6	11.2
1992	624.23	691.48	459.07	678.44	2.2	10.9
1993	697.41	874.10	605.93	866.18	1.6	12.7
1994	879.32	1,138.75	855.37	1,027.37	1.2	16.2
1995	1,027.45	1,016.77	847.09	882.94	1.2	16.4
1996	882.29	986.84	651.22	651.22	1.3	17.8
1997	647.67	792.29	350.68	376.31	1.5	17.0
1998	374.41	579.86	280.00	562.46	1.9	10.8
1999	565.10	1,028.07	498.42	1,028.07	1.1	13.5
2000	1,028.33	1,059.04	500.60	504.62	1.6	18.6
2001	503.31	704.50	468.76	693.70	2.0	14.2
2002	698.00	937.61	584.04	627.55	1.4	17.8
2003	633.03	822.16	515.24	810.71	2.2	10.9
2004	821.26	936.06	719.59	895.92	2.1	15.8
2005	896.00	1,379.37	870.84	1,379.37	1.7	11.0
2006	1,383.32	1,464.70	1,203.86	1,434.46	1.7	11.4
2007	1,438.89	2,015.48	1,345.08	1,897.13	1.4	16.8
2008	1,891.45	1,888.88	938.75	1,124.47	2.6	8.9
2009	1,132.87	1,718.88	1,018.81	1,682.77	1.2	23.7
2010 (through June 24)	1,681.71	1,752.20	1,552.79	1,739.87	1.3	15.4

Source: The KRX KOSPI Market

- (1) Dividend yields are based on daily figures. Before 1983, dividend yields were calculated at the end of each month. Dividend yields after January 3, 1984 include cash dividends only.
- (2) Starting in April 2000, dividend yield and price earnings ratio are calculated based on KOSPI 200, an index of 200 equity securities listed on the KRX KOSPI Market. Starting in April 2000, KOSPI 200 excludes classified companies, companies which did not submit annual reports to the KRX KOSPI Market, and companies which received qualified opinion from external auditors.
- (3) The price earnings ratio is based on figures for companies that record a profit in the preceding year.

Shares are quoted “ex-dividend” on the first trading day of the relevant company’s accounting period. Since the calendar year is the accounting period for the majority of listed companies, this may account for the drop in KOSPI between its closing level at the end of one calendar year and its opening level at the beginning of the following calendar year.

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

<u>Previous Day’s Closing Price (Won)</u>	<u>Rounded Down to (Won)</u>
Less than 5,000 . . . . .	5
5,000 to less than 10,000 . . . . .	10
10,000 to less than 50,000 . . . . .	50
50,000 to less than 100,000 . . . . .	100
100,000 to less than 500,000 . . . . .	500
500,000 or more . . . . .	1,000

As a consequence, if a particular closing price is the same as the price set by the fluctuation limit, the closing price may not reflect the price at which persons would have been prepared, or would be prepared to continue, if so permitted, to buy and sell shares. Orders are executed on an auction system with priority rules to deal with competing bids and offers.

Due to deregulation of restrictions on brokerage commission rates, the brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the Korea Exchange by the financial investment companies with a brokerage license. In addition, a securities transaction tax of 0.15% of the sales price will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares. An agricultural and fishery special surtax of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the Korea Exchange. See “Item 10. Additional Information — Item 10.E. Taxation — Korean Taxation.”

The number of companies listed on the KRX KOSPI Market, the corresponding total market capitalization at the end of the periods indicated and the average daily trading volume for those periods are set forth in the following table:

Year	Market Capitalization on the Last Day of Each Period			Average Daily Trading Volume, Value		
	Number of Listed Companies	(Billions of Won)	(Millions of US\$) <sup>(1)</sup>	Thousands of Shares	(Millions of Won)	(Thousands of US\$) <sup>(1)</sup>
1985	342	₩ 6,570	US\$ 7,381	18,925	₩ 12,315	US\$ 13,834
1986	355	11,994	13,924	31,755	32,870	38,159
1987	389	26,172	33,033	20,353	70,185	88,583
1988	502	64,544	94,348	10,367	198,364	289,963
1989	626	95,477	140,490	11,757	280,967	414,430
1990	669	79,020	110,301	10,866	183,692	256,411
1991	686	73,118	96,107	14,022	214,263	281,629
1992	688	84,712	107,448	24,028	308,246	390,977
1993	693	112,665	139,420	35,130	574,048	710,367
1994	699	151,217	191,730	36,862	776,257	984,223
1995	721	141,151	182,201	26,130	487,762	629,613
1996	760	117,370	139,031	26,571	486,834	576,680
1997	776	70,989	50,162	41,525	555,759	392,707
1998	748	137,799	114,091	97,716	660,429	546,803
1999	725	349,504	305,137	278,551	3,481,620	3,039,655
2000	704	188,042	149,275	306,163	2,602,211	2,065,739
2001	689	255,850	192,934	473,241	1,997,420	1,506,237
2002	683	258,681	215,496	857,245	3,041,598	2,533,815
2003	684	355,363	296,679	542,010	2,216,636	1,850,589
2004	683	412,588	395,275	372,895	2,232,109	2,138,445
2005	702	655,075	646,158	467,629	3,157,662	3,114,679
2006	731	704,588	757,948	279,096	3,435,180	3,695,331
2007	745	951,900	1,016,770	363,741	5,539,653	5,917,168
2008	763	576,888	458,758	352,599	3,211,039	2,553,510
2009	770	887,935	762,503	485,657	5,595,552	4,976,859
2010 (through June 24)	770	931,743	840,923	423,010	5,684,746	5,130,637

Source: The Korea Exchange

(1) Converted at the Concentration Base Rate of The Bank of Korea or the Market Average Exchange Rate, as the case may be, at the end of the periods indicated.

The Korean securities markets are principally regulated by the Financial Services Commission and under the regulations set forth in the Financial Investment Services and Capital Markets Act. In July 2007, the National Assembly of Korea enacted the Financial Investment Services and Capital Markets Act. The Financial Investment Services and Capital Markets Act, which came into effect on February 4, 2009, comprehensively regulates the Korean capital markets, the financial investment business (including collective investment businesses and trust businesses) and financial investment products (such as securities and derivatives). The FSCMA imposes restrictions on insider trading and price manipulation, requires specified information to be made available by listed companies to investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for shareholders holding substantial interests. The FSCMA regulates the operation and monitoring of the securities and derivatives markets.

## **Protection of Customer's Interest in Case of Insolvency of Investment Brokers or Investment Dealers**

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

When a customer places a sell order with an investment broker or an investment dealer that is not a member of the KRX KOSPI Market or the KRX KOSDAQ Market and this investment broker or investment dealer places a sell order with another investment broker or investment dealer that is a member of the KRX KOSPI Market or the KRX KOSDAQ Market, the customer is still entitled to the proceeds of the securities sold and received by the non-member company from the member company regardless of the bankruptcy or reorganization of the non-member company.

Under the Financial Investment Services and Capital Markets Act, the Korea Exchange is obliged to indemnify any loss or damage incurred by a counterparty as a result of a breach by members of the KRX KOSPI Market or the KRX KOSDAQ Market. If an investment broker or an investment dealer that is a member of the KRX KOSPI Market or the KRX KOSDAQ Market breaches its obligation in connection with a buy order, the Korea Exchange is obliged to pay the purchase price on behalf of the breaching member. Therefore, the customer can acquire the securities that have been ordered to be purchased by the breaching member.

When a customer places a buy order with a non-member company and the non-member company places a buy order with a member company, the customer has the legal right to the securities received by the non-member company from the member company because the purchased securities are regarded as belonging to the customer in so far as the customer and the non-member company's creditors are concerned.

As the cash deposited with an investment broker or an investment dealer is regarded as belonging to the investment broker or investment dealer, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from the investment broker or the investment dealer if a bankruptcy or rehabilitation procedure is instituted against the investment broker or the investment dealer and, therefore, can suffer from loss or damage as a result. However, the Depositor Protection Act provides that the Korea Deposit Insurance Corporation will, upon the request of the investors, pay investors up to Won 50 million of cash deposited with an investment broker or an investment dealer in case of the investment broker or the investment dealer's bankruptcy, liquidation, cancellation of investment broker or investment dealer license or other insolvency events. Pursuant to the Financial Investment Services and Capital Markets Act, as amended, investment brokers or investment dealers are required to deposit the cash received from its customers at the securities finance company established pursuant to the Financial Investment Services and Capital Markets Act. Set-off or attachment of cash deposits by investment brokers or investment dealers is prohibited. The premiums related to this insurance are paid by investment brokers or investment dealers.

## **Clearance and Settlement**

The settlement of trades on the Korea Exchange is required to be handled by a settlement agency of the Korea Exchange. The Korea Securities Depository is the institution commissioned by the Korea Exchange to handle all such settlement of trades. The settlement of trades on the Korea Exchange takes place through a clearance and settlement procedure. The Korea Exchange has adopted the multilateral netting system and carries out the clearance of the trades by netting the sales

and purchases of each Korea Securities Depository participant. The Korea Exchange is required to provide the daily net settlement results of the trades to the Korea Securities Depository one business day after the day of the sale and purchase contract. The Korea Securities Depository then handles settlement of the securities and the funds based on the information received from the Korea Exchange. The securities are settled through book-entry changes in the accounts of Korea Securities Depository participants and the funds are settled by transfer to an account at a bank designated by the Korea Securities Depository. Settlement of trades is generally required to take place on the third day following the day of the sale and purchase contract.

**Item 9.D. *Selling Shareholders***

**Not applicable**

**Item 9.E. *Dilution***

**Not applicable**

**Item 9.F. *Expenses of the Issuer***

**Not applicable**

**Item 10. *Additional Information***

**Item 10.A. *Share Capital***

Currently, our authorized share capital is 200,000,000 shares, which consists of shares of common stock, par value Won 5,000 per share ("Common Shares") and shares of non-voting stock, par value Won 5,000 per share ("Non-Voting Shares"). Common Shares and Non-Voting Shares together are referred to as "Shares." Under our articles of incorporation, we are authorized to issue Non-Voting Shares up to the limit prescribed by applicable law, the aggregate of which currently is one-half of our total issued and outstanding capital stock. As of December 31, 2009, 87,186,835 Common Shares were issued, of which 7,792,072 shares were held by us in treasury and an additional 2,361,885 shares were held by our treasury stock fund. We have never issued any Non-Voting Shares. All of the issued and outstanding Common Shares are fully-paid and non-assessable and are in registered form. We issue share certificates in denominations of 1, 3, 4, 5, 10, 50, 100, 500, 1,000 and 10,000 shares.

**Item 10.B. *Memorandum and Articles of Association***

This section provides information relating to our capital stock, including brief summaries of material provisions of our articles of incorporation, the FSCMA, the Commercial Code and related laws, all as currently in effect. The following summaries are subject to, and are qualified in their entirety by reference to, our articles of incorporation and the applicable provisions of the FSCMA and the Commercial Code. We have filed copies of our articles of incorporation and these laws (except for the newly enacted the FSCMA) as exhibits to registration statements under the Securities Act or the Securities Exchange Act previously filed by us.

**Dividends**

We distribute dividends to our shareholders in proportion to the number of shares owned by each shareholder. The Common Shares represented by the ADSs have the same dividend rights as other outstanding Common Shares.

Holders of Non-Voting Shares are entitled to receive dividends in priority to the holders of Common Shares in an amount not less than 9% of the par value of the Non-Voting Shares as determined by the board of directors at the time of their issuance. If the amount available for



dividends is less than the aggregate amount of such minimum dividend, we do not have to declare dividends on the Non-Voting Shares.

We may declare dividends annually at the annual general meeting of shareholders which is held within three months after the end of the fiscal year. We pay the annual dividend shortly after the annual general meeting to the shareholders of record as of the end of the preceding fiscal year. We may distribute the annual dividend in cash or in Shares. However, a dividend of Shares must be distributed at par value. If the market price of the Shares is less than their par value, dividends in Shares may not exceed one-half of the annual dividend. In addition, we may declare, and distribute in cash, interim dividends pursuant to a board resolution once a fiscal year. We have no obligation to pay any annual dividend unclaimed for five years from the payment date.

Under the Commercial Code, we may pay an annual dividend only to the extent the net asset amount in our balance sheets exceeds the sum of the following: (i) our stated capital, (ii) the total amount of our capital surplus reserve and legal reserve accumulated up to the end of the relevant dividend period, and (iii) the legal reserve to be set aside for annual dividend. We may not pay an annual dividend unless we have set aside as earned surplus reserve an amount equal to at least 10% of the cash portion of the annual dividend or unless we have accumulated earned surplus reserve of not less than one-half of our stated capital. We may not use legal reserve to pay cash dividends but may transfer amounts from legal reserve to capital stock or use legal reserve to reduce an accumulated deficit.

### **Distribution of Free Shares**

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

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

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

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

- offered publicly or to underwriters for underwriting pursuant to the FSCMA;
- issued to members of our employee stock ownership association pursuant to the FSCMA;
- represented by depositary receipts pursuant to the FSCMA;
- issued in a general public offering pursuant to a board resolution in accordance with the FSCMA, the amount of which is no more than 10% of the outstanding Shares;
- issued to our creditors pursuant to a debt-equity swap;

- issued to domestic or foreign corporations pursuant to a joint venture agreement, strategic coalition or technology inducement agreement when deemed necessary for management purposes; or
- issued to domestic or foreign financial institutions when necessary for raising funds in emergency cases.

In addition, we may issue convertible bonds or bonds with warrants, each up to an aggregate principal amount of Won 2,000 billion, to persons other than existing shareholders.

Members of our employee stock ownership association, whether or not they are our shareholders, generally have a preemptive right to subscribe for up to 20% of the Shares publicly offered pursuant to the FSCMA. This right is exercisable only to the extent that the total number of Shares so acquired and held by members of our employee stock ownership association does not exceed 20% of the total number of Shares then issued. As of December 31, 2009, our employees owned, through our employee stock ownership association, approximately 0.01% of our common stock in their association accounts and 3.05% of our common stock in their employee accounts.

### **General Meeting of Shareholders**

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

- as necessary;
- at the request of holders of an aggregate of 3% or more of our outstanding Shares;
- at the request of shareholders holding an aggregate of 1.5% or more of our outstanding Shares for at least six months; or
- at the request of our audit committee.

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

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

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

### **Voting Rights**

Holders of our Common Shares are entitled to one vote for each Common Share, except that voting rights of Common Shares held by us, or by a corporate shareholder that is more than 10% owned by us either directly or indirectly, may not be exercised. The Commercial Code and the FSCMA permitted cumulative voting, under which voting method each shareholder would have multiple voting rights corresponding to the number of directors to be appointed in the voting and may exercise all voting rights cumulatively to elect one director.

Our shareholders may adopt resolutions at a general meeting by an affirmative majority vote of the voting Shares present or represented at the meeting, where the affirmative votes also represent at least one-fourth of our total voting Shares then issued and outstanding. However, under the Commercial Code and our articles of incorporation, the following matters, among others, require approval by the holders of at least two-thirds of the voting Shares present or represented at a meeting, where the affirmative votes also represent at least one-third of our total voting Shares then issued and outstanding:

- amending our articles of incorporation;
- removing a director;
- effecting any dissolution, merger or consolidation of us;
- transferring the whole or any significant part of our business;
- effecting our acquisition of all of the business of any other company;
- issuing any new Shares at a price lower than their par value;
- approving matters required to be approved at a general meeting of shareholders, which have material effects on our assets, as determined by the Board of Directors; or
- reducing capital.

In general, holders of Non-Voting Shares are not entitled to vote on any resolution or receive notice of any general meeting of shareholders. However, in the case of amendments to our articles of incorporation, or any merger or consolidation of us, or in some other cases that affect the rights or interests of the Non-Voting Shares, approval of the holders of Non-Voting Shares is required. We may obtain the approval by a resolution of holders of at least two-thirds of the Non-Voting Shares present or represented at a class meeting of the holders of Non-Voting Shares, where the affirmative votes also represent at least one-third of our total issued and outstanding Non-Voting Shares. In addition, the holders of Non-Voting Shares may be entitled to vote during the period between the general meeting of shareholders in which required preferred dividends are not paid to such holders until the next general meeting of shareholders at which the payment of such preferred dividends to such holders is declared. The holders of enfranchised Non-Voting Shares have the same rights as holders of Common Shares to request, receive notice of, attend and vote at a general meeting of shareholders.

Shareholders may exercise their voting rights by proxy. A shareholder may give proxies only to another shareholder, except that the Government may give proxies to a designated public official and a corporate shareholder may give proxies to its officers or employees.

Holders of ADRs exercise their voting rights through the ADR depositary, an agent of which is the record holder of the underlying Common Shares. Subject to the provisions of the deposit agreement, ADR holders are entitled to instruct the ADR depositary how to vote the Common Shares underlying their ADSs.

### **Rights of Dissenting Shareholders**

In some limited circumstances, including the transfer of the whole or any significant part of our business and our merger or consolidation with another company, dissenting shareholders have the right to require us to purchase their Shares. Only the shareholders who have executed a share purchase agreement evidencing their acquisition of the relevant Shares on or prior to the day immediately following the public disclosure of the board resolutions approving any of the aforementioned transactions have the rights to require us to purchase their Shares. To exercise this right, shareholders, including holders of Non-Voting Shares, must submit to us a written notice of their intention to dissent before the general meeting of shareholders. Within 20 days after the relevant resolution is passed at a meeting, the dissenting shareholders must request us in writing to purchase

their Shares. We are obligated to purchase the Shares of dissenting shareholders within one month after the expiration of the 20-day period. The purchase price for the Shares is required to be determined through negotiation between the dissenting shareholders and us. If we cannot agree on a price through negotiation, the purchase price will be the average of (1) the weighted average of the daily Share prices on the Korea Exchange for the two-month period before the date of the adoption of the relevant board resolution, (2) the weighted average of the daily Share price on the Korea Exchange for the one month period before the date of the adoption of the relevant resolution and (3) the weighted average of the daily Share price on the Korea Exchange for the one week period before such date of the adoption of the relevant resolution. However, the court may determine this price if we or dissenting shareholders do not accept the purchase price. Holders of ADSs will not be able to exercise dissenter's rights unless they have withdrawn the underlying common stock and become our direct shareholders.

### **Register of Shareholders and Record Dates**

Our transfer agent, Kookmin Bank, maintains the register of our shareholders at its office in Seoul, Korea. It registers transfers of Shares on the register of shareholders on presentation of the Share certificates.

The record date for annual dividends is December 31. For the purpose of determining the shareholders entitled to annual dividends, the register of shareholders may be closed for the period from January 1 to January 31 of each year. Further, for the purpose of determining the shareholders entitled to some other rights pertaining to the Shares, we may, on at least two weeks' public notice, set a record date and/or close the register of shareholders for not more than three months. The trading of Shares and the delivery of share certificates may continue while the register of shareholders is closed.

### **Annual Report**

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

Under the FSCMA, we must file with the FSC and the Korea Exchange (1) an annual business report within 90 days after the end of our fiscal year, (2) a half-year report within 45 days after the end of the first six months of our fiscal year, and (3) quarterly reports within 45 days after the end of the third month and the ninth month of our fiscal year. Copies of these reports are or will be available for public inspection at the FSC and the Korea Exchange.

### **Transfer of Shares**

Under the Commercial Code, the transfer of Shares is effected by delivery of share certificates. However, to assert shareholders' rights against us, the transferee must have his name and address registered on our register of shareholders. For this purpose, a shareholder is required to file his name, address and seal with our transfer agent. A non-Korean shareholder may file a specimen signature in place of a seal, unless he is a citizen of a country with a sealing system similar to that of Korea. In addition, a non-resident shareholder must appoint an agent authorized to receive notices on his behalf in Korea and file a mailing address in Korea. The above requirements do not apply to the holders of ADSs.

Under current Korean regulations, the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a brokerage, dealing or collective investment license and internationally recognized custodians may act as agents and provide related services for foreign shareholders. Certain foreign exchange controls and

securities regulations apply to the transfer of Shares by non-residents or non-Koreans. See “Item 10. Additional Information — Item 10.D. Exchange Controls.”

Our transfer agent is Kookmin Bank, located at 36-3, Yeoido-dong, Yeongdeungpo-gu, Seoul, Korea.

### **Acquisition of Shares by Us**

We may not acquire our own Shares except in limited circumstances, such as a reduction in capital. In addition, we may acquire Shares through purchases on the Korea Exchange or through a tender offer. Notwithstanding the foregoing restrictions, we may acquire interests in our own Shares through agreements with trust companies and asset management companies. The aggregate purchase price for the Shares may not exceed the total amount available for distribution of dividends available at the end of the preceding fiscal year less the amount of dividends and mandatory reserves required to be set aside for that fiscal year, subject to certain procedural requirements.

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

### **Liquidation Rights**

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

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

None.

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

#### **Shares and ADSs**

The Foreign Exchange Transaction Act and the Presidential Decree and regulations under that Act and Decree (collectively, “Foreign Exchange Transaction Laws”) and the Foreign Investment Promotion Law regulate investment in Korean securities by non-residents and issuance of securities outside Korea by Korean companies. Under the Foreign Exchange Transaction Laws, non-residents may invest in Korean securities subject to procedural requirements in accordance with these laws. The FSC has also adopted, pursuant to its authority under the FSCMA, regulations that restrict investment by foreigners in Korean securities.

Subject to certain limitations, the Ministry of Strategy and Finance has the authority to take the following actions under the Foreign Exchange Transaction Laws:

- if the Government deems it necessary on account of war, armed conflict, natural disaster or grave and sudden and significant changes in domestic or foreign economic circumstances or similar events or circumstances, the Ministry of Strategy and Finance may temporarily suspend performance under any or all foreign exchange transactions, in whole or in part, to which the Foreign Exchange Transaction Laws apply (including suspension of payment and receipt of foreign exchange) or impose an obligation to deposit, safe-keep or sell any means of payment to The Bank of Korea or certain other governmental agencies or financial institutions; and
- if the Government concludes that the international balance of payments and international financial markets are experiencing or are likely to experience significant disruption or that

the movement of capital between Korea and other countries is likely to adversely affect the Won, exchange rates or other macroeconomic policies, the Ministry of Strategy and Finance may take action to require any person who intends to effect a capital transaction to obtain permission or to require any person who effects a capital transaction to deposit a portion of the means of payment acquired in such transactions with The Bank of Korea or certain other governmental agencies or financial institutions.

### **Government Review of Issuance of ADSs**

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

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

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

Under the FSCMA, any person whose direct or beneficial ownership of shares with voting rights, whether in the form of shares or ADSs, certificates representing the rights to subscribe for Shares and equity-related debt securities including convertible bonds and bonds with warrants (collectively, "Equity Securities") together with the Equity Securities beneficially owned by certain related persons or by any person acting in concert with the person accounts for 5% or more of the total outstanding Equity Securities is required to report the status and the purpose (whether or not to exert an influence on management control over the issuer) of the holdings to the FSC and the Korea Exchange within five business days after reaching the 5% ownership interest. In addition, any change in the purpose of holding such ownership interest or a change in the ownership interest subsequent to the report which equals or exceeds 1% of the total outstanding Equity Securities is required to be reported to the FSC and the Korea Exchange within five business days from the date of the change. However, the reporting deadline of such reporting requirement is extended to the tenth day of the month immediately following the month of such change in their shareholding for (1) professional investors, as defined under the FSCMA, or (2) persons who hold shares for purposes other than management control. Those who report the purpose of shareholding as management control of the issuer are prohibited from exercising their voting rights and acquiring additional shares for five days subsequent to their report under the FSCMA.

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

In addition to the reporting requirements described above, any person whose direct or beneficial ownership of a company's shares accounts for 10% or more of the total issued and outstanding shares with voting rights (a "major stockholder") must report the status of his or her shareholding to the Securities and Futures Commission and the Korea Exchange within five business days after he or she becomes a major stockholder. In addition, any change in the ownership interest subsequent to the report must be reported to the Securities and Futures Commission and the Korea Exchange by the fifth business day of any changes in his or her shareholding. Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment.



Under the KRX regulations, if a company listed on the KRX KOSPI Market has submitted public disclosure of material matters to a foreign financial investment supervisory authority pursuant to the laws of the foreign jurisdiction, then it must submit a copy of the public disclosure and a Korean translation thereof to the Korea Exchange. In addition, if a company listed on the KRX KOSPI Market is approved for listing on a foreign stock exchange or determined to be de-listed from the foreign stock exchange or actually lists on, or de-lists from, a foreign stock exchange, then it must submit to the Korea Exchange a copy, together with a Korean translation thereof, of all documents submitted to, or received from, the relevant foreign government, supervisory authority or stock exchange.

### **Restrictions Applicable to ADSs**

No Korean governmental approval is necessary for the sale and purchase of ADSs in the secondary market outside Korea or for the withdrawal of shares underlying ADSs and the delivery inside Korea of shares in connection with the withdrawal, provided that a foreigner who intends to acquire the shares must obtain an investment registration card from the Financial Supervisory Service (“FSS”) as described below. The acquisition of the shares by a foreigner must be immediately reported by the foreigner or his standing proxy in Korea to the Governor of the FSS (“Governor”).

Persons who have acquired shares as a result of the withdrawal of shares underlying the ADSs may exercise their preemptive rights for new shares, participate in free distributions and receive dividends on shares without any further governmental approval.

In addition, under the FSC regulations, effective as of November 30, 2006, we are required to file a securities registration statement with the FSC and such securities registration statement has to become effective pursuant to the FSCMA in order for us to issue shares represented by ADSs, except in certain limited circumstances.

### **Restrictions Applicable to Shares**

Under the Foreign Exchange Transaction Laws and FSC regulations (together, the “Investment Rules”), foreigners may invest, with limited exceptions and subject to procedural requirements, in all shares of Korean companies, whether listed on the KRX KOSPI Market, unless prohibited by specific laws. Foreign investors may trade shares listed on the KRX KOSPI Market only through the KRX KOSPI Market, except in limited circumstances, including, among others:

- odd-lot trading of shares;
- acquisition of shares (“Converted Shares”) by exercise of warrant, conversion right under convertible bonds or withdrawal right under depositary receipts issued outside of Korea by a Korean company;
- acquisition of shares as a result of inheritance, donation, bequest or exercise of shareholders’ rights, including preemptive rights or rights to participate in free distributions and receive dividends;
- over-the-counter transactions between foreigners of a class of shares for which the ceiling on aggregate acquisition by foreigners, as explained below, has been reached or exceeded with certain exceptions;
- shares acquired by direct investment as defined in the Foreign Investment Promotion Law;
- disposal of shares pursuant to the exercise of appraisal rights of dissenting shareholders;
- disposal of shares in connection with a tender offer;
- acquisition of shares by a foreign depositary in connection with the issuance of depositary receipts;



- acquisition and disposal of shares through overseas stock exchange market if such shares are simultaneously listed on the KRX KOSPI Market or the KRX KOSDAQ Market and such overseas stock exchange; and
- arm's length transactions between foreigners, if all of such foreigners belong to an investment group managed by the same person.

The Investment Rules require a foreign investor who wishes to invest in shares for the first time on the Korea Exchange (including Converted Shares) to register its identity with the FSS prior to making any such investment; however, the registration requirement does not apply to foreign investors who acquire Converted Shares with the intention of selling such Converted Shares within three months from the date of acquisition of the Converted Shares or who acquire the shares in an over-the-counter transaction or dispose of shares where such acquisition or disposal is deemed to be a foreign direct investment pursuant to the Foreign Investment Promotion Law. Upon registration, the FSS will issue to the foreign investor an investment registration card which must be presented each time the foreign investor opens a brokerage account with a financial investment company with a brokerage license or dealing license in Korea. Foreigners eligible to obtain an investment registration card include foreign nationals who are individuals residing abroad for more than six months, foreign governments, foreign municipal authorities, foreign public institutions, international financial institutions or similar international organizations, corporations incorporated under foreign laws and any person in any additional category designated by decree of the Ministry of Strategy and Finance. All Korean offices of a foreign corporation as a group are treated as a separate foreigner from the offices of the corporation outside Korea. However, a foreign corporation or depository issuing depository receipts may obtain one or more investment registration cards in its name in certain circumstances as described in the relevant regulations.

Upon a foreign investor's purchase of shares through the Korea Exchange, no separate report by the investor is required because the investment registration card system is designed to control and oversee foreign investment through a computer system. However, a foreign investor's acquisition or sale of shares outside the Korea Exchange (as discussed above) must be reported by the foreign investor or his standing proxy to the Governor at the time of each such acquisition or sale; *provided, however*, that a foreign investor must ensure that any acquisition or sale by it of shares outside the Korea Exchange in the case of trades in connection with a tender offer, odd-lot trading of shares or trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, is reported to the Governor by the Korea Securities Depository, financial investment companies with a dealing or brokerage license or securities finance companies engaged to facilitate such transaction. A foreign investor must appoint one or more standing proxies from among the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks) financial investment companies with a dealing, brokerage or collective investment license and internationally recognized custodians which will act as a standing proxy to exercise shareholders' rights or perform any matters related to the foregoing activities if the foreign investor does not perform these activities himself. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the Governor in cases deemed inevitable by reason of conflict between laws of Korea and those of the home country of the foreign investor.

Certificates evidencing shares of Korean companies must be kept in custody with an eligible custodian in Korea. Only foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license, the Korea Securities Depository and internationally recognized custodians are eligible to act as a custodian of shares for a non-resident or foreign investor. A foreign investor must ensure that his custodian deposits its shares with the Korea Securities Depository. However, a foreign investor may be exempted from complying with this deposit requirement with the approval of the Governor in circumstances where compliance with that requirement is made impracticable, including cases where compliance would contravene the laws of the home country of such foreign investor.

Under the Investment Rules, with certain exceptions, foreign investors may acquire shares of a Korean company without being subject to any foreign investment ceiling. As one such exception, designated public corporations are subject to a 40% ceiling on the acquisition of shares by foreigners in the aggregate. Designated public corporations may set a ceiling on the acquisition of shares by a single person according to its articles of incorporation. We set this ceiling at 3% until the discontinuation of our designation as a public corporation on September 28, 2000. As a result, we currently do not have any ceiling on the acquisition of shares by a single person or by foreigners in the aggregate. Furthermore, an investment by a foreign investor of not less than 10% of the outstanding shares with voting rights of a Korean company is defined as a direct foreign investment under the Foreign Investment Promotion Law, which is, in general, subject to the report to, and acceptance by, the Ministry of Knowledge Economy. The acquisition of shares of a Korean company by a foreign investor may also be subject to certain foreign shareholding restrictions in the event that the restrictions are prescribed in each specific law which regulates the business of the Korean company.

Under the Foreign Exchange Transaction Laws, a foreign investor who intends to acquire shares must designate a foreign exchange bank at which he must open a foreign currency account and a Won account exclusively for stock investments. No approval is required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account at the time required to place a deposit for, or settle the purchase price of, a stock purchase transaction to a Won account opened in the name of a financial investment company with a dealing, brokerage or collective investment license. Funds in the foreign currency account may be remitted abroad without any governmental approval.

Dividends on Shares are paid in Won. No governmental approval is required for foreign investors to receive dividends on, or the Won proceeds of the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Won proceeds of the sale of, any shares held by a non-resident of Korea must be deposited either in a Won account with the investor's financial investment company with a dealing, brokerage or collective investment license or his Won Account. Funds in the investor's Won Account may be transferred to his foreign currency account or withdrawn for local living expenses up to certain limitations. Funds in the Won Account may also be used for future investment in shares or for payment of the subscription price of new shares obtained through the exercise of preemptive rights.

Financial investment companies with a dealing, brokerage or collective investment license are allowed to open foreign currency accounts with foreign exchange banks exclusively for accommodating foreign investors' stock investments in Korea. Through these accounts, these financial investment companies and asset management companies may enter into foreign exchange transactions on a limited basis, such as conversion of foreign currency funds and Won funds, as counterparty to foreign investors, without the investors having to open their own accounts with foreign exchange banks.

#### **Item 10.E. *Taxation***

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

## Korean Taxation

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

- a resident of Korea;
- a corporation with registered office or main office located in Korea or actual management of which takes place in Korea; or
- engaged in a trade or business in Korea through a permanent establishment or a fixed base to which the relevant income is attributable or with which the relevant income is effectively connected.

### **Shares or ADSs**

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

We will deduct Korean withholding tax from dividends paid to you at a rate of 22.0% (including resident surtax). If you are a qualified resident in a country that has entered into a tax treaty with Korea, you may qualify for a reduced rate of Korean withholding tax. See the discussion under “— Tax Treaties” below for an additional explanation on treaty benefits.

In order to obtain the benefits of a reduced withholding tax rate under an applicable tax treaty, you must submit to us, prior to the dividend payment date, such evidence of tax residence as may be required by the Korean tax authorities. Evidence of tax residence will include a certificate of your tax residency issued by a competent authority of your country of tax residence, and may be submitted to us through the ADR depository. If we distribute to you free shares representing a transfer of earning surplus or certain capital reserves into paid-in capital, that distribution may be subject to Korean tax.

#### *Taxation of Capital Gains*

As a general rule, capital gains earned by non-residents upon the transfer of the Shares or ADSs would be subject to Korean withholding tax at a rate equal to the lesser of (i) 11.0% (including resident surtax) of the gross proceeds realized or (ii) 22.0% (including resident surtax) of the net realized gain (subject to the production of satisfactory evidence of the acquisition costs and certain direct transaction costs arising out of the transfer of such Shares or ADSs), unless such non-resident is exempt from Korean income taxation under an applicable Korean tax treaty into which Korea has entered with the non-resident's country of tax residence. See the discussion under “— Tax Treaties” below for an additional explanation of treaty benefits. Even if you do not qualify for any exemption under a tax treaty, you will not be subject to the foregoing withholding tax on capital gains if you qualify for the relevant Korean domestic tax law exemptions discussed in the following paragraphs.

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

Capital gains earned by you (regardless of whether you have a permanent establishment in Korea) from the transfer of ADSs outside Korea (except for the case where you transfer the ADSs which you received as a holder of the relevant shares upon the deposit of such shares) will be exempt from Korean income taxation by virtue of the Special Tax Treatment Control Law (“STTCL”), provided that the issuance of the ADSs is deemed to be an overseas issuance under the STTCL.

If you are subject to tax on capital gains with respect to the sale of ADSs, or of shares of common stock which you acquired as a result of a withdrawal, the purchaser or, in the case of the

sale of shares of common stock on the Korea Exchange or through a licensed financial investment company in Korea, the licensed financial investment company, is required to withhold Korean tax from the sales price in an amount equal to the lesser of (i) 11% (including resident surtax) of the gross realization proceeds or (ii) 22% (including resident surtax) of the net realized gain (subject to the production of satisfactory evidence of the acquisition costs and certain direct transaction costs arising out of the transfer of such Shares or ADSs) and to make payment of these amounts to the Korean tax authority, unless you establish your entitlement to an exemption under an applicable tax treaty or domestic tax law. To obtain the benefit of an exemption from tax pursuant to a tax treaty, you must submit to the purchaser or the licensed financial investment company, or through the ADR depository, as the case may be, prior to or at the time of payment, such evidence of your tax residence as the Korean tax authorities may require in support of your claim for treaty benefits. See the discussion under “— Tax Treaties” below for an additional explanation on claiming treaty benefits.

### ***Tax Treaties***

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

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

### ***Inheritance Tax and Gift Tax***

If you die while holding an ADS or donate an ADS, it is unclear whether, for Korean inheritance and gift tax purposes, you will be treated as the owner of the shares of common stock underlying the ADSs. If the tax authority interprets depository receipts as the underlying share certificates, you may be treated as the owner of the shares of common stock and your heir or the donee (or in certain

circumstances, you as the donor) will be subject to Korean inheritance or gift tax presently at the rate of 10% to 50%; provided that the value of the ADSs or shares of common stock is greater than a specified amount.

If you die while holding a share of common stock or donate a share of common stock, your heir or donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax at the same rate as indicated above.

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

### *Securities Transaction Tax*

If you transfer shares of common stock on the Korea Exchange, you will be subject to securities transaction tax at the rate of 0.15% and an agriculture and fishery special surtax at the rate of 0.15% of the sale price of the shares of common stock. If your transfer of the shares of common stock is not made on the Korea Exchange, subject to certain exceptions you will be subject to securities transaction tax at the rate of 0.5% and will not be subject to an agriculture and fishery special surtax.

Although it is not entirely clear whether depositary receipts constitute share certificates subject to the securities transaction tax, the transfer of share certificates listed on the New York Stock Exchange, the NASDAQ National Market or other qualified foreign exchanges is exempt from the securities transaction tax under the Securities Transaction Tax Law. Accordingly, once the ADSs are listed on the New York Stock Exchange, your transfer of ADRs should not be subject to the securities transaction tax irrespective of whether depositary receipts constitute share certificates subject to the securities transaction tax.

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

### **United States Taxation**

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

- a dealer in securities or currencies;
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings;
- a bank;
- a life insurance company;
- a tax-exempt organization;
- a person that holds shares of common stock or ADSs that are a hedge or that are hedged against interest rate or currency risks;
- a person that holds shares of common stock or ADSs as part of a straddle or conversion transaction for tax purposes;



- a person whose functional currency for tax purposes is not the U.S. dollar; or
- a person that owns or is deemed to own 10% or more of any class of our stock.

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

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

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

- a citizen or resident of the United States;
- a U.S. domestic corporation; or
- subject to U.S. federal income tax on a net income basis with respect to income from the share of common stock or ADS.

### ***Shares of Common Stock and ADSs***

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

### ***Dividends***

The gross amount of cash dividends that you receive (prior to deduction of Korean taxes) generally will be subject to U.S. federal income taxation as foreign source dividend income. Dividends paid in Won will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of your (or, in the case of ADSs, the depository’s) receipt of the dividend, regardless of whether the payment is in fact converted into Dollars. If such a dividend is converted into Dollars on the date of receipt, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. U.S. holders should consult their own tax advisers regarding the treatment of any foreign currency gain or loss on any Won received by U.S. holders that are converted into Dollars on a date subsequent to receipt.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual prior to January 1, 2011 with respect to the ADSs and common stock will be subject to taxation at a maximum rate of 15% if the dividends are “qualified dividends.” Dividends paid on the ADSs and common stock will be treated as qualified dividends if (i) we are eligible for the benefits of a comprehensive income tax treaty with the United States that the Internal Revenue Service has approved for the purposes of the qualified dividend rules and (ii) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company (“PFIC”). The income tax treaty between Korea and the United States (“Treaty”) has been approved for the purposes of the qualified dividend rules. Based on our audited financial statements and relevant market and shareholder data, we believe that we were not treated as a PFIC for U.S. federal income tax purposes with respect to our 2008 or 2009 taxable year. In addition, based on our audited financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a PFIC for our 2010 taxable year. You should consult your own tax advisers regarding the availability of the reduced dividend tax rate in the light of your own particular circumstances.

Distributions of additional shares in respect of shares of common stock or ADSs that are made as part of a pro-rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax.

#### *Sales and Other Dispositions*

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

#### *Foreign Tax Credit Considerations*

You should consult your own tax advisers to determine whether you are subject to any special rules that limit your ability to make effective use of foreign tax credits, including the possible adverse impact of failing to take advantage of benefits under the income tax treaty between the United States and Korea. If no such rules apply, you generally may claim a credit, up to any applicable reduced rates provided under the Treaty, against your U.S. federal income tax liability for Korean taxes withheld from dividends on shares of common stock or ADSs, so long as you have owned the shares of common stock or ADSs (and not entered into specified kinds of hedging transactions) for at least a 16-day period that includes the ex-dividend date. Instead of claiming a credit, you may, at your election, deduct such Korean taxes in computing your taxable income, provided that you do not elect to claim a foreign tax credit for any foreign income taxes paid or accrued for the relevant tax year and subject to generally applicable limitations under U.S. tax law. Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain hedged positions in securities and may not be allowed in respect of arrangements in which your expected economic profit is insubstantial. You may not be able to use the foreign tax credit associated with any Korean withholding tax imposed on a distribution of additional shares that is not subject to U.S. tax unless you can use the credit against United States tax due on other foreign-source income.

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

The calculation of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions involves the application of complex rules that depend on a U.S. holder's particular circumstances. You should consult your own tax advisers regarding the creditability or deductibility of such taxes.

#### ***U.S. Information Reporting and Backup Withholding Rules***

Payments in respect of the notes, shares of common stock or ADSs that are made within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the holder (1) is a corporation or other exempt recipient or (2) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification of its non-U.S. status in connection with payments received within the United States or through a U.S.-related financial intermediary.

#### **Item 10.F. Dividends and Paying Agents**

See "Item 8.A. Consolidated Statements and Other Financial Information — Dividends" above for information concerning our dividend policies and our payment of dividends. See "Item 10.B. Memorandum and Articles of Association — Dividends" for a discussion of the process by which



dividends are paid on shares of our common stock. The paying agent for payment of our dividends on ADSs in the United States is the Bank of New York Mellon.

**Item 10.G. *Statements by Experts***

**Not applicable**

**Item 10.H. *Documents on Display***

We file reports, including annual reports on Form 20-F, and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. You may read and copy any materials filed with the SEC at the Public Reference Rooms in Washington, D.C., New York, New York and Chicago, Illinois. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Any filings we make electronically will be available to the public over the Internet at the SEC's web site at <http://www.sec.gov>.

**Item 10.I. *Subsidiary Information***

**Not applicable**

**Item 11. *Quantitative and Qualitative Disclosures about Market Risk***

We are exposed to foreign exchange rate and interest rate risk primarily associated with underlying liabilities, and to changes in the commodity prices of principal raw materials and the market value of our equity investments. Following evaluation of these positions, we selectively enter into derivative financial instruments to manage the related risk exposures. These contracts are entered into with major financial institutions, which minimizes the risk of credit loss. The activities of our finance division are subject to policies approved by our senior management. These policies address the use of derivative financial instruments, including the approval of counterparties, setting of limits and investment of excess liquidity. Our general policy is to hold or issue derivative financial instruments for hedging purposes. From time to time, we may also enter into derivative financial contracts for trading purposes.

**Exchange Rate Risk**

Korea is our most important market and, therefore, a substantial portion of our cash flow is denominated in Won. Most of our exports are denominated in Dollars. Japan is also an important market for us, and we derive significant cash flow denominated in Yen. We are exposed to foreign exchange risk related to foreign currency denominated liabilities and anticipated foreign exchange payments. Anticipated foreign exchange payments, which represent a substantial sum and are mostly denominated in Dollars, relate primarily to imported raw material costs and freight costs. Foreign currency denominated liabilities relate primarily to foreign currency denominated debt. We use, to a limited extent, cross-currency interest rate swaps to reduce our exchange rate exposure with respect to foreign currency denominated debt. Under cross-currency interest rate swaps, we typically agree with the other parties to exchange, at the maturity date, a fixed amount denominated in one currency with a fixed amount denominated in another currency. Until the maturity date, we agree to exchange interest payments, at specified intervals, calculated based on different interest rates for each currency. We also use, to a limited extent, currency forward contracts to purchase Dollars to reduce our exchange rate exposure. Under currency forward contracts, we typically agree with the other parties to exchange, at the maturity date, a fixed amount denominated in Dollars with an amount denominated in Yen or Won at a fixed exchange rate.

As of December 31, 2009, we had entered into swap contracts, currency forward contracts and currency future contracts. We may incur losses under our existing contracts or any swap or other derivative product transactions entered into in the future. See Note 23 of Notes to Consolidated Financial Statements.

## Interest Rate Risk

We are also subject to market risk exposure arising from changing interest rates. A reduction of interest rates increases the fair value of our debt portfolio, which is primarily of a fixed interest nature. From time to time, we use, to a limited extent, interest rate swaps to reduce interest rate volatility on some of our debt and manage our interest expense by achieving a balanced mixture of floating and fixed rate debt. As of December 31, 2009, we entered into one interest rate swap contract.

The following table summarizes the carrying amounts, fair values, principal cash flows by maturity date and weighted average interest rates of our short-term and long-term liabilities as of December 31, 2009 which are sensitive to exchange rates and/or interest rates. The information is presented in Won, which is our reporting currency.

	Maturities						December 31, 2009		December 31, 2008	
	2010	2011	2012	2013	2014	Thereafter	Total	Fair Value	Total	Fair Value
	(In billions of Won except rates)									
Local currency:										
Fixed rate . . . . .	1,165	1,276	706	517	575	326	4,565	4,631	2,904	2,909
Average weighted rate <sup>(1)</sup> . . . . .	3.71%	5.43%	5.38%	6.41%	5.36%	5.79%	5.11%	—	5.64%	—
Variable rate . . . . .	8	71	8	9	9	49	153	145	833	643
Average weighted rate <sup>(1)</sup> . . . . .	5.60%	3.08%	2.52%	2.52%	2.52%	2.52%	2.94%	—	4.98%	—
Sub-total. . . . .	1,172	1,347	713	526	585	375	4,719	4,775	3,738	3,552
Foreign currency, principally Dollars and Yen:										
Fixed rate . . . . .	2,735	333	265	987	822	374	5,517	5,536	5,649	5,443
Average weighted rate <sup>(1)</sup> . . . . .	2.56%	3.31%	4.86%	2.39%	8.71%	5.69%	3.81%	—	3.17%	—
Variable rate . . . . .	105	1,037	—	929	—	6	2,077	2,069	1,609	14
Average weighted rate <sup>(1)</sup> . . . . .	0.72%	2.10%	—	0.86%	—	2.25%	1.48%	—	2.31%	—
Sub-total. . . . .	2,840	1,370	265	1,917	822	380	7,594	7,605	7,258	5,457
Total . . . . .	4,013	2,717	978	2,443	1,407	755	12,313	12,380	10,996	9,010

(1) Weighted average rates of the portfolio at the period end.

## Commodity Price Risk

We are exposed to market risk of price fluctuations related to the purchase of raw materials, especially iron ore and coal. To ensure adequate supply of raw materials, we enter into long-term supply contracts to purchase iron ore, coal, nickel, chrome, stainless steel scrap and liquefied natural gas. These contracts generally have terms of three to ten years and provide for periodic price adjustments to then-market prices. The long-term contracts to purchase iron ore and coal generally provide for annual adjustments to the purchase prices to be determined through negotiation between the supplier and us, which are typically retroactively implemented starting on April 1 of each year. Such price negotiations are driven by various factors, including the global economic outlook, global market prices of raw materials and steel products, supply and demand outlook of raw materials and production costs of raw materials. Typically, globally influenced buyers and sellers of raw materials determine benchmark prices of raw materials, based on which other buyers and sellers negotiate their prices after taking into consideration the quality of raw materials and other factors. As of December 31, 2009, 364 million tons of iron ore and 59 million tons of coal remained to be purchased under long-term supply contracts.

Increases in prices of our key raw materials and our inability to pass along such increases to our customers could adversely affect our margins and profits. A 5% increase in the price of coal, iron

ore and liquefied natural gas in 2009 would have increased our operating expenses by Won 467 billion in 2009.

## Equity Price Risk

We are exposed to equity price risk primarily from changes in the stock price of SK Telecom and Nippon Steel Corporation. As of December 31, 2009, we hold a 2.88% interest in SK Telecom (excluding shares placed as collateral for exchangeable bonds issued in August 2008) and a 3.50% interest in Nippon Steel Corporation. We have not entered into any derivative instruments or any other arrangements to manage our equity price risks.

## Item 12. *Description of Securities Other than Equity Securities*

**Not applicable**

### Item 12.A. *Debt Securities*

**Not applicable**

### Item 12.B. *Warrants and Rights*

**Not applicable**

### Item 12.C. *Other Securities*

**Not applicable**

### Item 12.D. *American Depositary Shares*

#### Fees and Charges

Under the terms of the deposit agreement, holders of our ADSs are required to pay the following service fees to the depositary:

Services	Fees
Issuance of ADSs upon deposit of shares	Up to \$0.05 per ADS issued
Delivery of deposited shares against surrender of ADSs	Up to \$0.05 per ADS surrendered
Distribution delivery of ADSs pursuant to sale or exercise of rights	Up to \$0.05 per ADS held
Distributions of dividends	Up to \$0.02 per ADS held
Distribution of securities other than ADSs	A fee equivalent to the fee that would be payable if securities distributed had been shares and such shares had been deposited for issuance of ADSs.
Other corporate action involving distributions to shareholders	1. As necessary for taxes and other governmental charges that the depositary or the custodian have to pay on any ADS or share underlying an ADS (for example, stock transfer taxes, stamp duty or withholding taxes).  2. As necessary for any charges incurred by the depositary or its agents for servicing the deposited securities.

Holders of our ADSs are also responsible for paying certain fees and expenses incurred by the depositary and certain taxes and governmental charges such as:

- fees for the transfer and registration of shares charged by the registrar and transfer agent for the shares in Korea (*i.e.*, upon deposit and withdrawal of shares);
- expenses incurred for converting foreign currency into U.S. dollars;

- expenses for cable, telex and fax transmissions and for delivery of securities;
- taxes and duties upon the transfer of securities (*i.e.*, when shares are deposited or withdrawn from deposit); and
- fees and expenses incurred in connection with the delivery or servicing of shares on deposit.

Depository fees payable upon the issuance and surrender of ADSs are typically paid to the depository by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depository and by the brokers (on behalf of their clients) delivering the ADSs to the depository for surrender. The brokers in turn charge these fees to their clients. Depository fees payable in connection with distributions of cash or securities to ADS holders and the depository services fee are charged by the depository to the holders of record of ADSs as of the applicable ADS record date.

The depository fees payable for cash distributions are generally deducted from the cash being distributed. In the case of distributions other than cash (*i.e.*, stock dividend, rights), the depository charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or uncertificated in direct registration), the depository sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via the Korea Securities Depository, or KSD), the depository generally collects its fees through the systems provided by KSD (whose nominee is the registered holder of the ADSs held in KSD) from the brokers and custodians holding ADSs in their KSD accounts. The brokers and custodians who hold their clients' ADSs in KSD accounts in turn charge their clients' accounts the amount of the fees paid to the depository.

In the event of refusal to pay the depository fees, the depository may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depository fees from any distribution to be made to such holder of ADSs.

The fees and charges that holders of our ADSs may be required to pay may vary over time and may be changed by us and by the depository. Holders of our ADSs will receive prior notice of such changes.

### **Fees and Payments from the Depository to Us**

In 2009, we received the following payments from the depository:

Reimbursement of NYSE listing fees:	\$ 69,479.67
Reimbursement of London Stock Exchange listing fees:	\$ 24,445.49
Reimbursement of Tokyo Stock Exchange fees:	\$ 46,587.99
Reimbursement of proxy process expenses (printing, postage and distribution):	\$ 84,522.78
Contributions toward our investor relations efforts:	\$165,078.78

In addition, as part of its service to us, the depository waives its fees for the standard costs associated with the administration of the ADS facility, associated operating expenses, investor relations advice and access to an internet-based tool used in our investor relations activities.

## **PART II**

### **Item 13. *Defaults, Dividend Arrearages and Delinquencies***

**Not applicable**

### **Item 14. *Material Modifications to the Rights of Security Holders and Use of Proceeds***

**Not applicable**

### **Item 15. *Controls and Procedures***

#### **a. Disclosure Controls and Procedures**

Our management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of December 31, 2009. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and that it is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

#### **b. Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed by, and under the supervision of, our principal executive, principal operating and principal financial officers, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management has completed an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2009 based on criteria in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2009.

KPMG Samjong Accounting Corp. (“KPMG Samjong”), an independent registered public accounting firm, which also audited our consolidated financial statements as of, and for the year ended December 31, 2009, as stated in their report which is included herein, has issued an attestation report on the effectiveness of our internal control over financial reporting.

### **c. Attestation Report of the Independent Registered Public Accounting Firm**

The attestation report of our independent registered public accounting firm on the effectiveness of our internal control over financial reporting is furnished in Item 18 of this Form 20-F.

### **d. Changes in Internal Control Over Financial Reporting**

There has been no change in our internal control over financial reporting that occurred during the year covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **Item 16. [Reserved]**

#### **Item 16A. Audit Committee Financial Expert**

At our annual general meeting of shareholders in February 2010, our shareholders elected the following three members to the audit committee: Park, Sang-Yong (committee chair), Sun, Wook and Lee, Chang-Hee. The board of directors has approved this newly elected audit committee. Park, Sang-Yong is an audit committee financial expert and is independent within the meaning of applicable SEC rules.

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

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

#### **Item 16C. Principal Accountant Fees and Services**

##### **Audit and Non-Audit Fees**

The following table sets forth the fees billed to us by our independent auditor, KPMG Samjong in 2008 and 2009:

	<b>For the Year Ended December 31,</b>	
	<b>2008</b>	<b>2009</b>
	<b>(In millions of Won)</b>	
Audit fees . . . . .	₩ 2,539	3,122
Audit-related fees . . . . .	—	—
Tax fees . . . . .	254	674
Other fees . . . . .	200	51
Total fees . . . . .	<u>₩ 2,993</u>	<u>3,847</u>

Audit fees in 2009 as set forth in the above table are the aggregate fees billed by KPMG Samjong, the Korean member firm of KPMG International, in connection with the audit of our annual

financial statements and the annual financial statements of other related companies and review of interim financial statements.

Audit-related fees in 2009 as set forth in the above table are the aggregate fees billed by KPMG Samjong for due diligence service related to an acquisition project, accounting advisory service on consolidation and general consultation on financial accounting and reporting standards.

Tax fees in 2009 as set forth in the above table are fees billed by KPMG Samjong for our tax compliance and tax planning, as well as tax planning and preparation of other related companies.

Other fees in 2009 as set forth in the above table are fees billed by KPMG Samjong primarily related to review of financial information on potential investment projects.

#### **Audit Committee Pre-Approval Policies and Procedures**

Our audit committee has not established pre-approval policies and procedures for the engagement of our independent auditors for services. Our audit committee expressly approves on a case-by-case basis any engagement of our independent auditors for audit and non-audit services provided to our subsidiaries or us.

#### **Item 16D. Exemptions from the Listing Standards for Audit Committees**

**Not applicable**

#### **Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The following table sets forth the repurchases of common shares by us or any affiliated purchasers during the fiscal year ended December 31, 2009:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share (In Won)</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans</b>
January 1 to January 31 . . . . .	—	—	—	—
February 1 to February 29 . . . . .	—	—	—	—
March 1 to March 31 . . . . .	—	—	—	—
April 1 to April 30 . . . . .	—	—	—	—
May 1 to May 31 . . . . .	—	—	—	—
June 1 to June 30 . . . . .	—	—	—	—
July 1 to July 31 . . . . .	—	—	—	—
August 1 to August 31 . . . . .	—	—	—	—
September 1 to September 30 . . . . .	—	—	—	—
October 1 to October 31 . . . . .	—	—	—	—
November 1 to November 30 . . . . .	—	—	—	—
December 1 to December 31 . . . . .	—	—	—	—
Total . . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

#### **Item 16F. Change in Registrant's Certifying Accountant**

**Not applicable**

#### **Item 16G. Corporate Governance**

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



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**NYSE Corporate Governance Standards**

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**Director Independence**

Independent directors must comprise a majority of the board

**Nomination/Corporate Governance Committee**

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

**Compensation Committee**

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

**Executive Session**

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

**Audit Committee**

Listed companies must have an audit committee that is composed of minimum of three directors and satisfy the requirements of Rule 10A-3 under the Exchange Act

**Shareholder Approval of Equity Compensation Plan**

Listed companies must allow their shareholders to exercise their voting rights with respect to any material revision to the company's equity compensation plan

**Corporate Governance Guidelines**

Listed companies must adopt and disclose corporate governance guidelines

**Code of Business Conduct and Ethics**

Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers

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**POSCO's Corporate Governance Practice**

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

The majority of our board of directors is independent (as defined in accordance with the New York Stock Exchange's standards), and 8 out of 13 directors are Outside Directors. Under our articles of incorporation, we may have up to five Inside Directors and eight Outside Directors.

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

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

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

We maintain an Audit Committee comprised of three Outside Directors who meet the applicable independence criteria set forth under Rule 10A-3 under the Exchange Act.

We currently have an Employee Stock Ownership Program. We previously provided a stock options program for officers and directors, as another equity compensation plan. However, during our annual shareholders' meeting in February 2006, our shareholders resolved to terminate the stock option program and amended our articles of incorporation to delete the provision allowing grant of stock options to officers and directors. Consequently, since February 24, 2006, we have not granted stock options to officers and directors. Matters related to the Employee Stock Ownership Program are not subject to shareholders' approval under Korean law.

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

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

## PART III

### Item 17. *Financial Statements*

Not applicable

### Item 18. *Financial Statements*

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**Item 19. Exhibits**

- 1.1 — Articles of Incorporation of POSCO (English translation)
- 2.1 — Form of Common Stock Certificate (including English translation) (incorporated by reference to Exhibit 4.3 to the Registrant's Registration Statement No. 33-81554)\*
- 2.2 — Form of Deposit Agreement (including Form of American Depositary Receipts) (incorporated by reference to the Registrant's Registration Statement (File No. 33-84318) on Form F-6)\*
- 2.3 — Letter from ADR Depositary to the Registrant relating to the Pre-release of American Depositary Receipts (incorporated by reference to the Registrant's Registration Statement (File No. 33-84318) on Form F-6)\*
- 8.1 — List of consolidated subsidiaries
- 12.1 — Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 12.2 — Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 13.1 — Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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## Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders  
POSCO:

We have audited the accompanying consolidated statements of financial position of POSCO and subsidiaries (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of POSCO and subsidiaries as of December 31, 2009 and 2008 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of Korea.

Accounting principles generally accepted in the Republic of Korea vary in certain significant respects from U.S. generally accepted accounting principles. Information relating to the nature and effect of such differences is presented in note 31 to the consolidated financial statements.

The accompanying consolidated financial statements as of and for the year ended December 31, 2009 have been translated into United States dollars solely for the convenience of the readers. We have audited the translation and, in our opinion, the consolidated financial statements expressed in Korean Won have been translated into United States dollars on the basis set forth in note 2 to the consolidated financial statements.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of POSCO's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 23, 2010 expressed an unqualified opinion on the effectiveness of POSCO's internal control over financial reporting.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea  
June 23, 2010

**Report of Independent Registered Public Accounting Firm  
On Internal Control Over Financial Reporting**

The Board of Directors and Shareholders  
POSCO:

We have audited POSCO's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). POSCO's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, POSCO maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control — Integrated Framework issued by the COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of POSCO and subsidiaries as of December 31, 2009, and the related consolidated statements of income, changes in equity and cash flows for the year then ended, and our report dated June 23, 2010 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea  
June 23, 2010



## Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders  
POSCO:

In our opinion, the consolidated statements of income, of changes in equity and of cash flows for the year ended December 31, 2007 present fairly, in all material respects, the results of operations and cash flows of POSCO and its subsidiaries for the year ended December 31, 2007, in conformity with accounting principles generally accepted in the Republic of Korea. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Accounting principles generally accepted in the Republic of Korea vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 31 to the consolidated financial statements.

/s/ Samil PricewaterhouseCoopers  
Seoul, Republic of Korea  
June 10, 2008

### Samil PricewaterhouseCoopers

LS Yongsan Tower, 191, Hangangno 2-ga, Yongsan-gu, Seoul 140-702, Korea (Yongsan P.O. Box 266, 140-600) [www.samil.com](http://www.samil.com)

Samil PricewaterhouseCoopers is the Korean network firm of PricewaterhouseCoopers International Limited (PwCIL). "PricewaterhouseCoopers" and "PwC" refer to the network of member firms of PwCIL. Each member firm is a separate legal entity and does not act as an agent of PwCIL or any other member firm.

**POSCO and Subsidiaries**  
**Consolidated Statements of Financial Position**  
**As of December 31, 2009 and 2008**

	2009	2008	(note 2) 2009
	(In millions of Korean Won and thousands of US dollar)		
<b>Assets</b>			
Cash and cash equivalents, net of government grants (note 3) . . . . .	₩ 2,196,731	2,490,264	\$ 1,881,407
Short-term financial instruments (note 3) . . . . .	5,820,447	1,827,450	4,984,966
Trading securities (note 4) . . . . .	505,811	1,238,261	433,206
Current portion of investment securities, net (note 7) . . . . .	56,463	51,501	48,358
Trade accounts and notes receivable, net of allowance for doubtful accounts and present value discount (note 5) . . . . .	5,145,022	5,894,093	4,406,495
Other accounts and notes receivable, net of allowance for doubtful accounts and present value discount (note 5) . . . . .	447,693	538,510	383,430
Advance payments . . . . .	588,354	1,033,513	503,900
Inventories (notes 6 and 30) . . . . .	5,152,839	8,661,721	4,413,188
Deferred income tax assets (note 25) . . . . .	404,401	109,578	346,353
Other current assets, net of allowance for doubtful accounts (note 11) . . . . .	316,389	352,742	270,975
<b>Total current assets</b> . . . . .	20,634,150	22,197,633	17,672,278
Property, plant and equipment (notes 8 and 30) . . . . .	47,506,269	42,230,169	40,687,110
Less accumulated depreciation . . . . .	(25,666,484)	(24,161,070)	(21,982,258)
Property, plant and equipment, net . . . . .	21,839,785	18,069,099	18,704,852
Investment securities, net (note 7) . . . . .	6,211,966	5,177,482	5,320,287
Intangible assets, net (notes 9 and 30) . . . . .	629,969	723,767	539,542
Long-term trade accounts and notes receivable, net of allowance for doubtful accounts and present value discount (note 5) . . . . .	15,685	23,264	13,434
Long-term loans receivable, net of allowance for doubtful accounts and present value discount (note 5) . . . . .	103,607	80,287	88,735
Deferred income tax assets (note 25) . . . . .	294,441	317,023	252,176
Guarantee deposits . . . . .	51,269	65,540	43,910
Long-term financial instruments (note 3) . . . . .	18,634	16,462	15,959
Other long-term assets, net of allowance for doubtful accounts and present value discount (note 11) . . . . .	512,242	290,725	438,712
<b>Total non-current assets</b> . . . . .	29,677,598	24,763,649	25,417,607
<b>Total assets</b> . . . . .	₩ 50,311,748	46,961,282	\$ 43,089,885

*See accompanying notes to consolidated financial statements.*

**POSCO and Subsidiaries**  
**Consolidated Statements of Financial Position**  
**As of December 31, 2009 and 2008**

	2009	2008	(note 2) 2009
	(In millions of Korean Won and thousands of US dollar)		
<b>Liabilities</b>			
Trade accounts and notes payable . . . . .	₩ 2,734,900	3,070,436	\$ 2,342,326
Short-term borrowings (note 12) . . . . .	3,225,801	3,254,355	2,762,762
Current portion of long-term debts, net of discount on debentures issued (note 12) . . . . .	786,887	770,142	673,936
Accrued expenses . . . . .	344,274	237,917	294,856
Other accounts and notes payable . . . . .	642,446	579,853	550,228
Withholdings . . . . .	200,894	126,538	172,057
Income tax payable . . . . .	393,719	2,083,472	337,204
Advances received . . . . .	811,644	597,514	695,139
Deferred income tax liabilities (note 25) . . . . .	71	—	62
Other current liabilities (note 15) . . . . .	134,182	289,165	114,922
<b>Total current liabilities</b> . . . . .	<b>9,274,818</b>	<b>11,009,392</b>	<b>7,943,492</b>
Long-term debts, net of current portion and discount on debentures issued (note 13) . . . . .	8,229,781	6,895,862	7,048,459
Accrued severance benefits, net (note 14) . . . . .	300,421	383,718	257,298
Deferred income tax liabilities (note 25) . . . . .	531,927	70,363	455,573
Other long-term liabilities (note 15) . . . . .	310,487	257,742	265,919
<b>Total non-current liabilities</b> . . . . .	<b>9,372,616</b>	<b>7,607,685</b>	<b>8,027,249</b>
<b>Total liabilities</b> . . . . .	<b>18,647,434</b>	<b>18,617,077</b>	<b>15,970,741</b>
<b>Parent shareholders' equity</b>			
Capital stock (notes 1 and 17) . . . . .	482,403	482,403	413,158
Capital surplus (note 18) . . . . .	4,446,032	4,319,083	3,807,838
Capital adjustments, net (note 21) . . . . .	(2,410,668)	(2,509,081)	(2,064,635)
Accumulated other comprehensive income (loss) . . . . .	455,471	(21,986)	390,091
Retained earnings (note 19) . . . . .	27,935,726	25,393,246	23,925,767
	30,908,964	27,663,665	26,472,219
<b>Non controlling interest</b> . . . . .	<b>755,350</b>	<b>680,540</b>	<b>646,925</b>
<b>Total shareholders' equity</b> . . . . .	<b>31,664,314</b>	<b>28,344,205</b>	<b>27,119,144</b>
<b>Total liabilities and shareholders' equity</b> . . . . .	<b>₩ 50,311,748</b>	<b>46,961,282</b>	<b>\$ 43,089,885</b>

See accompanying notes to consolidated financial statements.

**POSCO and Subsidiaries**  
**Consolidated Statements of Income**  
**For the years ended December 31, 2009, 2008 and 2007**

	2009	2008	2007	(note 2) 2009
	(In millions of Korean Won and thousands of US dollar except per share information)			
<b>Sales (note 30)</b> . . . . .	₩ 36,855,001	41,742,636	31,607,741	\$ 31,564,749
<b>Cost of goods sold (note 30)</b> . . . . .	31,037,425	32,562,339	24,902,663	26,582,241
Gross profit . . . . .	5,817,576	9,180,297	6,705,078	4,982,508
<b>Selling and administrative expenses (notes 24 and 30)</b> . . . . .	1,949,414	2,006,368	1,785,217	1,669,591
Operating income . . . . .	3,868,162	7,173,929	4,919,861	3,312,917
<b>Non-operating income (note 30)</b>				
Interest and dividend income . . . . .	351,553	362,309	234,841	301,090
Gain on foreign currency transactions . . . . .	814,758	1,078,243	158,346	697,806
Gain on foreign currency translation . . . . .	541,007	122,287	19,179	463,350
Gain on valuation of trading securities . . . . .	5,811	16,535	16,039	4,977
Gain on disposal of trading securities . . . . .	21,298	55,056	57,236	18,241
Gain on disposal of property, plant and equipment . . . . .	82,000	14,392	15,182	70,230
Gain on valuation of derivatives . . . . .	51,101	346,932	12,741	43,766
Gain on derivative transactions . . . . .	77,879	41,575	17,689	66,699
Equity in earnings of equity method accounted investees . . . . .	75,250	32,931	71,563	64,448
Gain on recovery of allowance for doubtful accounts . . . . .	7,736	19,116	41,124	6,625
Reversal of stock compensation expense . . . . .	—	55,155	—	—
Gain on disposal of other long-term assets . . . . .	234,314	48,141	26,442	200,680
Others . . . . .	99,686	177,204	148,125	85,378
	2,362,393	2,369,876	818,507	2,023,290
<b>Non-operating expenses (note 30)</b>				
Interest expense . . . . .	532,090	344,686	239,913	455,713
Other bad debt expense . . . . .	11,253	23,269	16,335	9,638
Loss on disposal of trading securities . . . . .	1,164	1,243	37	997
Loss on valuation of trading securities . . . . .	21	3,870	440	18
Loss on foreign currency transactions . . . . .	884,347	1,207,257	130,679	757,406
Loss on foreign currency translation . . . . .	105,219	933,086	65,432	90,116
Loss on derivative transactions . . . . .	67,697	103,739	6,312	57,979
Loss on valuation of derivatives . . . . .	94,346	288,655	3,617	80,803
Donations . . . . .	128,925	142,570	197,366	110,418
Loss on impairment of investments . . . . .	285,961	120,840	11,542	244,913
Loss on disposal of property, plant and equipment . . . . .	54,992	53,823	43,544	47,098
Loss on impairment of intangible assets . . . . .	50,493	45,890	—	43,245
Equity in losses of equity method accounted investees . . . . .	82,130	56,795	28,929	70,341
Others . . . . .	192,642	122,443	95,291	164,993
	2,491,280	3,448,166	839,437	2,133,677
Net income before income tax expense and net income (loss) of consolidated subsidiaries before acquisition . . . . .	3,739,275	6,095,639	4,898,931	3,202,530
<b>Income tax expense (note 25 and 30)</b> . . . . .	(535,996)	(1,733,983)	(1,274,226)	(459,058)
Net income (loss) of consolidated subsidiaries before acquisition (note 30) . . . . .	(39,032)	11,552	(53,259)	(33,429)
<b>Net income</b> . . . . .	₩ 3,242,311	4,350,104	3,677,964	\$ 2,776,901
Net income attributable to controlling interest . . .	₩ 3,218,425	4,378,751	3,558,660	\$ 2,756,444
Net income (loss) attributable to non controlling interest (note 30) . . . . .	₩ 23,886	(28,647)	119,304	\$ 20,457
Basic and diluted earnings per share (note 26) (in Korean Won and US Dollar) . . . . .	₩ 41,982	58,002	46,854	\$ 36

See accompanying notes to consolidated financial statements.

**POSCO and Subsidiaries**  
**Consolidated Statements of Changes in Equity**  
**For the years ended December 31, 2009, 2008 and 2007**

	Capital Stock	Capital Surplus	Capital Adjustments	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Non Controlling Interest	Total
				(In millions of Korean Won)			
<b>Balance as of January 1, 2007</b> . . . . .	₩ 482,403	4,035,273	(1,678,229)	209,754	18,863,333	489,208	22,401,742
Net income . . . . .	—	—	—	—	3,558,660	119,304	3,677,964
Effect of changes in scope of consolidation . . . . .	—	37	—	—	—	62,024	62,061
Effect of changes in percentage of ownership of investees . . . . .	—	(5,500)	—	—	—	—	(5,500)
Dividends . . . . .	—	—	—	—	(655,099)	—	(655,099)
Changes in treasury stock . . . . .	—	175,231	(1,045,274)	—	—	—	(870,043)
Gain on valuation of available-for-sale securities, net . . . . .	—	—	—	498,711	—	—	498,711
Changes in capital adjustments of equity method accounted investees . . . . .	—	—	—	(7,455)	—	—	(7,455)
Foreign currency translation adjustments . . . . .	—	—	—	87,957	—	—	87,957
Loss on valuation of derivatives . . . . .	—	—	—	(4,034)	—	—	(4,034)
Effect of changes in percentage of non controlling interest . . . . .	—	—	—	—	—	16,380	16,380
Others . . . . .	—	(28,449)	(3,644)	—	408	(53,259)	(84,944)
<b>Balance as of December 31, 2007</b> . . . . .	₩ 482,403	4,176,592	(2,727,147)	784,933	21,767,302	633,657	25,117,740

See accompanying notes to consolidated financial statements.

**POSCO and Subsidiaries**  
**Consolidated Statements of Changes in Equity**  
**For the years ended December 31, 2009, 2008 and 2007**

	Capital Stock	Capital Surplus	Capital Adjustments	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Non Controlling Interest	Total
			(In millions of Korean Won)				
<b>Balance as of January 1, 2008</b> . . . . .	₩ 482,403	4,176,592	(2,727,147)	784,933	21,767,302	633,657	25,117,740
Net income . . . . .	—	—	—	—	4,378,751	(28,647)	4,350,104
Effect of changes in scope of consolidation . . . . .	—	—	—	—	—	31,518	31,518
Effect of changes in percentage of ownership of investees . . . . .	—	20,194	—	—	—	—	20,194
Dividends . . . . .	—	—	—	—	(755,037)	—	(755,037)
Changes in treasury stock . . . . .	—	121,938	213,951	—	—	—	335,889
Unrealized loss on available-for-sale securities, net . . . . .	—	—	—	(1,276,043)	—	—	(1,276,043)
Changes in capital adjustments of equity method accounted investees . . . . .	—	—	—	37,575	—	—	37,575
Foreign currency translation adjustments . . . . .	—	—	—	438,314	—	—	438,314
Loss on valuation of derivatives . . . . .	—	—	—	(6,765)	—	—	(6,765)
Effect of changes in percentage of non controlling interest . . . . .	—	—	—	—	—	39,726	39,726
Others . . . . .	—	359	4,115	—	2,230	4,286	10,990
<b>Balance as of December 31, 2008</b> . . . . .	₩ 482,403	4,319,083	(2,509,081)	(21,986)	25,393,246	680,540	28,344,205

**POSCO and Subsidiaries**  
**Consolidated Statements of Changes in Equity**  
**For the years ended December 31, 2009, 2008 and 2007**

	Capital Stock	Capital Surplus	Capital Adjustments	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Non Controlling Interest	Total
			(In millions of Korean Won)				
<b>Balance as of January 1, 2009</b> . . . . .	₩ 482,403	4,319,083	(2,509,081)	(21,986)	25,393,246	680,540	28,344,205
Net income . . . . .	—	—	—	—	3,218,425	23,886	3,242,311
Effect of changes in scope of consolidation . . . . .	—	—	—	—	—	25,437	25,437
Effect of changes in percentage of ownership of investees . . . . .	—	9,607	—	—	—	—	9,607
Dividends . . . . .	—	—	—	—	(689,129)	—	(689,129)
Changes in treasury stock . . . . .	—	117,291	98,751	—	—	—	216,042
Unrealized gain on available-for-sale securities, net . . . . .	—	—	—	583,012	—	—	583,012
Changes in capital adjustments of equity method accounted investees . . . . .	—	—	—	10,002	—	—	10,002
Foreign currency translation adjustments . . . . .	—	—	—	(126,357)	—	—	(126,357)
Loss on valuation of derivatives . . . . .	—	—	—	10,800	—	—	10,800
Effect of changes in percentage of non controlling interest . . . . .	—	—	—	—	—	30,704	30,704
Others . . . . .	—	51	(338)	—	13,184	(5,217)	7,680
<b>Balance as of December 31, 2009</b> . . . . .	₩ 482,403	4,446,032	(2,410,668)	455,471	27,935,726	755,350	31,664,314

See accompanying notes to consolidated financial statements.



**POSCO and Subsidiaries**  
**Consolidated Statements of Changes in Equity**  
**For the years ended December 31, 2009, 2008 and 2007**

	Capital Stock	Capital Surplus	Capital Adjustments	Accumulated Other Comprehensive (Loss)	Retained Earnings	Non Controlling Interest	Total
	(In thousands of US dollar)						
<b>Balance as of January 1, 2009</b> . . . . .	\$ 413,158	3,699,112	(2,148,922)	(18,830)	21,748,241	582,854	24,275,613
Net income . . . . .	—	—	—	—	2,756,444	20,457	2,776,901
Effect of changes in scope of consolidation . . . . .	—	—	—	—	—	21,786	21,786
Effect of changes in percentage of ownership of investees . . . . .	—	8,228	—	—	—	—	8,228
Dividends . . . . .	—	—	—	—	(590,210)	—	(590,210)
Changes in treasury stock . . . . .	—	100,454	84,576	—	—	—	185,030
Unrealized gain on available-for-sale securities, net . . . . .	—	—	—	499,324	—	—	499,324
Changes in capital adjustments of equity method accounted investees . . . . .	—	—	—	8,566	—	—	8,566
Foreign currency translation adjustments . . .	—	—	—	(108,219)	—	—	(108,219)
Loss on valuation of derivatives . . . . .	—	—	—	9,250	—	—	9,250
Effect of changes in percentage of non controlling interest . . . . .	—	—	—	—	—	26,297	26,297
Others . . . . .	—	44	(289)	—	11,292	(4,469)	6,578
<b>Balance as of December 31, 2009</b> . . . . .	\$ 413,158	3,807,838	(2,064,635)	390,091	23,925,767	646,925	27,119,144

See accompanying notes to consolidated financial statements.

**POSCO and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**For the years Ended December 31, 2009, 2008 and 2007**

	2009	2008	2007	(note 2) 2009
	(In millions of Korean Won and thousands of US dollar)			
<b>Cash flows from operating activities</b>				
Net income	₩ 3,242,311	4,350,104	3,677,964	\$ 2,776,901
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization	2,552,777	2,379,291	2,126,729	2,186,346
Accrual of severance benefits	79,186	314,156	211,758	67,819
Provision for doubtful accounts, net	45,537	28,186	37,237	39,002
Loss (gain) on derivatives transaction, net	(10,182)	62,165	(11,377)	(8,720)
Loss (gain) on foreign currency translation, net	(462,724)	750,464	49,334	(396,303)
Loss on impairment of investments	285,961	120,840	11,542	244,913
Loss (gain) on disposal of property, plant and equipment, net	(27,008)	39,431	28,362	(23,132)
Loss on impairment of intangible assets, net	50,493	45,890	—	43,245
Gain on disposal of trading securities, net	(20,134)	(53,813)	(57,199)	(17,245)
Gain on valuation of trading securities, net	(5,790)	(12,665)	(15,599)	(4,959)
Gain on valuation of derivatives, net	43,245	(58,277)	(9,124)	37,037
Equity in earnings (losses) of equity method accounted investees, net	6,880	23,864	(42,634)	5,892
Other employee benefits	6,822	71,070	66,827	5,843
Net income (loss) of consolidated subsidiaries before acquisition	(39,032)	11,552	(53,259)	(33,429)
Stock compensation expense, net	36,100	(55,155)	123,881	30,919
Others	(62,605)	64,615	61,738	(53,619)
	2,479,526	3,731,614	2,528,216	2,123,609
<b>Changes in operating assets and liabilities</b>				
Decrease (increase) in trade accounts and notes receivable	713,418	(1,538,854)	(613,548)	611,012
Decrease (increase) in inventories	3,344,506	(3,393,710)	(461,226)	2,864,428
Decrease (increase) in other accounts and notes receivable	97,462	(222,706)	67,929	83,472
Increase in accrued income	(5,092)	(11,914)	(15,218)	(4,361)
Decrease (increase) in advance payments	426,459	(586,601)	(70,847)	365,244
Decrease (increase) in prepaid expenses	32,837	(11,468)	(23,658)	28,123
Increase (decrease) in trade accounts and notes payable	(296,400)	609,200	561,078	(253,854)
Increase in other accounts and notes payable	55,564	7,829	164,460	47,588
Increase (decrease) in advances received	247,127	215,491	(16,884)	211,654
Increase (decrease) in accrued expenses	110,736	94,716	(108,184)	94,841
Increase (decrease) in income tax payable	(1,677,482)	1,146,204	162,806	(1,436,693)
Deferred income tax, net	(23,475)	(432,528)	(20,127)	(20,105)
Payment of severance benefits	(144,007)	(125,374)	(64,975)	(123,336)
Increase in group severance insurance deposits	(19,913)	(141,807)	(147,366)	(17,054)
Increase (decrease) in other current liabilities	(107,223)	28,816	(13,055)	(91,831)
Others	156,500	(31,997)	(54,105)	134,036
	2,911,017	(4,394,703)	(652,920)	2,493,164
Net cash provided by operating activities	8,632,854	3,687,015	5,553,260	7,393,674

See accompanying notes to consolidated financial statements.

**POSCO and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**For the years Ended December 31, 2009, 2008 and 2007**

	2009	2008	2007	(note 2) 2009
	(In millions of Korean Won and thousands of US dollar)			
<b>Cash flows from investing activities</b>				
Acquisition of trading securities . . . . .	₩ (2,061,180)	(7,058,161)	(8,173,811)	\$ (1,731,055)
Acquisition of short-term financial instruments . .	(11,946,832)	(5,098,326)	(2,678,616)	(10,231,956)
Acquisition of available-for-sale securities . . . .	(553,486)	(1,357,622)	(1,179,114)	(474,038)
Acquisition of property, plant and equipment . . .	(6,406,503)	(4,093,313)	(2,892,247)	(5,486,899)
Acquisition of intangible assets . . . . .	(101,202)	(131,107)	(81,946)	(86,675)
Acquisition of other long-term assets . . . . .	(95,821)	(122,700)	(160,098)	(82,067)
Short-term loans provided . . . . .	(94,042)	(79,876)	(50,687)	(80,543)
Long-term loans provided . . . . .	(32,239)	(285,654)	(24,235)	(27,612)
Payment for business acquisition, net of cash acquired . . . . .	(80,380)	(279,031)	(1,335)	(68,842)
Disposal of trading securities . . . . .	2,823,359	7,008,770	9,064,842	2,383,829
Disposal of short-term financial instruments . . . .	7,934,977	5,045,613	1,705,169	6,795,972
Disposal of available-for-sale securities . . . . .	201,395	26,752	9,412	172,486
Disposal of long-term financial instruments . . . .	1,824	279,610	34,555	1,562
Disposal of interest in subsidiaries . . . . .	244,785	—	—	209,648
Disposal of property, plant and equipment . . . .	378,978	53,773	34,958	324,578
Collection on short-term loans . . . . .	29,655	191,251	108,221	25,398
Others . . . . .	39,783	97,252	21,220	34,075
Net cash used in investing activities . . . . .	(9,716,929)	(5,802,769)	(4,263,712)	(8,322,139)
<b>Cash flows from financing activities</b>				
Proceeds from short-term borrowings . . . . .	5,828,483	10,233,819	6,811,282	4,991,849
Proceeds from long-term debt . . . . .	2,695,932	3,454,625	1,054,138	2,308,952
Proceeds from other long-term liabilities . . . . .	96,279	49,851	37,060	82,459
Disposal of treasury stock . . . . .	249,124	364,753	406,991	213,365
Repayment of current portion of long-term debt . . . . .	(763,504)	(491,635)	(278,699)	(653,908)
Repayment of short-term borrowings . . . . .	(5,836,058)	(9,042,662)	(6,599,799)	(4,998,337)
Repayment of long-term debt . . . . .	(585,629)	(369,348)	(248,087)	(501,567)
Payment of cash dividends . . . . .	(689,129)	(755,037)	(655,099)	(590,210)
Acquisition of treasury stock . . . . .	—	(36,832)	(1,291,362)	—
Repayment of other long-term liabilities . . . . .	(60,651)	(38,145)	(94,072)	(51,945)
Others . . . . .	(72,749)	(252,807)	(143,209)	(62,307)
Net cash used in financing activities . . . . .	862,098	3,116,582	(1,000,856)	738,351
Effect of exchange rate changes on cash and cash equivalents . . . . .	(40,865)	141,536	30,901	(34,999)
Net increase in cash and cash equivalents from changes in consolidated subsidiaries . . . . .	(28,699)	55,519	36,815	(24,580)
Net increase in cash and cash equivalents . . .	(291,541)	1,197,883	356,407	(249,693)
<b>Cash and cash equivalents</b>				
Cash and cash equivalent at beginning of the year . . . . .	2,490,711	1,292,828	936,421	2,133,189
Cash and cash equivalent at end of the year (note 3) . . . . .	₩ 2,199,170	2,490,711	1,292,828	\$ 1,883,496

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

	2009	2008	2007	2009
	(In millions of Korean Won and thousands of US Dollar)			
Cash paid for interest . . . . .	₩ 487,472	319,224	229,113	\$ 417,499
Cash paid for income taxes . . . . .	2,266,055	1,028,588	1,107,888	1,940,780

*See accompanying notes to consolidated financial statements.*

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

#### 1. Consolidated Companies

General descriptions of POSCO, the controlling company, and its controlled subsidiaries (Collectively the “Company”), which consist of 30 domestic subsidiaries including POSCO Engineering & Construction Co., Ltd. and 50 foreign subsidiaries, whose accounts are included in the consolidated financial statements, and 35 equity-method investees, which are excluded from the consolidation, are as follows:

#### The Controlling Company

POSCO, the controlling company, is the largest steel producer in Korea which was incorporated on April 1, 1968, under the Commercial Code of the Republic of Korea, to manufacture and distribute steel rolled products and plates in the domestic and overseas markets. The shares of POSCO have been listed on the Korea Exchange since 1988. POSCO operates two plants (Pohang mill and Gwangyang mill) and one office in Korea, and seven overseas liaison offices.

As of December 31, 2009, POSCO’s shareholders are as follows:

	Number of Shares	Percentage of Ownership (%)
National Pension Service . . . . .	4,733,593	5.43
Nippon Steel Corporation <sup>(*1)</sup> . . . . .	4,394,712	5.04
Mirae Asset Investments Co., Ltd. . . . .	2,817,800	3.23
SK Telecom Co., Ltd. . . . .	2,481,310	2.85
Shinhan Financial Group Co., Ltd. <sup>(*2)</sup> . . . . .	2,297,551	2.64
Others . . . . .	70,461,869	80.81
	<u>87,186,835</u>	<u>100.00</u>

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

(\*2) Includes number of shares held by its subsidiaries.

As of December 31, 2009, the shares of POSCO are listed on the Korea Exchange, while its depository receipts are listed on the New York, London and Tokyo Stock Exchanges.

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

#### 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, 2009:

Subsidiaries	Primary Business	Number of Outstanding Shares	Number of Shares			Percentage of Ownership (%)	Percentage of Ownership of Subsidiaries (%)	Location
			POSCO	Subsidiaries	Total			
Domestic								
POSCO E & C Co., Ltd.	Engineering and construction	30,473,000	27,281,080	—	27,281,080	89.53	—	Pohang
Posteel Co.,Ltd.	Steel sales and service	18,000,000	17,155,000	—	17,155,000	95.31	—	Seoul
POSCON Co., Ltd.	Electronic control devices manufacturing	3,519,740	3,098,610	—	3,098,610	88.04	—	Pohang
POSCO Coated & Color Steel Co., Ltd.	Coated steel manufacturing	6,000,000	3,412,000	—	3,412,000	56.87	—	Pohang
POSCO Plant Engineering Co., Ltd. (formerly, POSCO Machinery & Engineering Co., Ltd.)	Steel work maintenance and machinery installation	1,700,000	1,700,000	—	1,700,000	100.00	—	Pohang
POSCO ICT Co., Ltd. (formerly, POSDATA Co., Ltd.)	Computer hardware and software distribution	81,551,600	50,440,720	—	50,440,720	61.85	—	Sungnam
POSCO Research Institute	Economic research and consulting	3,800,000	3,800,000	—	3,800,000	100.00	—	Seoul
Seung Kwang Co., Ltd.	Athletic facilities operation	3,945,000	2,737,000	1,208,000	3,945,000	100.00	POSCO E & C (30.62)	Suncheon
POSCO Architects Consultants Co., Ltd.	Architecture and consulting	300,000	300,000	—	300,000	100.00	—	Seoul
POSCO Specialty Steel Co., Ltd.	Specialty steel manufacturing	26,000,000	26,000,000	—	26,000,000	100.00	—	Changwon
POSCO Machinery Co., Ltd.	Steel work maintenance and machinery installation	1,000,000	1,000,000	—	1,000,000	100.00	—	Gwangyang
POSTECH Venture Capital Corp.	Investment in venture companies	6,000,000	5,700,000	—	5,700,000	95.00	—	Pohang
POSCO Refractories & Environment Co., Ltd. (POSREC)	Manufacturing and sellings	5,907,000	3,544,200	—	3,544,200	60.00	—	Pohang
POSCO Terminal Co., Ltd.	Transporting and warehousing	5,000,000	2,550,000	—	2,550,000	51.00	—	Gwangyang
Metapolis Co., Ltd.	Construction	10,560,000	4,229,280	—	4,229,280	40.05	POSCO E & C (40.05)	Seoul
POSMATE Co., Ltd. <sup>(*)</sup>	Facilities management	714,286	214,286	—	214,286	30.00	—	Seoul
Samjung Packing & Aluminum Co., Ltd.	Packing materials manufacturing	3,000,000	270,000	831,756	1,101,756	36.73	Posmate Co., Ltd. (27.73)	Pohang
POSCO Power Corp.	Generation of Electricity	40,000,000	40,000,000	—	40,000,000	100.00	—	Seoul
Postech 2006 Energy Fund <sup>(*)</sup>	Investment in new technology	570	—	126	126	22.11	POSTECH Venture Capital Corp (10.53) POSCO Power (11.58)	Seoul
POSCORE Co., Ltd.	Components manufacturing and sales	3,907,151	—	1,992,647	1,992,647	51.00	Posteel (51.00)	Cheonan
PHP Co., Ltd.	Rental houses construction and management	400,000	—	400,000	400,000	100.00	POSCO E & C (100.00)	Incheon

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

Subsidiaries	Primary Business	Number of Outstanding Shares	Number of Shares			Percentage of Ownership (%)	Percentage of Ownership of Subsidiaries (%)	Location
			POSCO	Subsidiaries	Total			
PNR Co., Ltd.	Steel by-products processing and sales	7,810,980	5,467,686	—	5,467,686	70.00	—	Pohang
Megaasset Co., Ltd.	Real estate rental and sales	2,000,000	—	2,000,000	2,000,000	100.00	POSCO E&C (100.00)	Cheonan
Daewoo Engineering Company	Construction and engineering service	5,000,000	—	4,612,947	4,612,947	92.26	POSCO E&C (92.26)	Sungnam
Universal Studio Resort Development Co., Ltd.	Resort development	1,482,000	—	462,000	462,000	31.17	POSCO E&C (24.42) POSCO ICT (6.75)	Hwaseong
PoHang Fuel Cell Co. Ltd. <sup>(2)</sup>	Generation of electricity	800,000	—	800,000	800,000	100.00	POSCO E&C (25.00) POSCON (25.00) POSCO Power (50.00)	Pohang
POSCO-AST Co., Ltd. <sup>(2)</sup> (formerly, Taihan ST Co., Ltd.)	Production of diverse stainless steel	4,000,000	3,400,000	—	3,400,000	85.00	—	Ansan
DaiMyung TMS Co., Ltd. <sup>(2)</sup>	Cold-rolling of stainless steel, nickel alloy	250,080	—	250,080	250,080	100.00	POSCO-AST (100.00)	Siheung
POS-HiMetal Co., Ltd. <sup>(2)</sup>	Ferromanganese manufacturing	2,000,000	1,300,000	—	1,300,000	65.00	—	Gwangyang
POSCO E&E <sup>(2)</sup>	Generation of electricity	3,480,000	3,480,000	—	3,480,000	100.00	—	Seoul
<b>Foreign</b>								
POSCO America Corporation (POSAM)	Steel trading	369,614	367,572	2,042	369,614	100.00	POSCAN (0.55)	USA
POSCO Australia Pty. Ltd. (POSA)	Steel sellings and mine development	761,775	761,775	—	761,775	100.00	—	Australia
POSCO Canada Ltd. (POSCAN)	Coal trading	1,099,885	—	1,099,885	1,099,885	100.00	Posteel (100.00)	Canada
POSCAN Elkview Coal Ltd.	Mine development	304,061	—	304,061	304,061	100.00	POSCAN (100.00)	Canada
POSCO Asia Co., Ltd. (POA)	Steel intermediate trading	9,360,000	9,360,000	—	9,360,000	100.00	—	China
VSC POSCO Steel Corporation (VPS) <sup>(3)</sup>	Steel manufacturing	—	—	—	—	50.00	Posteel(5.00) POSCO Specialty Steel (10.00)	Vietnam
Dalian POSCO — CFM Coated Steel Co., Ltd. <sup>(3)</sup>	Coated steel manufacturing	—	—	—	—	85.00	Posteel (15.00) POSCO-China (40.00)	China
POSCO-CTPC Co., Ltd. <sup>(3)</sup>	Steel service center	—	—	—	—	94.00	Posteel (84.00)	China
POSCO-JKPC Co., Ltd.	Steel service center	9,800	—	9,310	9,310	95.00	POSCO-Japan (95.00)	Japan
IBC Corporation <sup>(3)</sup>	Real estate rental	—	—	—	—	60.00	—	Vietnam
POSILILAMA Steel Structure Co., Ltd. <sup>(3)</sup>	Steel structure fabrication and sales	—	—	—	—	70.00	POSCO E&C (60.00) Posteel (10.00)	Vietnam
Zhangjiagang Pohang Stainless Steel Co., Ltd. (ZPSS) <sup>(3)</sup>	Stainless steel manufacturing	—	—	—	—	82.48	POSCO-China (23.88)	China
Guangdong Pohang Coated Steel Co., Ltd. <sup>(3)</sup>	Coated steel manufacturing	—	—	—	—	97.09	POSCO-China (10.04)	China
POSCO (Thailand) Co., Ltd.	Steel service center	14,857,921	12,721,734	2,136,187	14,857,921	100.00	Posteel (14.38)	Thailand

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

Subsidiaries	Primary Business	Number of Outstanding Shares	Number of Shares			Percentage of Ownership (%)	Percentage of Ownership of Subsidiaries (%)	Location
			POSCO	Subsidiaries	Total			
Myanmar-POSCO Steel Co., Ltd.	Specialty steel manufacturing and sales	19,200	13,440	—	13,440	70.00	—	Myanmar
Zhangjiagang POSHA Steel Port Co., Ltd. <sup>(*)</sup>	Stainless steel manufacturing	—	—	—	—	90.00	POSCO E&C (25.00) ZPSS (65.00)	China
POSCO-JOPC Co., Ltd.	Steel processing and sellings	4,900	—	2,785	2,785	56.84	POSCO-Japan (56.84)	Japan
POSCO Investment Co., Ltd.	Finance	5,000,000	5,000,000	—	5,000,000	100.00	—	China
POSCO-MKPC SDN. BHD.	Steel service center	56,550,200	25,269,900	14,315,238	39,585,138	70.00	Posteel (25.31)	Malaysia
Qingdao Pohang Stainless Steel Co., Ltd. <sup>(*)</sup>	Stainless steel manufacturing	—	—	—	—	100.00	ZPSS (20.00) POSCO-China (10.00)	China
POSCO (Suzhou) Automotive Processing Center Co., Ltd. <sup>(*)</sup>	Steel service center	—	—	—	—	100.00	POSCO-China (10.00)	China
POSEC-Hawaii Inc.	Construction and sales	18,400	—	18,400	18,400	100.00	POSCO E&C (100.00)	USA
POS-Qingdao Coil Center Co., Ltd. <sup>(*)</sup>	Steel service center	—	—	—	—	100.00	Posteel (100.00)	China
POS-Ore Pty. Ltd.	Iron ore mining and trading	17,500,001	—	17,500,001	17,500,001	100.00	POSA (100.00)	Australia
POSCO-China Holding Corp. <sup>(*)</sup>	Holding company	—	—	—	—	100.00	—	China
POSCO-Japan Co., Ltd.	Steel trading	90,438	90,438	—	90,438	100.00	—	Japan
POSCO E&C (Zhangjiagang) Engineering & Consulting Co., Ltd. <sup>(*)</sup>	Facilities manufacturing	—	—	—	—	100.00	POSCO E&C (100.00)	China
POS-CD Pty. Ltd.	Coal trading	12,550,000	—	12,550,000	12,550,000	100.00	POSA (100.00)	Australia
POS-GC Pty. Ltd.	Coal trading	11,050,000	—	11,050,000	11,050,000	100.00	POSA (100.00)	Australia
POSCO-India Private Ltd.	Coal trading	450,000,000	450,000,000	—	450,000,000	100.00	—	India
POS-India Pune Steel Processing Centre Pvt. Ltd.	Steel service center	115,062,471	74,787,138	—	74,787,138	65.00	—	India
POSCO-JNPC Co., Ltd.	Steel service center	99,000	—	89,100	89,100	90.00	POSCO-Japan (90.00)	Japan
POSCO-Foshan Steel Processing Center Co., Ltd. <sup>(*)</sup>	Steel service center	—	—	—	—	100.00	POA (24.20) POSCO-China (36.20)	China
POSCO E&C (Beijing) Co., Ltd. <sup>(*)</sup>	Construction and engineering	—	—	—	—	100.00	POSCO E&C (100.00)	China
POS-MPC S.A. de C.V. <sup>(*)</sup>	Steel service center	—	—	—	—	61.00	POSAM (61.00)	Mexico
Zhangjiagang Pohang Port Co., Ltd. <sup>(*)</sup>	Raw material and steel depot service	—	—	—	—	100.00	ZPSS (75.11) POSCO-China (24.89)	China
POSCO-Vietnam Co., Ltd. <sup>(*)</sup>	Cold-rolled steel manufacturing and sales	—	—	—	—	85.00	—	Vietnam
POSCO-Mexico Co., Ltd.	Cold-rolled steel manufacturing and sales	1,541,191,740	1,304,955,672	236,236,068	1,541,191,740	100.00	POSCAN (15.33)	Mexico
POSCO- India Delhi Steel Processing Centre Pvt. Ltd.	Steel service center	55,673,970	42,532,980	—	42,532,980	76.40	—	India



# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

Subsidiaries	Primary Business	Number of Outstanding Shares	Number of Shares			Percentage of Ownership (%)	Percentage of Ownership of Subsidiaries (%)	Location
			POSCO	Subsidiaries	Total			
POS-NP Pty. Ltd.	Coal trading	35,000,000	—	35,000,000	35,000,000	100.00	POSA (100.00)	Australia
POSCO-Vietnam Processing Center Co., Ltd. <sup>(*)3</sup>	Steel service center	—	—	—	—	86.86	—	Vietnam
POSCO (Chongqing) Automotive Processing Center Co., Ltd. <sup>(*)3</sup>	Steel service center	—	—	—	—	100.00	POSCO-China (10.00)	China
Suzhou pos-core Technology Co., Ltd. <sup>(*)3</sup>	Components manufacturing and sales	—	—	—	—	100.00	Posteel(15.15) POA(15.15) POSCORE (69.70)	China
POSCO-JYPC Co., Ltd.	Steel service center	99,000	—	81,550	81,550	82.37	POSCO-Japan (82.37)	Japan
POSCO-Malaysia SDN. BHD.	Steel service center	27,000,000	16,200,000	—	16,200,000	60.00	—	Malaysia
POS-Minerals Corporation	Mine development and operation	100	—	100	100	100.00	POSCAN (85.00) Samjung P&A (15.00)	USA
POSCO (Wuhu) Automotive Processing Center Co., Ltd. <sup>(*)3</sup>	Steel service center	—	—	—	—	100.00	POSCO-China (31.43)	China
&TV Communications <sup>(*)2</sup>	IPTV broadcasting & optional service	1,000,847	—	582,000	582,000	58.15	POSCO ICT (58.15)	USA
POSCO-Philippine Manila Processing Center Inc. <sup>(*)2,3)</sup>	Steel service center	—	—	—	—	100.00	Posteel (100.00)	Philippines
POSCO VST Co., Ltd. <sup>(*)2,3)</sup>	Stainless cold steel manufacturing	—	—	—	—	90.00	—	Vietnam

(\*1) These subsidiaries are included in the consolidated financial statements as the controlling company has control over them in consideration of board of directors and others.

(\*2) These subsidiaries are newly included in the consolidation.

(\*3) No shares have been issued in accordance with the local laws and regulations.

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

Summary of financial information of consolidated subsidiaries as of and for the year ended December 31, 2009 is as follows:

Subsidiaries	Summary of Financial Information				Net Income (Loss)
	Total Assets	Total Liabilities	Net Assets	Sales	
	(In millions of Korean Won) <sup>(*)</sup>				
<b>Domestic</b>					
POSCO E & C Co., Ltd. . . . .	4,431,218	2,559,531	1,871,687	6,675,711	304,908
Posteel Co., Ltd. . . . .	744,723	268,921	475,802	1,626,916	(13,912)
POSCON Co., Ltd. . . . .	375,418	189,700	185,718	524,583	23,690
POSCO Coated Steel Co., Ltd. . . . .	460,084	209,865	250,219	703,476	(19,244)
POSCO Plant Engineering Co., Ltd. (formerly, POSCO Machinery & Engineering Co., Ltd.) . . . . .	106,193	52,846	53,347	303,650	(3,432)
POSCO ICT Co., Ltd. (formerly, POSDATA Co., Ltd.) . . . . .	280,747	229,075	51,672	378,320	(71,203)
POSCO Research Institute . . . . .	26,309	2,698	23,611	19,662	239
Seung Kwang Co., Ltd. . . . .	77,629	34,604	43,025	15,642	3,080
POSCO Architects Consultants Co., Ltd. . . . .	57,089	14,886	42,203	77,879	4,749
POSCO Specialty Steel Co., Ltd. . . . .	972,260	342,882	629,378	1,271,037	64,994
POSCO Machinery Co., Ltd. . . . .	35,860	13,860	22,000	127,980	(5,803)
POSTECH Venture Capital Corp. . . . .	36,342	783	35,559	1,309	121
POSCO Refractories & Environment Co., Ltd. (POSREC) . . . . .	257,455	74,373	183,082	574,401	33,089
POSCO Terminal Co., Ltd. . . . .	53,181	6,373	46,808	54,593	9,156
Metapolis Co., Ltd. . . . .	482,199	364,155	118,044	254,205	14,158
POSMATE Co., Ltd. . . . .	59,804	17,096	42,708	82,199	6,265
Samjung Packing & Aluminum Co., Ltd. . . . .	165,141	96,525	68,616	303,350	3,933
POSCO Power Corp. . . . .	1,716,277	1,101,263	615,014	508,641	59,346
Postech 2006 Energy Fund . . . . .	27,011	97	26,914	527	(2,475)
POSCORE Co., Ltd. . . . .	98,122	45,017	53,105	186,705	11,030
PHP Co., Ltd. . . . .	614,085	619,863	(5,778)	—	(7,020)
PNR Co., Ltd. . . . .	169,890	133,000	36,890	358	(2,650)
Megaasset Co., Ltd. . . . .	144,307	140,298	4,009	12,611	(4,075)
Daewoo Engineering Company . . . . .	275,259	154,713	120,546	614,117	37,796
Universal Studio Resort Development Co., Ltd. . . . .	11,445	—	11,445	—	(3,302)
PoHang Fuel Cell Co. Ltd. . . . .	14,161	10,131	4,030	3,766	(217)
POSCO-AST Co., Ltd. . . . .	207,082	112,059	95,023	215,860	4,350
DaiMyung TMS Co., Ltd. . . . .	27,877	45,218	(17,341)	28,375	(3,648)

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

Subsidiaries	Summary of Financial Information				
	Total Assets	Total Liabilities	Net Assets	Sales	Net Income (Loss)
	(In millions of Korean Won) <sup>(c)</sup>				
POS-HiMetal Co., Ltd. . . . .	9,445	419	9,026	—	(974)
POSCO E&E . . . . .	17,303	—	17,303	—	(97)
<b>Foreign</b>					
POSCO America Corporation (POSAM) . . . . .	268,510	119,900	148,610	235,859	(21,852)
POSCO Australia Pty. Ltd. (POSA) . . . . .	618,989	288,428	330,561	90,233	48,423
POSCO Canada Ltd. (POSCAN) . . . . .	264,137	32,947	231,190	72,999	7,563
POSCAN Elkview Coal Ltd. . . . .	54,064	660	53,404	11,301	6,770
POSCO Asia Co., Ltd. (POA) . . . . .	185,217	153,494	31,723	1,370,147	2,786
VSC POSCO Steel Corporation (VSC) . . . . .	47,178	26,690	20,488	176,415	5,071
Dalian POSCO — CFM Coated Steel Co., Ltd. . . . .	50,919	45,868	5,051	21,042	(9,185)
POSCO-CTPC Co., Ltd. . . . .	62,981	48,372	14,609	146,527	755
POSCO-JKPC Co., Ltd. . . . .	86,759	73,894	12,865	52,573	(450)
IBC Corporation . . . . .	95,810	58,024	37,786	30,914	16,320
POSLILAMA Steel Structure Co., Ltd. . . . .	41,562	61,706	(20,144)	29,703	(3,280)
Zhangjiagang Pohang Stainless Steel Co., Ltd. (ZPSS) . . . . .	1,330,457	756,569	573,888	1,843,902	(18,282)
Guangdong Pohang Coated Steel Co., Ltd. . . . .	99,195	58,006	41,189	146,556	5,961
POSCO (Thailand) Co., Ltd. . . . .	120,628	88,664	31,964	161,197	(5,046)
Myanmar-POSCO Steel Co., Ltd. . . . .	18,088	10,001	8,087	25,728	3,384
Zhangjiagang POSHA Steel Port Co., Ltd. (ZPSP) . . . . .	14,884	4,938	9,946	1,627	(82)
POSCO-JOPC Co., Ltd. . . . .	51,753	49,088	2,665	35,832	(3,922)
POSCO Investment Co., Ltd. . . . .	484,194	395,898	88,296	16,385	2,533
POSCO-MKPC SDN. BHD. . . . .	96,157	55,365	40,792	106,443	470
Qingdao Pohang Stainless Steel Co., Ltd. . . . .	247,181	138,111	109,070	397,802	(15,585)
POSCO (Suzhou) Automotive Processing Center Co., Ltd. . . . .	163,487	102,085	61,402	298,586	10,354
POSEC-Hawaii Inc. . . . .	12,383	670	11,713	32,644	(1,287)
POS-Qingdao Coil Center Co., Ltd. . . . .	48,470	34,875	13,595	142,277	118
POS-Ore Pty. Ltd. . . . .	66,611	7,197	59,414	72,294	32,514
POSCO-China Holding Corp. . . . .	276,502	45,501	231,001	130,691	(3,424)
POSCO-Japan Co., Ltd. . . . .	616,423	519,210	97,213	887,165	1,749
POSCO E&C (Zhangjiagang) Engineering & Consulting Co., Ltd. . . . .	2,124	12	2,112	96	32

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

Subsidiaries	Summary of Financial Information				
	Total Assets	Total Liabilities	Net Assets	Sales	Net Income (Loss)
	(In millions of Korean Won) <sup>(*)</sup>				
POS-CD Pty. Ltd. . . . .	53,195	47,895	5,300	6,080	(4,025)
POS-GC Pty. Ltd. . . . .	27,106	4,665	22,441	16,625	3,261
POSCO-India Private Ltd. . . . .	113,568	708	112,860	—	—
POS-India Pune Steel Processing Centre Pvt. Ltd. . . . .	136,494	101,552	34,942	115,912	2,389
POSCO-JNPC Co., Ltd. . . . .	126,800	116,226	10,574	132,763	(1,249)
POSCO-Foshan Steel Processing Center Co., Ltd. . . . .	95,182	61,085	34,097	459,522	3,049
POSCO E&C (Beijing) Co., Ltd. . . . .	50,662	31,132	19,530	96,149	(1,263)
POS-MPC S.A. de C.V. . . . .	146,599	120,752	25,847	139,555	833
Zhangjigang Pohang Port Co., Ltd. . . . .	29,245	14,480	14,765	4,685	299
POSCO-Vietnam Co., Ltd. . . . .	712,055	498,221	213,834	87,865	(31,992)
POSCO-Mexico Co., Ltd. . . . .	372,578	268,949	103,629	82,870	(17,683)
POSCO-India Delhi Steel Processing Centre Pvt. Ltd. . . . .	64,718	53,185	11,533	79,976	3,770
POS-NP Pty. Ltd. . . . .	51,848	17,131	34,717	34,112	3,408
POSCO-Vietnam Processing Center Co., Ltd. . . . .	38,255	22,986	15,269	47,746	(21)
POSCO (Chongqing) Automotive Processing Center Co., Ltd. . . . .	69,869	59,554	10,315	81,921	1,203
Suzhou pos-core Technology Co., Ltd. . . . .	38,756	16,633	22,123	47,368	(2,481)
POSCO-JYPC Co., Ltd. . . . .	55,359	51,563	3,796	39,633	(5,674)
POSCO-Malaysia SDN. BHD. . . . .	62,546	89,667	(27,121)	77,678	(2,152)
POS-Minerals Corporation . . . . .	117,165	11	117,154	—	(243)
POSCO (Wuhu) Automotive Processing Center Co., Ltd. . . . .	58,354	39,495	18,859	88,006	1,863
&TV Communications. . . . .	6,102	501	5,601	472	(7,943)
POSCO-Phillippine Manila Processing Center Inc. . . . .	25,138	17,152	7,986	20,298	31
POSCO VST Co., Ltd. . . . .	105,542	64,476	41,066	87,926	(9,640)

(\*) Total assets, total liabilities and net assets of the Company's foreign subsidiaries are translated at the exchange rate at the end of the reporting period, and sales and net income (loss) are translated at the average exchange rate of the reporting period.

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

#### Equity-Method Investees

The following table sets forth certain information with regard to equity-method investees as of December 31, 2009:

Investees	Primary Business	Number of Outstanding Shares	POSCO	Number of Shares Subsidiaries	Total	Percentage of Ownership (%)	Percentage of Ownership of Subsidiaries (%)	Location
<b>Domestic</b>								
eNtoB Corporation	E-business	3,200,000	560,000	350,000	910,000	28.44	POSCO E&C (3.75) and Others	Seoul
MIDAS Information Technology Co., Ltd.	Engineering	3,402,000	—	866,190	866,190	25.46	POSCO E&C (25.46)	Seoul
Songdo New City Development Inc.	Real estate	4,456,000	—	1,332,344	1,332,344	29.90	POSCO E&C (29.90)	Seoul
Gail International Korea Ltd.	Real estate	285,304	—	85,306	85,306	29.90	POSCO E&C (29.90)	Seoul
SNNC Co., Ltd. <sup>(*)</sup>	Material manufacturing	37,000,000	18,130,000	—	18,130,000	49.00	—	Gwangyang
Chungju Enterprise City	Construction	8,000,000	—	2,008,000	2,008,000	25.10	POSCO E&C (22.00) POADATA (3.10)	Chungju
Taegisan Wind Power Corporation <sup>(*)</sup>	Wind power plant construction and management	5,000,000	—	2,500,000	2,500,000	50.00	POSCO E&C (50.00)	Hoengseong
KOREASOLARPARK Co., Ltd. <sup>(*)</sup>	Solar power plant construction and management	2,400,000	—	900,000	900,000	37.50	POSCO E&C (7.50) Postech 2006 Energy Fund (30.00)	Youngam
Cheongna IBT Co., Ltd. <sup>(*)</sup>	Multiplex development	6,200,000	—	388,740	388,740	6.27	POSCO E&C (6.27)	Incheon
Garolim Tidal Power Plant Co., Ltd. <sup>(*)</sup>	Generation of electricity	7,230,000	—	2,322,999	2,322,999	32.13	POSCO E&C (32.13)	Seosan
PSIB Co., Ltd. <sup>(*)</sup>	Non-resident building lease	200,000	—	98,000	98,000	49.00	POSCO E&C (49.00)	Seoul
<b>Foreign</b>								
KOBRASCO <sup>(*)</sup>	Facilities lease	4,021,438,370	2,010,719,185	—	2,010,719,185	50.00	—	Brazil
USS — POSCO Industries (UPI) <sup>(*)</sup>	Steel processing	—	—	—	—	50.00	POSAM (50.00)	USA
Poschrome (Proprietary) Limited	Material manufacturing	86,700	21,675	—	21,675	25.00	—	Republic of South Africa
POS-Hyundai Steel Manufacturing India Private Limited	Steel processing	23,455,600	2,345,558	4,573,842	6,919,400	29.50	Posteel (19.50)	India
POSVINA Co., Ltd. <sup>(*)</sup>	Steel manufacturing	—	—	—	—	50.00	—	Vietnam
PT POSMI Steel Indonesia (POSMI) <sup>(*)</sup>	Steel service center	12,600	1,193	3,579	4,772	37.87	Posteel (28.40)	Indonesia
POSCO Bioventures L.P. <sup>(*)</sup>	Investment in companies in the bio-tech industry	—	—	—	—	100.00	POSAM(100.00)	USA
CAML Resources Pty. Ltd. <sup>(*)</sup>	Material processing	9,715	—	3,239	3,239	33.34	POSA(33.34)	Australia
Nickel Mining Company SAS <sup>(*)</sup>	Material processing	6,601,426	3,234,698	—	3,234,698	49.00	—	New Caledonia
Liaoning Rongyuan Posco Refractories Co., Ltd. <sup>(*)</sup>	Manufacturing and sellings	—	—	—	—	35.00	POSREC (35.00)	China

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

Investees	Primary Business	Number of Outstanding Shares	Number of Shares			Percentage of Ownership (%)	Percentage of Ownership of Subsidiaries (%)	Location
			POSCO	Subsidiaries	Total			
POSK (PingHu) Steel Processing Center Co., Ltd. <sup>(*)3</sup>	Steel processing	—	—	—	—	20.00	—	China
Hubei Huaerliang POSCO Silicon Science & Technology Co., Ltd. <sup>(*)3</sup>	Material processing	—	—	—	—	30.00	POSCO-China (30.00)	China
POSCO Poland Wroclaw Steel Processing Center Co., Ltd.	Steel processing	100,000	30,000	—	30,000	30.00	—	Poland
Ah khanh New City Development <sup>(*)1,3)</sup>	Construction	—	—	—	—	50.00	POSCO E&C (50.00)	Vietnam
Henan Tsingpu Ferro Alloy Co., Ltd. <sup>(*)1,3)</sup>	Material processing	—	—	—	—	49.00	Zhangjiagang STS (49.00)	China
United Spiral Pipe, LLC. (USP) <sup>(*)1,3)</sup>	Steel pipe manufacturing and sales	—	—	—	—	35.00	POSAM (35.00)	USA
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd. <sup>(*)1,3)</sup>	Specialty steel manufacturing	—	—	—	—	34.00	POSCO-China (10.00)	China
BX Steel POSCO Cold Rolled sheet Co., Ltd. <sup>(*)3)</sup>	Steel manufacturing	—	—	—	—	25.00	—	China
POSS-SLPC s.r.o. <sup>(*)3)</sup>	Steel processing	—	—	—	—	30.00	—	Slovakia
Eureka Moly LLC. <sup>(*)3)</sup>	Material processing	—	—	—	—	20.00	POS-Mineral (20.00)	USA
POS UTEK Development <sup>(*)3)</sup>	Construction	—	—	—	—	25.00	POSCO E&C (25.00)	Russia
POSCO SAMSUNG Suzhou Steel Processing Center Co., Ltd. <sup>(*)3)</sup>	Steel processing	—	—	—	—	30.00	—	China
POSCO SeAH Steel Wire (Nantong) Co., Ltd. <sup>(*)3)</sup>	Steel processing	—	—	—	—	25.00	POSCO-China (25.00)	China
POS-JK LLC.	Steel processing	10,300	—	2,574	2,574	24.99	POSCO E&C (4.9) Posteel (20.08)	UAE

- (\*1) Although the Company owns over 30% equity interest in these investees, the Company is not their largest shareholder, excluding them from consolidation.
- (\*2) This investment is accounted for using equity method although the controlling company's percentage of ownership is below 20%, because it has 40% of voting rights of the investee and therefore is able to exercise significant influence on the investee.
- (\*3) No shares have been issued in accordance with the local laws and regulations.
- (\*4) Subsidiaries are not included in the consolidated financial statements as the controlling company has no control over these subsidiaries, although it is holding 100% of company's interest.

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

#### Subsidiaries or Investees Excluded from the Consolidated Financial Statements

Location	Investees	Country	Reason
Domestic . . .	Dakos Co. Ltd.	Korea	Small company
	POSBRO Co., Ltd.	Korea	Small company
	POSWITH Co., Ltd.	Korea	Small company
	POSFINE	Korea	Small company
	POMIC	Korea	Small company
	Pohang SFC Co., Ltd.	Korea	Small company
	HJ photovoltaics, Inc.	Korea	Small company
	Daewoo national car Gwangju selling Co., Ltd.	Korea	Small company
	Mapo high broad parking	Korea	Small company
	BASYS INDUSTRY CO., LTD.	Korea	Small company
	Pajoo & Viro	Korea	Small company
	Uitrans Co. Ltd.	Korea	Small company
	Universal Studios Resort Asset Management Coporation	Korea	Small company
	POSTECH BD Newundertaking fund	Korea	Small company
	AROMA POSTECH RENEWABLE ENERGY, CO., LTD.	Korea	Non-majority control
	Suwon Green Environment.Co., Ltd.	Korea	Non-majority control
	AsiaUnion Co.,Ltd.	Korea	Non-majority control
	Innovalley Co., Ltd.	Korea	Non-majority control
	Busan-Gimhae Light Rail Transit Co., Ltd.	Korea	Non-majority control
	Applied Science Corp.	Korea	Non-majority control
	SENTECH KOREA CORP.	Korea	Non-majority control
	Incheon-Gimpo Highway	Korea	Non-majority control
	Green Jangryang Co., Ltd.	Korea	Non-majority control
	Green Cheonan Co., Ltd.	Korea	Non-majority control
	Green Tongyeong Co., Ltd.	Korea	Non-majority control
Foreign . . .	DWEMEX,S.A.DE C.V.	Mexico	Small company
	POS MPC Servicios de C.V.	Mexico	Small company
	POSCO E&C SMART	Mexico	Small company
	POSCO MEXICO HUMAN TECH	Mexico	Small company
	POSCO MEXICO Logistics S.A. DE C.V. (POSCO-MESDC)	Mexico	Small company
	POSCO Engineering and Construction Venezuela C.A	Venezuela	Small company
	POSCO-Vietnam Hanoi Processing Centre LLC. (POSCO-VNPC)	Vietnam	Small company
	Europe Steel Distribution Center (POS-ESDC, Logistics, Trading and Investment d.o.o)	Slovenia	Small company
	POSCO South East Asia Pte. Ltd.	Singapore	Small company
	POSCO Gulf Logistics LLC.	UAE	Small company
	Vectus Limited	UK	Small company
	EUROTALY S.A.	Uruguay	Small company
	POSCO E&C India Private Ltd.	India	Small company
	POSCO India Chennai Steel Processing Centre Pvt. Ltd. (POSCO-ICPC)	India	Small company
	POSCO Maharashtra Steel Private Limited	India	Small company
	POSCO CORE India PVT. LTD.	India	Small company
	Dalian Poscon Dongbang Automatic Co., Ltd.	China	Small company
	San Pu Trading Co., Ltd.	China	Small company



# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

Location	Investees	Country	Reason
	Zhangjiagang BLZ Pohang International Trading Co., Ltd.	China	Small company
	Zhangjiagang Pohang Refractories Co., Ltd.	China	Small company
	Qingdao Posco Steel Processing Co., Ltd.	China	Small company
	POSDATA-CHINA	China	Small company
	POSCO (Liaoning) Automotive Processing Center Co., Ltd. (POSCO-CLPC)	China	Small company
	DAEWOO TECH THAILAND	Thailand	Small company
	POSCO-TNPC Celik Sanayi ve Ticaret A.S. (POSCO-TNPC)	Turkey	Small company
	POSA Cayman GP	Australia	Small company
	PT. MRI (PT. Motta Resources Indonesia)	Indonesia	Small company
	Yingkou Posrec Refractories Co., Ltd.	China	Non-majority control
	Miller Pohang Coal Company Pty Ltd. (MPCC)	Australia	Non-majority control
	PT.POSNESIA	Indonesia	Under liquidation

The above investees are accounted for using cost method in the consolidated financial statements.

### Changes in Scope of Consolidation in 2009

Investees	Location	Reason
POSCOAST Co., Ltd. . . . .	Ansan	The Company's ownership exceeded 50% through additional increase in paid in capital in 2009.
DaiMyung TMS Co., Ltd. . . . .	Siheung	The Company newly acquired more than 50% of interest related to this investment in 2009.
POS-HiMetal Co., Ltd. . . . .	Gwangyang	The Company made investments to establish.
POSCO E&E . . . . .	Seoul	The Company made investments to establish.
Pohang Fuel Cell Co., Ltd. . . . .	Pohang	The Company made investments to establish.
&TV Communications Inc. . . . .	USA	Total assets exceeded ₩10,000 million as of December 31, 2008.
POSCO Phillippine Manila Processing Center Inc. . . . .	Philippines	Total assets exceeded ₩10,000 million as of December 31, 2008.
POSCO VST CO., LTD. . . . .	Vietnam	The Company newly acquired more than 50% of interest related to this investment in 2009.

The total assets, shareholders' equity, sales, and net income of the consolidated financial statements as of and for the year ended December 31, 2009, increased by ₩428,428 million, ₩174,367 million, ₩356,697 million, and ₩37,271 million, respectively due to the changes in scope of consolidation.

### Subsidiaries Excluded from the Consolidated Financial Statements in 2009

Investees	Location	Reason
Shanghai Real Estate Development Co., Ltd. . . . .	China	Disposal of 100% shares

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

#### The Effect from Adjustment of Accounting Policy in Consolidated Subsidiaries

The effects to the financial statements of consolidated subsidiaries resulting from the application of accounting principles and estimates of the controlling company to its subsidiaries for the years ended December 31, 2009 and 2008 are as follows:

Investees	2009		
	Net Assets Value before Adjustment	Adjustment Amount	Net Assets Value after Adjustment
	(In millions of Korean Won)		
Posteel Co., Ltd. . . . .	₩ 475,802	₩ (576)	₩ 475,226
POSCON Co., Ltd. . . . .	185,718	2,333	188,051
POSCO Coated Steel Co., Ltd. . . . .	250,219	(48,974)	201,245
POSCO ICT Co., Ltd. (formerly, POSDATA Co., Ltd.) . . . . .	51,672	(32,970)	18,702
POSCO Refractories & Environment Co., Ltd. (POSREC) . . . . .	183,082	5,098	188,180
Samjung Packing & Aluminum Co., Ltd. . . . .	68,616	4,598	73,214
POSCO Power Corp. . . . .	615,014	(19,147)	595,867
PHP Co., Ltd. . . . .	(5,778)	(27,081)	(32,859)
POSCO Asia Co., Ltd. . . . .	31,723	(1,453)	30,270
Zhangjiagang Pohang Stainless Steel Co., Ltd. . . . .	573,888	(76,220)	497,668
POSCO Investment Co., Ltd. . . . .	88,296	(4,601)	83,695
Qingdao Pohang Stainless Steel Co., Ltd. . . . .	109,070	(12,441)	96,629
POSCO-Japan Co., Ltd. . . . .	97,213	(4,099)	93,114
POS-Qingdao Coil Center Co., Ltd. . . . .	13,595	(59)	13,536
POSCO-Vietnam Co., Ltd. . . . .	213,834	(9,440)	204,394
POSCO-Mexico Co., Ltd. . . . .	103,629	(16,172)	87,457

  

Investees	2008		
	Net Assets Value before Adjustment	Adjustment Amount	Net Assets Value after Adjustment
	(In millions of Korean Won)		
Posteel Co., Ltd. . . . .	451,564	(601)	450,963
POSCON Co., Ltd. . . . .	159,835	1,329	161,164
POSCO Coated Steel Co., Ltd. . . . .	216,853	(4,107)	212,746
POSCO Refractories & Environment Co., Ltd. (POSREC) . . . . .	154,729	5,544	160,273
Samjung Packing & Aluminum Co., Ltd. . . . .	56,808	3,775	60,583
POSCO Power Corp. . . . .	552,569	(7,910)	544,659
POSCO Asia Co., Ltd. . . . .	31,420	(352)	31,068
Zhangjiagang Pohang Stainless Steel Co., Ltd. . . . .	635,615	(71,419)	564,196
POSCO Investment Co., Ltd. . . . .	92,599	(3,915)	88,684
Qingdao Pohang Stainless Steel Co., Ltd. . . . .	132,733	(21,682)	111,051
POSCO-Japan Co., Ltd. . . . .	107,306	(1,097)	106,209
POS-Qingdao Coil Center Co., Ltd. . . . .	14,515	(34)	14,481
POSCO E&C (Beijing) Co., Ltd. . . . .	22,244	(275)	21,969

# **POSCO and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **December 31, 2009 and 2008**

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#### **2. Summary of significant accounting policies and basis of presenting financial statements**

The Company prepares the consolidated financial statements in accordance with generally accepted accounting principles in the Republic of Korea and applied the same accounting policies that were adopted in the previous year's consolidated financial statements.

The significant accounting policies followed by the Company in the preparation of the accompanying consolidated financial statements 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 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 derived and translated into English from the Korean language consolidated financial statements. Certain information attached to the Korean language consolidated financial statement, but not required for a fair presentation of POSCO and its subsidiaries' financial position, results of operations or cash flows, is not presented on the accompanying consolidated financial statements.

##### **Cash and Cash Equivalents**

Management considers short-term deposits with maturities of three months or less on the acquisition date to be cash equivalents. Government grants received before the grants are used for specific purposes from third parties are presented as a reduction of cash and cash equivalents.

##### **Revenue recognition**

The Company's revenue categories consist of goods sold, services rendered, construction contracts and other income. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing Company involvement with the goods.

Revenue from services provided is recognized by applying the percentage of completion method when the amount of revenue, the costs incurred, the costs to complete and stage of completion at the end of reporting period can be reliably measured, and it is probable that future economic benefits will flow into the Company.

Revenue from construction contracts are recognized when the outcome of the contract can be reliably measured. The percentage of completion is assessed by reference to costs incurred for work performed to date to the estimated total contract costs or surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognized immediately in the consolidated statement of income.

# **POSCO and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **December 31, 2009 and 2008**

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Other income is recognized when the revenue recognition process is completed, the amount of revenue is reliably measured and it is probable that future economic benefits will flow into the Company.

#### **Allowance for doubtful accounts**

Allowance for doubtful accounts is estimated based on an analysis of individual accounts and past experience of collection and presented as a deduction from trade accounts and notes receivable.

When the terms of trade accounts and notes receivable (the principal, interest rate or term) are modified, either through a court order, such as a reorganization, or by mutual formal agreement, resulting in a reduction in the present value of the future cash flows due to the Company, the difference between the carrying value of the relevant accounts and notes receivable and the present value of the future cash flows is recognized as bad debt expense.

#### **Inventories**

The costs of inventories are determined using the moving-weighted average method while materials-in-transit are determined using the specific identification method. Amounts of inventory are written down to net realizable value due to losses occurring in the normal course of business and the allowance is reported as a contra inventory account, while the related charge is recognized in cost of goods sold. Gains and losses pertaining to physical inventory adjustments are also included in cost of goods sold.

#### **Investments in Securities**

Upon acquisition, the Company classifies debt and equity securities (excluding investments in investees and joint ventures) into the following categories: held-to-maturity, available-for-sale or trading securities. This classification is reassessed at the end of each reporting period.

Investments in debt securities which the Company has the intent and ability to hold to maturity are classified as held-to-maturity securities. Securities that are acquired principally for the purpose of selling in the short term are classified as trading securities. Investments not classified as either held-to-maturity or trading securities are classified as available-for-sale securities.

A security is recognized initially at its acquisition cost, which includes the market value of the consideration given and any other transaction costs. After initial recognition, held-to-maturity securities are accounted for at amortized costs in the consolidated statements of financial position and trading and available-for-sale securities are accounted for at their fair values, however, non-marketable securities are accounted for at their acquisition costs if their fair values cannot be reliably estimated. The fair value of marketable securities is determined using quoted market prices as of the period end.

Trading securities are subsequently carried at fair value. Gains and losses arising from changes in the fair value of trading securities are included in the consolidated statement of income in the period in which they arise. Available-for-sale securities are subsequently carried at fair value.

Cumulative unrealized gains and losses arising from changes in the fair value of available-for-sale securities are recognized as accumulated other comprehensive income (loss), net of tax, directly in equity. Held-to-maturity investments are carried at amortized cost with interest income and expense recognized in the consolidated statement of income using the effective interest method.

# **POSCO and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **December 31, 2009 and 2008**

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Management reviews investments in securities whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. Impairment losses are recognized when the estimated recoverable amounts are less than the carrying amount and it is not obviously evidenced that impairment is unnecessary.

Trading securities are presented as current assets. Available-for-sale securities, which mature within one year from the end of the reporting period or where the likelihood of disposal within one year from the end of the reporting period is probable, are presented as current assets. Held-to-maturity securities, which mature within one year from the end of the reporting period, are presented as current assets.

#### **Equity method investments**

Investments in equity securities of companies, over which the Company has the ability to exercise a significant 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 adjustments, as adjustments to retained earnings or adjustments to equity in earnings or losses of equity method accounted investees, depending on the nature of the underlying change in the book value of the investee. When the Company's share of losses in an investee equals or exceeds its interest in the investee, including preferred stock or other long term loans and receivables issued by the investees, the Company does not recognize further losses, unless it has obligations or made payments on behalf of the investees. Gains and losses on transactions between the Company and its investees are eliminated to the extent of the Company's interest in each investee.

The excess of the acquisition cost of an investment in an investee over the Company's share of the fair value of the identifiable net assets acquired is amortized using the straight-line method over its estimated useful life, not exceeding 20 years. When acquisition cost of investments in an investee is less than the Company's interest on the fair value of the identifiable net assets acquired, such difference is recognized using the straight-line method as a gain over the weighted average period of useful lives of the depreciable and amortizable non-monetary assets. The remainder over the fair value of identifiable non-monetary assets is recognized as a gain in the period of acquisition. Also, the Company's interest on the difference between fair value and carrying value of identifiable assets and liabilities of an investee, at the time of acquisition, is depreciated or reversed in accordance with accounting policies of related assets or liabilities of an investee.

Foreign currency financial statements of equity method investees are translated into Korean won using the exchange rates in effect as of the end of the reporting period for assets and liabilities (the exchange rates on the acquisition date for capital accounts), and annual average exchange rates for income and expenses. Cumulated translation gains or losses are included in accumulated other comprehensive income, a component of shareholders' equity.

The Company's proportionate unrealized profit arising from sales by the Company to equity method investees, 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.

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

Property, plant and equipment are stated at cost except for certain assets subject to upward revaluations in accordance with the Asset Revaluation Law. Assets acquired by investment in kind or gift are stated at its fair value.

# **POSCO and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **December 31, 2009 and 2008**

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
Vehicles . . . . .	3-10 years
Tools . . . . .	4-10 years
Furniture and fixtures . . . . .	3-10 years
Capital lease asset <sup>(*)</sup> . . . . .	3-18 years

(\*) Capital lease asset is depreciated over the shorter of the lease term or the estimated useful lives of the asset.

The Company recognizes interest costs and other financial charges on borrowings associated with the production, acquisition, construction or development of property, plant and equipment as an expense in the period in which they are incurred.

Significant additions or improvements extending useful lives of assets are capitalized. Normal maintenance and repairs are charged to expense as incurred.

Management reviews property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized when the expected estimated undiscounted future net cash flows from the use of the asset and its eventual disposal are less than its carrying amount. However, if the recoverable amount of a tangible asset, for which impairment loss was recognized in prior periods, exceeds its carrying amount in subsequent periods, the amount of impairment loss recognized shall be reversed to the extent of an increased carrying amount of the asset that does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss was recognized in prior periods.

### **Leases**

The Company classifies and accounts for leases as either operating or capital, depending on the terms. Leases where the Company assumes substantially all of the risks and rewards of ownership are classified as capital leases. All other leases are classified as operating leases.

### **Intangible assets**

Intangible assets are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use. Intangible assets are stated net of accumulated amortization computed using the straight-line method and others over the estimated useful lives as described below.

	<b>Estimated Useful Lives</b>
Goodwill . . . . .	5-20 years
Negative goodwill . . . . .	5-10 years
Intellectual property rights . . . . .	5-10 years
Research and development cost <sup>(*)</sup> . . . . .	3-10 years
Port facilities usage rights <sup>(*)</sup> . . . . .	1-75 years
Long-term electricity supply contract rights <sup>(*)</sup> . . . . .	9-15 years
Other intangible assets . . . . .	2-25 years

# **POSCO and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **December 31, 2009 and 2008**

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- (\*1) The costs incurred in relation to the development of new products and new technologies, including the development cost of internally used software and related costs, are recognized as development costs only if it is probable that future economic benefits that are attributable to the asset will flow into the entity and the cost of the asset can be measured reliably. The useful life of development costs is based on its estimated useful life, not to exceed 20 years from the date when the asset is available for use.
- (\*2) As of December 31, 2009, 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 Gwangyang, Pohang, Pyeongtaek and Masan.
- (\*3) The Company recognized the electricity supply contract initially at fair value as an identifiable intangible asset when the Company acquired POSCO Power Corp. The electricity supply contract which was related to existing agreement of supplying electric power to Korea Electric Power Corporation met the criteria of recognizing identifiable intangible assets at acquisition date.

Management assesses the potential impairment of intangible assets 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 intangible asset 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.

#### **Discounts on debentures**

Discounts on debentures are amortized over the term of the debenture using the effective interest rate method. Amortization of the discount is recorded as interest expense.

#### **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 end of the reporting period. POSCO and its domestic subsidiaries have partially funded the accrued severance benefits through group severance insurance and the amounts funded under these insurance deposits are classified as a deduction from the accrued severance benefits liability. The Company made deposits to the National Pension Service in accordance with the National Pension Act of the Republic of Korea. Accordingly, accrued severance benefits in the accompanying consolidated statement of financial position are presented net of this deposit.

#### **Restructuring of receivables**

When the difference between the carrying value of receivables and the present value of future cash flows is material arising from variation of the terms of receivables (the principle, interest rate or term), either through a court order, such as a reorganization, or by mutual agreement, future cash flows expected to be earned are valued at their present value using an appropriate discount rate. The present value discounts are recovered using the effective interest rate method and are recognized as interest income.

#### **Foreign currency transactions and translation**

Monetary assets and liabilities denominated in foreign currencies are re-measured into Korean won at the exchange rates in effect at the end of the reporting period, and resulting translation gains and losses are recognized in the statement of income.



# **POSCO and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **December 31, 2009 and 2008**

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#### **Derivative financial instruments**

All derivative financial instruments are accounted for at their fair value according to the rights and obligations associated with the contracts. The resulting changes in fair value of derivative financial instruments are recognized either in the statement of income or shareholders' equity, depending on whether the derivative financial instruments qualify as cash flow hedge. The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges is recognized in shareholders' equity as accumulated other comprehensive income (loss).

Fair value hedge accounting is applied to a derivative financial instrument purchased with the purpose of hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment that is attributable to a particular risk. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

An embedded derivative financial instrument is separated from the host contract and accounted for as a derivative financial instrument when the economic characteristics and risks of the embedded derivative financial instrument are not clearly and closely related to the economic characteristics and risks of the host contract.

#### **Provisions and contingent liabilities**

A provision is a liability of uncertain timing or amount and shall be recognized when all of the following conditions are met:

- 1) An entity has a present obligation (legal or constructive) as a result of a past event;
- 2) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- 3) A reliable estimate can be made of the amount of the obligation

However, when such outflow is dependent upon a future event, is not certain to occur, or cannot be reliably estimated, only disclosure regarding the contingent liability is made in the notes to the consolidated financial statements.

#### **Treasury stock**

In accordance with the cost method, the acquisition cost of the Company's treasury stock is 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, with the remainder as a capital adjustment and then offset against retained earnings in accordance with the order of disposition of deficit.

#### **Sale of receivables**

The Company sells or discounts certain amounts of notes receivable to financial institutions and accounts for these transactions as a 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.

# **POSCO and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **December 31, 2009 and 2008**

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#### **Income tax and deferred income tax**

Income tax on the income or loss for the year comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current income tax is the expected tax payable on the taxable income for the year, using the enacted tax rates.

Deferred income tax is provided using the asset and liability method and is recognized for the future tax consequences attributable to the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The amount of deferred income tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of reporting period.

A deferred income tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the unused tax losses and credits can be utilized. Deferred income tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

#### **Use of estimates**

Generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at year-end and the reported amounts of revenues and expenses during the year. Significant items subject to such estimates and assumptions include useful lives, salvage values and recovery of property, plant and equipment; recoverability of goodwill and intangible assets; valuation allowances for receivables, inventories and realization of deferred income tax assets and fair values of derivatives. Actual results could differ materially from the estimates and assumptions used.

#### **Elimination of the investments of investing company and the stockholders' equity of the investees**

In eliminating the investment of the investing company and the stockholders' equity of the investee, the portion of the investee's stockholders' equity that belongs to non controlling interest is separately presented. The elimination of the investments of the investing company and the stockholders' equity of the investees are recorded as of the date of acquisition of controlling interest. The nearest closing date from acquisition of controlling interest is deemed to be acquisition date when acquisition date of interest of subsidiaries is different from closing date of subsidiaries.

#### **Elimination of inter-company transactions**

Inter-company transactions of the company are eliminated and related unrealized inter-company gains and losses are treated as follows:

##### **(a) Calculation of unrealized gains and losses**

Unrealized gains or losses to be eliminated with respect to Company's inventory, fixed assets and intangible assets are computed based upon average gross profit ratio of the concerned transaction. When the actual gross profit ratio is deemed materially different

# **POSCO and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **December 31, 2009 and 2008**

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from the average gross profit ratio, the actual gross profit ratio of the concerned transaction is used.

(b) Elimination of unrealized gains and losses

Unrealized gains or losses arising from downstream intercompany transactions are fully eliminated and it is attributed to the Company's investment. Unrealized gains or losses arising from upstream transactions are fully eliminated and it is attributed to the Company's investment proportionately to the equity interest of the company and non controlling interest.

#### **Translation of Foreign Subsidiary's Financial Statements**

In translation of subsidiary's financial statements denominated in foreign currencies, the statement of financial position items are translated at the exchange rates in effect at the end of the reporting period (but, historical exchange rates should be used for the equity items) and the profit and loss items are translated at the current year's average exchange rates. Differences arising in translation should be treated as translation gain or loss from foreign operation and it is proportionately attributed to the company's equity interest, recorded in accumulated other comprehensive income (loss), and non controlling interest by equity interest owned. For the cash flow statement items, the beginning cash balances are translated at the exchange rates in effect at the end of the reporting period in prior year, the ending cash balances are translated at the end of the reporting period in current year and the other items are translated at the current year's average exchange rates. Differences arising when translating the cash flow items are presented as effect of changes in exchange rate on cash and cash equivalents in the face of the consolidated statements of cash flows in translation should be treated as gain or loss on foreign currency translation.

#### **Reclassification**

Certain reclassifications have been made to the 2008 consolidated financial statements to conform to the 2009 presentation.

#### **US Dollar Convenience Translation**

The December 31, 2009 consolidated financial statements are expressed in Korean Won and have been translated into U.S. dollars at the rate of ₩1,167.6 to US\$1, at the Seoul Money Brokerage Services, Ltd., buying exchange rate in effect on December 31, 2009, solely for the convenience of the reader. These translations should not be construed as a representation that any or all of the amounts shown could be converted into U.S. dollars at this or any other rate.

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

#### 3. Cash and Cash Equivalents, and Financial Instruments

Cash and cash equivalents, and short-term and long-term financial instruments as of December 31, 2009 and 2008 are as follows:

	Annual Interest Rate (%)	2009	2008
	(In millions of Korean Won)		
<b>Cash and cash equivalents</b>			
Cash on hand and bank deposits . . . . .	0.00 ~ 3.00	₩ 165,307	74,657
Checking accounts . . . . .	0.00 ~ 2.00	7,427	3,160
Corporate bank deposits . . . . .	0.00 ~ 6.20	417,390	459,023
Time deposits . . . . .	0.36 ~ 5.00	529,564	598,000
Time deposits in foreign currency and others . . . . .	0.00 ~ 3.00	382,904	517,561
Maintained by overseas affiliates . . . . .	0.00 ~ 12.00	696,578	838,309
		2,199,170	2,490,710
Less: Government grants . . . . .		(2,439)	(446)
		₩ 2,196,731	2,490,264
<b>Short-term financial instruments</b>			
Time deposits . . . . .	1.60 ~ 5.00	₩ 2,962,298	1,049,535
Specified money in trust . . . . .	—	71,193	80,455
Certificates of deposit . . . . .	1.60 ~ 7.20	2,405,500	529,000
Commercial papers . . . . .	—	—	20,000
Others . . . . .	0.10 ~ 5.30	342,643	93,351
Maintained by overseas affiliates . . . . .	0.01 ~ 10.49	38,813	55,109
		₩ 5,820,447	1,827,450
<b>Long-term financial instruments</b>			
Installment accounts . . . . .	0.00 ~ 10.00	₩ 18,522	16,355
Guarantee deposits for opening accounts . . . . .	0.00 ~ 1.00	112	107
		₩ 18,634	16,462

The financial assets pledged as collateral include short-term financial instruments amounting to ₩22,343 million and ₩21,940 million as of December 31, 2009 and 2008, respectively, in relation to performance guarantee deposits, short-term borrowings, long-term debts and others; short-term financial instruments amounting to ₩10,667 million and ₩5,887 million as of December 31, 2009 and 2008, respectively, in relation to government-appropriated projects; and long-term financial instruments amounting to ₩112 million and ₩107 million as of December 31, 2009 and 2008, respectively, in relation to maintaining deposits for opening checking accounts.

#### 4. Trading Securities

Trading securities as of December 31, 2009 and 2008 are as follows:

	2009		2008
	Acquisition Cost	Fair Value	Book Value
	(In millions of Korean Won)		
Beneficiary certificates and others . . . . .	₩ 500,000	505,811	505,811
			1,238,261

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

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

(a) Accounts and notes receivable, and their allowance for doubtful accounts and present value discounts as of December 31, 2009 and 2008 are as follows:

	2009	2008
	(In millions of Korean Won)	
Trade accounts and notes receivable . . . . .	₩ 5,344,442	6,158,066
Less: Allowance for doubtful accounts . . . . .	(199,318)	(263,802)
Less: Present value discount . . . . .	(102)	(171)
	<u>₩ 5,145,022</u>	<u>5,894,093</u>
Other accounts and notes receivable . . . . .	₩ 470,701	555,902
Less: Allowance for doubtful accounts . . . . .	(23,008)	(17,153)
Less: Present value discount . . . . .	—	(239)
	<u>₩ 447,693</u>	<u>538,510</u>
Long-term trade accounts and notes receivable . . . . .	₩ 23,142	29,623
Less: Allowance for doubtful accounts . . . . .	(6,250)	(4,528)
Less: Present value discount . . . . .	(1,207)	(1,831)
	<u>₩ 15,685</u>	<u>23,264</u>
Long-term loans receivable . . . . .	₩ 125,029	97,793
Less: Allowance for doubtful accounts . . . . .	(21,395)	(17,448)
Less: Present value discount . . . . .	(27)	(58)
	<u>₩ 103,607</u>	<u>80,287</u>

(b) Accounts stated at present value under long-term deferred payment term and others as of December 31, 2009 are as follows:

	Face Value	Present Value Discount	Book Value	Maturity	Discount Rate (%)
	(In millions of Korean Won)				
Long-term loans receivable					
Riviera C.C . . . . .	372	27	345	2011	3.7
	<u>₩ 372</u>	<u>27</u>	<u>345</u>		
Long-term trade accounts and notes receivable					
BNG Steel Co., Ltd. (*) . . . . .	₩ 4,680	72	4,608	2010	8.6
DK Dongsin Co., Ltd. (*) . . . . .	6,609	208	6,401	2011	4.7
Others . . . . .	21,968	1308	20,660	2011~2016	4.7-6.5
	<u>₩ 33,257</u>	<u>1,588</u>	<u>31,669</u>		

(\*) Discount at present value incurred from restructured receivables under work-out plans is presented as allowance for doubtful accounts.

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

(c) Valuation and qualifying accounts for allowance for doubtful accounts for the years ended December 31, 2009, 2008 and 2007 are as follows:

Description	Balance at Beginning of Period	Additions		Deductions <sup>(*)</sup>	Balance at the End of Period
		Charged to Costs and Expenses	Change in Scope of Consolidation		
(In millions of Korean Won)					
Year ended December 31, 2009:					
Reserves deducted in the statement of financial position from the assets to which the apply:					
Allowance for doubtful accounts . . . . .	₩ 340,325	₩ 45,538	₩ 2,808	₩ 103,776	₩ 284,895
Year ended December 31, 2008:					
Reserves deducted in the statement of financial position from the assets to which the apply:					
Allowance for doubtful accounts . . . . .	341,766	28,186	1,072	30,699	340,325
Year ended December 31, 2007:					
Reserves deducted in the statement of financial position from the assets to which the apply:					
Allowance for doubtful accounts . . . . .	385,755	37,237	—	81,226	341,766

(\*) Deduction for allowance for doubtful accounts includes amount written off as uncollectible and others.

## 6. Inventories

Inventories as of December 31, 2009 and 2008 are as follows:

	2009	2008
	(In millions of Korean Won)	
Finished goods . . . . .	₩ 8 77,850	2,003,646
By-products . . . . .	28,756	41,841
Semi-finished goods . . . . .	1,585,425	2,389,245
Raw materials . . . . .	1,124,060	2,077,569
Fuel and materials . . . . .	566,344	563,136
Materials-in-transit . . . . .	1,036,108	1,698,042
Others . . . . .	11,186	8,251
	5,229,729	8,781,730
Less: Provision for valuation loss . . . . .	(76,890)	(120,009)
	₩ 5,152,839	8,661,721

Loss on valuation of inventories for the years ended December 31, 2009 and 2008 amounted to ₩76,890 million and ₩120,009 million, respectively.

**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2009 and 2008**

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**7. Investment Securities**

Investment securities, net of current portion, as of December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
	<u>(In millions of Korean Won)</u>	
Available-for-sale securities . . . . .	₩ 5,292,591	4,257,625
Held-to-maturity securities . . . . .	91,792	87,321
Equity-method investments . . . . .	827,583	832,536
	<u>₩ 6,211,966</u>	<u>5,177,482</u>

**Available-for-Sale Securities**

(a) Available-for-sale securities as of December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
	<u>(In millions of Korean Won)</u>	
Current portion of available-for-sale securities		
Investments in bonds . . . . .	₩ 35,746	30,888
Available-for-sale securities		
Marketable equity securities . . . . .	3,973,531	2,917,595
Non-marketable equity securities . . . . .	1,174,866	1,306,739
Investments in bonds . . . . .	120,048	8,467
Equity investments . . . . .	24,146	24,824
	<u>5,292,591</u>	<u>4,257,625</u>
	<u>₩ 5,328,337</u>	<u>4,288,513</u>



# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

(b) Investments in marketable equity securities as of December 31, 2009 and 2008 are as follows:

Company	2009			2008		
	Number of Shares	Percentage of Ownership	Acquisition Cost	Fair Value	Book Value <sup>(*)</sup>	Book Value
			(In millions of Korean Won)			
SK Telecom Co., Ltd. <sup>(*)</sup>	4,372,096	5.41	₩ 1,222,528	₩ 743,845	₩ 743,845	₩ 891,835
Hana Financial Group Inc.	4,663,776	2.20	29,998	153,438	153,438	90,943
Hyundai Heavy Industries Co., Ltd.	1,477,000	1.94	343,505	256,260	256,260	294,661
Hanil Iron & Steel Co., Ltd.	206,798	10.14	2,413	2,575	2,575	1,596
HI Steel Co., Ltd.	135,357	9.95	1,609	1,895	1,895	1,766
Munbae Steel Co., Ltd.	1,849,380	9.02	3,588	5,419	5,419	3,921
Dong Yang Steel Pipe Co., Ltd.	1,564,250	2.06	3,911	1,877	1,877	1,400
Korea Line Corp.	—	—	—	—	—	14,347
Shinhan Financial Group Inc.	4,369,881	0.92	228,778	188,779	188,779	113,326
SeAH Steel Corp.	610,103	10.17	18,792	22,055	22,055	23,490
Union Steel Co., Ltd.	1,005,000	9.80	40,212	22,110	22,110	14,472
Hanjin Shipping Co., Ltd.	57,226	0.08	2,354	1,185	1,185	1,236
Hanjin Shipping Holdings Co., Ltd.	11,033	0.08	298	151	151	—
KB Financial Group Inc.	13,115,837	3.39	574,524	783,015	783,015	282,402
LG Powercom Corporation <sup>(*)</sup>	6,300,000	4.70	246,000	36,793	36,793	39,000
DC Chemical Co., Ltd.	3,404	—	149	744	744	749
Korea Semiconductor System Co., Ltd.	328,857	6.13	617	671	671	401
Aromasoft Corp Co., Ltd.	150,000	2.21	143	603	603	877
i-Components Co., Ltd.	39,500	0.82	119	277	277	290
Nippon Steel Corporation <sup>(*)</sup>	238,352,000	3.50	719,622	1,128,734	1,128,734	963,486
Thainox Stainless Public Company Limited	1,200,000,000	15.00	42,301	67,658	67,658	40,299
Macarthur Coal Limited <sup>(*)</sup>	21,215,700	8.34	420,805	249,431	249,431	55,927
Murchison Metals Ltd.	50,567,000	12.25	27,146	132,139	132,139	27,737
Cockatoo Coal Ltd.	73,595,835	19.99	31,352	33,389	33,389	21,129
Sandfire Resources NL	19,033,666	18.20	6,897	73,598	73,598	1,292
Jupiter Mines Limited	48,000,000	13.00	8,159	9,531	9,531	—
Silicon Motion Technology Corp.	136,925	0.42	3,052	545	545	394
FuelCell Energy, INC.	10,786,418	12.80	57,156	47,354	47,354	18,651
Others	—	—	14,049	9,460	9,460	11,968
			₩ 4,050,077	₩ 3,973,531	₩ 3,973,531	₩ 2,917,595

(\*) Certain portions of those investments have been pledged as collateral. (note 10)

(\*) In October 2009, LG Powercom & LG Telecom announced their decision to exchange shares in 2010. By December 31, 2009, the Company recorded an impairment loss because the estimated recoverable amount of the investment in LG Powercom is less than the carrying value.

(\*) In 2008, the Company recognized excess of the acquisition cost of MacArthur Coal Limited over the fair value at the acquisition date amounting to ₩96,785 million as impairment losses.

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

(c) Investments in non-marketable equity securities as of December 31, 2009 and 2008 are as follows:

Company	Number of Shares	Percentage of Ownership (%)	2009		2008	
			Acquisition Cost	Book Value	Book Value	
			(In millions of Korean Won)			
Busan Gimhae Light Rail Transit Co., Ltd. <sup>(*1,2)</sup>	9,160,000	25.00	₩ 45,800	₩ 76,294	₩ 45,800	
Seoul Metro Line 9 Corporation	4,090,985	12.25	20,455	30,444	20,455	
Sinbundang Railroad Co., Ltd. <sup>(*1)</sup>	2,061,000	5.00	10,305	17,500	11,114	
U-Space Co., Ltd.	2,800,000	10.00	14,000	14,000	14,000	
Dream Hub Project Financial Investment Co., Ltd.	2,400,000	1.20	12,000	12,000	12,000	
Enk Co., Ltd.	500,000	9.70	10,000	10,000	10,000	
POSCO-AST Co., Ltd. <sup>(*3)</sup> (formerly, Taihan ST Co., Ltd.)	—	—	—	—	13,930	
Airport Railroad Co., Ltd.	—	—	—	—	179,026	
Nacional Minerios S.A. (formerly, Big Jump Energy Participacoes S.A) <sup>(*1)</sup>	30,784,625	6.48	668,636	535,357	667,824	
The Siam United Steel <sup>(*1)</sup>	11,071,000	12.30	34,658	65,135	58,367	
POSCO Maharashtra Steel Private Limited <sup>(*4)</sup>	1,138,500	100.00	63,872	63,872	—	
Elkview mine <sup>(*5)</sup>	—	2.50	32,723	32,723	30,692	
POSCO-Turkey Nilufer Processing Center Co., Ltd. <sup>(*4,5)</sup>	—	100.00	19,983	19,983	—	
POSCO (Liaoning) Automotive Processing Center Co., Ltd. <sup>(*4,5)</sup>	—	90.00	16,952	16,952	—	
POSCO India Chennai Steel Processing Centre Pvt. Ltd. <sup>(*4,5)</sup>	—	100.00	14,925	14,925	—	
Pallinghurst Kalahari (Mauritius) Limited	175,715	7.58	12,558	12,558	—	
Others	—	—	249,691	253,123	243,531	
			₩ 1,226,558	₩ 1,174,866	₩ 1,306,739	

(\*1) The fair values of those investments were based on the valuation report of a public rating services company. Other non-marketable investments are recorded at cost since fair value is not readily determinable.

(\*2) This investment was not accounted for using the equity method even though the Company owns equity interest of more than 20% since it is established pursuant to Private Finance Law related to social infrastructure capital and the Company does not have ability to exercise significant influence on the investee.

(\*3) This investment was reclassified to consolidated subsidiaries from available-for-sale securities since its total assets were greater than ₩10 billion as of December 31, 2008 through additional increase in paid in capital.

(\*4) Those investments were not accounted for using the equity method as either they are under liquidation proceedings as of December 31, 2009 or their total assets were less than ₩10 billion as of December 31, 2008.

(\*5) No shares have been issued in accordance with the local laws or regulations.

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

(d) Available-for-sale securities are stated at fair value, and the difference between the acquisition cost and fair value is accounted for in the accumulated other comprehensive income. The movements of such differences for the years ended December 31, 2009 and 2008 are as follows:

Company	2009			2008		
	Beginning Balance	Increase (Decrease)	Ending Balance	Beginning Balance	Increase (Decrease)	Ending Balance
(In millions of Korean Won)						
SK Telecom Co., Ltd. . . . .	₩ (247,137)	₩ (126,237)	₩ (373,374)	₩ (98,383)	₩ (148,754)	₩ (247,137)
Hana Financial Group Inc. . . . .	47,537	48,746	96,283	148,666	(101,129)	47,537
Hyundai Heavy Industries Co., Ltd. . . . .	(38,098)	(29,954)	(68,052)	224,798	(262,896)	(38,098)
Hanil Iron & Steel Co., Ltd. . . . .	(809)	763	(46)	2,464	(3,273)	(809)
HI Steel Co., Ltd. . . . .	123	100	223	595	(472)	123
Munbae Steel Co., Ltd. . . . .	90	1,168	1,258	3,365	(3,275)	90
Dong Yang Steel Pipe Co., Ltd. . . . .	(1,958)	372	(1,586)	(782)	(1,176)	(1,958)
Korea Line Corp. . . . .	4,898	(4,898)	—	20,155	(15,257)	4,898
Shinhan Financial Group Inc. . . . .	(82,790)	51,591	(31,199)	(11,114)	(71,676)	(82,790)
SeAH Steel Corp. . . . .	3,664	(1,119)	2,545	5,246	(1,582)	3,664
Union Steel Co., Ltd. . . . .	(20,077)	5,958	(14,119)	(12,031)	(8,046)	(20,077)
Hanjin Shipping Co., Ltd. . . . .	(1,105)	69	(1,036)	—	(1,105)	(1,105)
Hanjin Shipping Holdings Co., Ltd. . . . .	—	10	10	—	—	—
KB Financial Group Inc. . . . .	(13,843)	176,467	162,624	—	(13,843)	(13,843)
LG Powercom Corporation . . . . .	(161,460)	161,460	—	(92,314)	(69,146)	(161,460)
Nippon Steel Corporation . . . . .	190,214	128,893	319,107	474,780	(284,566)	190,214
Thainox Stainless Public Company Limited . . . . .	(1,562)	21,341	19,779	2,858	(4,420)	(1,562)
Macarthur Coal Limited . . . . .	(209,113)	150,934	(58,179)	—	(209,113)	(209,113)
The Siam United Steel . . . . .	18,493	5,278	23,771	—	18,493	18,493
Nacional Minerios S.A. (formerly, Big Jump Energy Participacoes S.A) . . . . .	—	(103,957)	(103,957)	—	—	—
Others . . . . .	17,374	96,027	113,401	112,181	(94,807)	17,374
	<u>₩ (495,559)</u>	<u>₩ 583,012</u>	<u>₩ 87,453</u>	<u>₩ 780,484</u>	<u>₩ (1,276,043)</u>	<u>₩ (495,559)</u>

(e) Investments in bonds as of December 31, 2009 and 2008 are as follows:

		2009		2008	
	Maturity	Acquisition Cost	Book Value	Book Value	
		(In millions of Korean Won)			
Government bonds	Less than 1 year	₩ 568	₩ 568	₩	494
	1-5 years	4,936	4,414		97
Corporate debt securities	Less than 1 year	35,112	35,178		30,394
	1-5 years	116,333	115,634		8,370
Less: Current portion		156,949	155,794		39,355
		(35,680)	(35,746)		(30,888)
		₩ 121,269	₩ 120,048	₩	8,467

**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2009 and 2008**

(f) Equity investments as of December 31, 2009 and 2008 are as follows:

	2009		2008
	Acquisition Cost	Book Value	Book Value
(In millions of Korean Won)			
Constructor financial fund . . . . .	₩ 15,029	₩ 17,876	₩ 17,676
Others . . . . .	5,974	6,270	7,148
	<u>₩ 21,003</u>	<u>₩ 24,146</u>	<u>₩ 24,824</u>

(g) Details of gross unrealized gains and losses on available-for-sale securities for the years ended December 31, 2009 and 2008 are as follows:

	2009				2008			
	Amortized Cost <sup>(*)</sup>	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost <sup>(*)</sup>	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In millions of Korean Won)								
<b>Debt Securities:</b>								
Government and municipal bonds . . . . .	₩ 5,504	₩ —	₩ 522	₩ 4,982	₩ 591	₩ —	₩ —	₩ 591
Other bonds . . . . .	151,445	—	633	150,812	38,764	—	—	38,764
	<u>156,949</u>	<u>—</u>	<u>1,155</u>	<u>155,794</u>	<u>39,355</u>	<u>—</u>	<u>—</u>	<u>39,355</u>
<b>Equity Securities:</b>								
Marketable Equity Securities . . . . .	3,744,085	948,334	(718,888)	3,973,531	3,611,012	322,218	(1,015,635)	2,917,595
Non-marketable Equity Securities . . . . .	1,179,887	137,002	(142,023)	1,174,866	1,239,895	108,445	(41,600)	1,306,739
Investment in capital . . . . .	21,003	3,143	—	24,146	20,567	4,257	—	24,824
	<u>4,944,975</u>	<u>1,088,479</u>	<u>(860,911)</u>	<u>5,172,543</u>	<u>4,871,474</u>	<u>434,920</u>	<u>(1,057,235)</u>	<u>4,249,158</u>
	<u>₩ 5,101,924</u>	<u>₩ 1,088,479</u>	<u>₩ (859,756)</u>	<u>₩ 5,328,337</u>	<u>₩ 4,910,829</u>	<u>₩ 434,920</u>	<u>₩ (1,057,235)</u>	<u>₩ 4,288,513</u>

(\*) Acquisition cost less impairment loss

For the years ended December 31, 2009, 2008 and 2007, proceeds from sales of available-for-sale securities amounted to ₩201,395 million, ₩26,752 million and ₩9,412 million, respectively. Gross realized gains and losses amounted to ₩72,668 million and ₩7,436 million, respectively, for the years ended December 31, 2009 and 2008.

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

#### Held-To-Maturity Securities

(a) Held-to-maturity securities as of December 31, 2009 and 2008 are as follows:

		2009		2008
	Maturity	Acquisition Cost	Book Value	Book Value
(In millions of Korean Won)				
Current portion of held-to-maturity securities				
Government bonds	Less than 1 year	₩ 20,717	₩ 20,717	₩ 20,613
Held-to-maturity securities				
	1-5 years	101,031	91,792	86,756
Government bonds (*)	5-10 years	—	—	565
		101,031	91,792	87,321
		₩ 121,748	₩ 112,509	₩ 107,934

(\*) Certain portion of the government bonds has been pledged as collateral for the consolidated subsidiaries. (note 10)

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

#### Equity-Method Investments

(a) Equity-method investments as of December 31, 2009 and 2008 are as follows:

Investees <sup>(*)1</sup>	2009					2008
	Number of Shares	Percentage of Ownership (%)	Acquisition Cost	Net Asset Value	Book Value	Book Value
(In millions of Korean Won)						
SNNC Co., Ltd. <sup>(*)2</sup>	18,130,000	49.00	₩ 90,650	₩ 107,768	₩ 93,263	₩ 59,020
Garolim Tidal Power Plant Co., Ltd. <sup>(*)2</sup>	2,322,999	32.13	11,615	11,041	11,041	—
Taegisan Wind Power Corporation <sup>(*)2</sup>	2,500,000	50.00	12,500	9,038	10,955	5,273
Midas IT Co., Ltd.	866,190	25.46	433	8,328	8,304	6,926
Gale International Korea Inc.	85,306	29.90	427	7,966	7,917	6,983
eNtoB Corporation	910,000	28.44	5,550	7,827	7,696	7,519
Chungju Enterprise City	2,008,000	25.10	10,040	5,377	5,383	7,686
Chungla International Business Town Co., Ltd. <sup>(*)3</sup>	388,740	6.27	3,910	2,146	2,159	3,354
PSIB Co., Ltd. <sup>(*)2,4</sup>	98,000	49.00	490	(91)	—	—
Songdo Cosmopolitan City Development Inc. <sup>(*)4</sup>	1,332,344	29.90	6,674	(70,615)	—	—
Nickel Mining Company SAS <sup>(*)2</sup>	3,234,698	49.00	157,585	220,735	190,149	220,553
Eureka Moly LLC. <sup>(*)5</sup>	—	20.00	121,209	32,822	113,105	121,209
KOBRASCO <sup>(*)2</sup>	2,010,719,185	50.00	32,950	98,944	98,943	57,656
BX STEEL POSCO Cold Rolled Sheet Co., Ltd. <sup>(*)5</sup>	—	25.00	61,961	56,763	63,667	90,776
USS-POSCO Industries (UPI) <sup>(*)2,5</sup>	—	50.00	254,649	52,433	45,961	51,330
POSCO Bio Ventures L.P. <sup>(*)5,6</sup>	—	100.00	47,874	30,439	30,439	39,584
CAML Resources Pty. Ltd. <sup>(*)2</sup>	3,239	33.34	40,388	28,250	30,237	31,959
United Spiral Pipe, LLC. (USP) <sup>(*)2,5</sup>	—	35.00	29,354	23,997	23,984	32,260
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd. <sup>(*)2,5</sup>	—	34.00	9,517	17,847	15,592	16,944
Poschrome (Proprietary) Limited	21,675	25.00	4,859	13,768	13,481	5,004
An Khanh New City Development Joint-Ventured Company Ltd. <sup>(*)2,5</sup>	—	50.00	20,429	12,644	12,643	21,184
Hubei Huaerliang POSCO Silicon Science & Technology Co., Ltd. <sup>(*)5</sup>	—	30.00	3,236	9,734	9,899	10,552
Henan Tsingpu Ferro Alloy Co., Ltd. <sup>(*)2,5</sup>	—	49.00	8,846	4,664	4,664	5,084
POS-JK LLC. <sup>(*)4</sup>	2,574	24.99	1,990	(293)	—	—
Others			26,984	30,575	28,101	31,680
			<u>₩ 964,120</u>	<u>₩ 722,107</u>	<u>₩ 827,583</u>	<u>₩ 832,536</u>

(\*)1 Due to the difference in the closing schedule of December 31, 2009, the equity method of accounting is applied based on the most recent available financial information, which has not been audited or reviewed.

(\*)2 Although the Company owns over 30% equity interest in these subsidiaries, the Company is not their largest shareholder, excluding them from consolidation.

(\*)3 This investment was reclassified to equity-method investments since the Company has ability to exercise a significant influence on this investment through additional increase in paid in capital.

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

- (\*4) The equity method of accounting has been suspended for investment in Songdo New City Development Inc., PSIB Co., Ltd. and POS-JK LLC. as the Company's net investments have been reduced to zero. Unrecorded changes in equity interests in these investments in 2009 amounted to ₩4,627 million and the accumulated unrecorded changes in equity interest prior to 2009 amounted to ₩71,114 million.
- (\*5) No shares have been issued in accordance with the local laws or regulations.
- (\*6) POSCO Bioventures L.P. was not included in the consolidated financial statements as it is not controlled by the controlling company even though the Company holds 100% of equity interest.

(b) The movements of equity method investments as of and for the years ended December 31, 2009 and 2008 are as follows:

Investees	Dec. 31 2007 Balance	Equity Method Profits (Losses)	Other Increase (Decrease) <sup>(*)</sup>	Dec. 31 2008 Balance	Equity Method Profits (Losses)	Other Increase (Decrease) <sup>(*)</sup>	Dec. 31 2009 Balance
(In millions of Korean Won)							
SNNC Co., Ltd. . . . .	₩ 87,762	₩ (28,742)	₩ —	₩ 59,020	₩ 34,244	₩ (1)	₩ 93,263
Garolim Tidal Power Plant Co., Ltd. . . . .	—	—	—	—	(208)	11,249	11,041
Taegisan Wind Power Corporation . . . . .	—	2,413	2,860	5,273	(3,722)	9,404	10,955
Midas IT Co., Ltd. . . . .	5,321	1,788	(183)	6,926	1,229	149	8,304
Gale International Korea Inc. . . . .	11,385	3,308	(7,710)	6,983	5,038	(4,104)	7,917
eNtoB Corporation . . . . .	6,149	748	622	7,519	418	(241)	7,696
Chungju Enterprise City. . . . .	9,576	(1,847)	(43)	7,686	(2,303)	—	5,383
Chungla International Business Town Co., Ltd. . . . .	—	(539)	3,893	3,354	(1,212)	17	2,159
Nickel Mining Company SAS . . . . .	200,622	(35,918)	55,849	220,553	(3,634)	(26,770)	190,149
Eureka Moly LLC . . . . .	—	—	121,209	121,209	(305)	(7,799)	113,105
KOBRASCO . . . . .	41,143	35,385	(18,872)	57,656	25,611	15,676	98,943
BX STEEL POSCO Cold Rolled Sheet Co., Ltd. . . . .	66,782	3,261	20,733	90,776	(23,086)	(4,023)	63,667
USS-POSCO Industries(UPI). . . . .	59,771	308	(8,749)	51,330	(18,530)	13,161	45,961
POSCO Bio Ventures L.P. . . . .	35,190	(8,288)	12,682	39,584	(5,037)	(4,108)	30,439
CAML Resources Pty. Ltd. . . . .	28,155	3,617	187	31,959	(6,561)	4,839	30,237
United Spiral Pipe, LLC. (USP). . . . .	—	(1,393)	33,653	32,260	(5,523)	(2,753)	23,984
Zhongyue POSCO(Qinhuangdau) Tinplate Industrial Co., Ltd. . . . .	10,043	2,361	4,540	16,944	(159)	(1,193)	15,592
Poschrome (Proprietary) Limited . . . . .	5,165	3,288	(3,449)	5,004	6,237	2,240	13,481
An Khanh New City Development Joint- Ventured Company Ltd. . . . .	10,893	(2,697)	12,988	21,184	(6,509)	(2,032)	12,643
Hubei Huaerliang POSCO Silicon Science & Technology Co., Ltd. . . . .	4,385	4,000	2,167	10,552	122	(775)	9,899
Henan Tsingpu Ferro Alloy Co., Ltd. . . . .	8,470	(5,043)	1,657	5,084	(40)	(380)	4,664
POS-JK . . . . .	—	—	—	—	(1,931)	1,931	—
Others . . . . .	13,800	126	17,754	31,680	(1,019)	(2,560)	28,101
	<u>₩ 604,612</u>	<u>₩ (23,864)</u>	<u>₩ 251,788</u>	<u>₩ 832,536</u>	<u>₩ (6,880)</u>	<u>₩ 1,927</u>	<u>₩ 827,583</u>

- (\*) Other increase or decrease represents the changes in investment securities due to acquisitions (disposals), dividends received, changes in capital adjustments arising from translations of financial statements of foreign investees and others.



# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

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(c) Details of differences between the initial purchase price and the Company's initial proportionate ownership in the book value of the investees for the years ended December 31, 2009 and 2008 are as follows:

Investee	Dec. 31 2007 Balance	Increase (Decrease)	Amortization	Dec. 31 2008 Balance	Increase (Decrease)	Amortization	Dec. 31 2009 Balance
(In millions of Korean Won)							
SNNC Co., Ltd. . . . .	₩ 188	₩ —	₩ (42)	₩ 146	₩ —	₩ (42)	₩ 104
eNtoB Corporation . . . . .	590	244	(138)	696	—	(183)	513
BX STEEL POSCO Cold Rolled Sheet Co., Ltd. . . . .	12,249	—	(2,672)	9,577	—	(2,673)	6,904
CAML Resources Pty. Ltd. . . . .	13,515	—	(5,764)	7,751	—	(5,764)	1,987
POS-JK . . . . .	—	—	—	—	1,015	(1,015)	—
Others . . . . .	34	1,733	(629)	1,138	667	(956)	849
	<u>₩ 26,576</u>	<u>₩ 1,977</u>	<u>₩ (9,245)</u>	<u>₩ 19,308</u>	<u>₩ 1,682</u>	<u>₩ (10,633)</u>	<u>₩ 10,357</u>

(d) Details on the elimination of unrealized gain or loss from inter-company transactions for the years ended December 31, 2009 and 2008 are as follows:

Investee	2009			2008		
	Inventories	Property, Plant and Equipment, and Intangible Assets	Total	Inventories	Property, Plant and Equipment, and Intangible Assets	Total
(In millions of Korean Won)						
SNNC Co., Ltd. . . . .	₩ (11,686)	₩ 1,195	₩ (10,491)	₩ 3,094	₩ (5,938)	₩ (2,844)
eNtoB Corporation . . . . .	368	4	372	123	10	133
Midas IT Co., Ltd. . . . .	—	(8)	(8)	—	(2)	(2)
Nickel Mining Company SAS . . . . .	4,935	—	4,935	(10,508)	—	(10,508)
KOBRASCO . . . . .	14,090	—	14,090	(12,450)	—	(12,450)
USS-POSCO Industries . . . . .	2,368	—	2,368	(6,268)	—	(6,268)
United Spiral Pipe, LLC. . . . .	(14)	—	(14)	—	—	—
Zhongyue POSCO(Qinhuangdao) Tinplate Industrial Co., Ltd. . . . .	(210)	—	(210)	(168)	—	(168)
Poscrome (Proprietary) Limited . . . . .	9,279	—	9,279	(7,674)	—	(7,674)
Henan Tsingpu Ferro Alloy Co., Ltd. . . . .	(154)	—	(154)	27	—	27
Others . . . . .	(1,047)	3	(1,044)	(703)	(65)	(768)
	<u>₩ 17,929</u>	<u>₩ 1,194</u>	<u>₩ 19,123</u>	<u>₩ (34,527)</u>	<u>₩ (5,995)</u>	<u>₩ (40,522)</u>

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(e) Summary of financial information on equity-method investees as of and for the year ended December 31, 2009 is as follows:

<b>Investee</b>	<b>Total Assets</b>	<b>Total Liabilities</b>	<b>Sales</b>	<b>Net Income (Loss)</b>
		<b>(In millions of Korean Won)</b>		
SNNC Co., Ltd. . . . .	₩ 505,055	₩ 285,120	₩ 368,349	₩ 85,686
Garolim Tidal Power Plant Co., Ltd. . . . .	34,850	486	—	(706)
Taegisan Wind Power Corporation . . . . .	86,572	68,496	7,918	(6,304)
Midas IT Co., Ltd. . . . .	53,801	21,091	34,089	5,077
Gale International Korea Inc. . . . .	45,797	19,156	39,735	17,087
eNtoB Corporation . . . . .	72,238	44,716	567,871	1,213
Chungju Enterprise City . . . . .	141,210	119,786	—	(8,575)
Chungla International Business Town Co., Ltd. . . . .	327,997	293,771	—	(19,485)
PSIB Co., Ltd. . . . .	299,718	299,903	—	(995)
Songdo Cosmopolitan City Development Inc. . . . .	2,312,822	2,548,993	939,184	101,256
Nickel Mining Company SAS. . . . .	552,707	102,228	106,005	(14,604)
Eureka Moly LLC. . . . .	168,767	4,659	—	(1,523)
KOBRASCO. . . . .	273,311	75,424	42,415	25,746
BX STEEL POSCO Cold Rolled Sheet Co., Ltd. . . . .	1,018,978	791,925	1,135,803	(47,575)
USS-POSCO Industries . . . . .	443,184	338,318	809,752	(41,795)
POSCO Bio Ventures L.P. . . . .	30,439	—	—	(5,037)
CAML Resources Pty. Ltd. . . . .	137,046	52,313	146,220	(1,886)
United Spiral Pipe, LLC. . . . .	168,096	99,532	—	(16,749)
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd. . . . .	122,646	70,155	130,245	6,259
Poschrome (Proprietary) Limited . . . . .	64,564	9,494	48,411	3,026
An Khanh New City Development Joint-Ventured Company Ltd. . . . .	175,362	150,075	—	(6,937)
Hubei Huaerliang POSCO Silicon Science & Technology Co., Ltd. . . . .	56,046	23,600	41,582	405
Henan Tsingpu Ferro Alloy Co., Ltd. . . . .	27,855	18,336	9,280	155
POS-JK LLC. . . . .	16,915	18,089	3,188	(5,124)
Others . . . . .	341,044	241,149	433,161	3,857

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

#### 8. Property, Plant and Equipment

(a) Property, plant and equipment as of December 31, 2009 and 2008 are as follows:

	2009	2008
	(In millions of Korean Won)	
Buildings and structures . . . . .	₩ 8,511,720	7,629,084
Machinery and equipment. . . . .	31,538,967	28,854,834
Vehicles. . . . .	228,082	205,973
Tools. . . . .	419,818	467,142
Furniture and fixtures. . . . .	314,052	302,801
Capital lease assets . . . . .	31,830	11,900
	41,044,469	37,471,734
Less: Accumulated depreciation . . . . .	(25,664,723)	(24,156,260)
Less: Accumulated impairment loss . . . . .	(156)	(2,810)
Less: Government grants . . . . .	(1,605)	(2,000)
	15,377,985	13,310,664
Land . . . . .	2,142,621	1,861,451
Construction-in-progress . . . . .	4,319,179	2,896,984
	₩ 21,839,785	18,069,099

The value of land based on the posted price issued by the Korean tax authority amounted to ₩4,358,124 million and ₩4,107,522 million as of December 31, 2009 and 2008, respectively.

As of December 31, 2009 and 2008, property, plant and equipment are insured against fire and other casualty losses for up to ₩16,946,755 million and ₩12,140,982 million, respectively. In addition, the Company carries general insurance for vehicles and accident compensation insurance for its employees.

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

**POSCO and Subsidiaries**  
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(b) The changes in the carrying value of property, plant and equipment for the year ended December 31, 2009 and 2008, are as follows:

	Beginning Balance	Acquisition <sup>(*)</sup>	Disposal	Depreciation <sup>(*)</sup>	Others <sup>(*)</sup>	Elimination of Intercompany Transactions	Ending Balance
	(In millions of Korean Won)						
Land . . . . .	₩ 1,861,451	₩ 153,118	₩ (26,083)	₩ —	₩ 160,305	₩ (6,170)	₩ 2,142,621
Buildings . . . . .	2,855,902	876,087	(43,536)	(245,517)	155,786	(169,204)	3,429,518
Structures . . . . .	1,590,231	196,500	(10,773)	(150,340)	99,480	(76,988)	1,648,110
Machinery and equipment . . . . .	8,635,599	3,332,801	(165,204)	(2,005,954)	813,289	(539,183)	10,071,348
Vehicles . . . . .	33,923	56,976	(23,383)	(17,294)	1,323	(480)	51,065
Tools . . . . .	94,396	38,580	(2,180)	(33,519)	(28,490)	(432)	68,355
Furniture and fixtures . . . .	90,034	36,342	(2,305)	(37,445)	3,682	(4,284)	86,024
Financial Lease assets . . . .	10,579	3,410	(10)	(6,840)	16,426	—	23,565
Construction-in-progress . . .	2,896,984	5,587,395	(32,049)	—	(3,788,448)	(344,703)	4,319,179
	<u>₩ 18,069,099</u>	<u>₩ 10,281,209</u>	<u>₩ (305,523)</u>	<u>₩ (2,496,909)</u>	<u>₩ (2,566,647)</u>	<u>₩ (1,141,444)</u>	<u>₩ 21,839,785</u>

(\*) Includes asset transferred from construction-in-progress.

(\*) Includes depreciation expense of idle property.

(\*) Includes foreign currency translation adjustments, asset transfers and adjustments resulting from the effect of changes in the scope of consolidation, etc.

	Beginning Balance	Acquisition	Disposal	Depreciation	Others	Elimination of Intercompany Transactions	Ending Balance
	(In millions of Korean Won)						
Land . . . . .	₩ 1,509,189	₩ 119,753	₩ (26,404)	₩ —	₩ 260,018	₩ (1,105)	₩ 1,861,451
Buildings . . . . .	2,623,024	231,885	(11,123)	(216,416)	405,973	(177,441)	2,855,902
Structures . . . . .	1,546,816	152,673	(5,687)	(130,600)	104,876	(77,847)	1,590,231
Machinery and equipment . . . . .	8,526,549	1,479,351	(29,270)	(1,795,165)	978,965	(524,831)	8,635,599
Vehicles . . . . .	36,946	10,928	(2,064)	(15,040)	4,038	(885)	33,923
Tools . . . . .	75,383	54,086	(548)	(43,896)	10,306	(935)	94,396
Furniture and fixtures . . . .	69,152	48,066	(733)	(34,838)	13,859	(5,472)	90,034
Financial Lease assets . . . .	10,829	403	—	(687)	34	—	10,579
Construction-in-progress . . .	1,183,877	4,014,374	(33,483)	—	(2,018,206)	(249,578)	2,896,984
	<u>₩ 15,581,765</u>	<u>₩ 6,111,519</u>	<u>₩ (109,312)</u>	<u>₩ (2,236,642)</u>	<u>₩ (240,137)</u>	<u>₩ (1,038,094)</u>	<u>₩ 18,069,099</u>

(c) The Company entered into a capital lease contract with Ilshin Shipping Co., Ltd. for a Ro-Ro (roll-on roll-off) ship for the exclusive use of transporting plates and others. As of December 31, 2009, future minimum lease payments under such a capital lease are as follows:

	Minimum Lease Payments (In millions of Korean Won)
Less 1 year . . . . .	₩ 6,813
1 ~ 5 years . . . . .	11,566
Over 5 years . . . . .	5,508
	<u>₩ 23,887</u>

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

#### 9. Intangible Assets

(a) Intangible assets, net of accumulated amortization, as of December 31, 2009 and 2008 are as follows:

	2009	2008
	(In millions of Korean Won)	
Goodwill . . . . .	₩ 272,092	270,842
Negative goodwill . . . . .	(10,352)	(575)
Intellectual property rights . . . . .	51,994	18,266
Research and development costs, net of government grants . . . . .	48,496	82,221
Port facilities usage rights . . . . .	99,552	116,078
Long-term electricity supply contract rights . . . . .	48,483	55,170
Others . . . . .	119,704	181,765
	<u>₩ 629,969</u>	<u>723,767</u>

(b) The changes in the carrying value of intangible assets for the years ended December 31, 2009 and 2008 are as follows:

	For the Year Ended December 31, 2009					
	Beginning Balance	Acquisition	Disposal	Recovery (Amortization)	Others <sup>(*)</sup>	Elimination of Intercompany Transactions
	(In millions of Korean Won)					
Goodwill . . . . .	₩ 270,842	₩ 39,527	₩ —	₩ (38,353)	₩ 76	₩ —
Negative goodwill . . . . .	(575)	(11,468)	—	1,766	(75)	—
Intellectual property rights . . . . .	18,266	40,917	(2,420)	(5,340)	571	—
Research and development costs, net of government grants <sup>(*)</sup> . . . . .	82,221	37,013	(8,535)	(14,302)	(47,689)	(212)
Port facilities usage rights . . . . .	116,078	1,680	—	(18,090)	—	(116)
Long-term electricity supply contract rights . . . . .	55,170	—	—	(6,687)	—	—
Others <sup>(*)</sup> . . . . .	181,765	29,113	(1,518)	(70,661)	(14,436)	(4,559)
	<u>₩ 723,767</u>	<u>₩ 136,782</u>	<u>₩ (12,473)</u>	<u>₩ (151,667)</u>	<u>₩ (61,553)</u>	<u>₩ (4,887)</u>

(\*) Includes transfer of an asset, adjustments arising from foreign currency translations and changes in consolidation scope, and others.

(\*) The Company recognized impairment loss on development cost amounting to ₩50,493 million including ₩45,378 million of impairment loss recognized by POSCO ICT Co., Ltd. (formerly, POSDATA Co., Ltd.) as it is assumed that the future economic benefits will not flow into the Company.

(\*) The Company has recorded expenses related to the ERP system and production innovation as other intangible assets.

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For the Year Ended December 31, 2008							
	Beginning Balance	Acquisition	Disposal	Recovery (Amortization)	Others	Elimination of Intercompany Transactions	Ending Balance
	(In millions of Korean Won)						
Goodwill . . . . .	₩ 75,556	₩ 230,489	₩ —	₩ (33,327)	₩ (1,876)	₩ —	₩ 270,842
Negative goodwill . . . . .	(1,243)	—	—	406	262	—	(575)
Intellectual property rights . . . . .	1,811	2,625	(360)	(1,237)	15,427	—	18,266
Research and development costs, net of government grants . . . . .	91,965	40,066	(2,037)	(18,071)	(29,214)	(488)	82,221
Port facilities usage rights . . . . .	130,234	7,562	—	(21,604)	362	(476)	116,078
Long-term electricity supply contract rights . . . . .	61,857	—	—	(6,687)	—	—	55,170
Others . . . . .	210,599	72,532	(8,795)	(66,896)	(22,700)	(2,975)	181,765
	<u>₩ 570,779</u>	<u>₩ 353,274</u>	<u>₩ (11,192)</u>	<u>₩ (147,416)</u>	<u>₩ (37,739)</u>	<u>₩ (3,939)</u>	<u>₩ 723,767</u>

(c) The amortization expenses for the years ended December 31, 2009 and 2008 were classified under the following:

	2009	2008
	(In millions of Korean Won)	
Cost of goods sold . . . . .	₩ 72,028	75,826
Selling and administrative expenses . . . . .	79,639	71,590
	<u>₩ 151,667</u>	<u>147,416</u>

(d) Details of significant intangible assets are as follows:

	Description	2009	2008	Remaining Useful Life
		(In millions of Korean Won)		
Goodwill	Excess investment amount over fair value in POSCO Power Corp.	₩ 26,471	₩ 47,682	1 years
	Excess investment amount over fair value in Daewoo Engineering Company	198,580	209,461	18 years
	Excess investment amount over fair value in POSCO VST Co., Ltd.	36,955	—	5 years

(e) Research and development costs incurred for the years ended December 31, 2009 and 2008 were ₩452,589 million and ₩455,912 million, respectively. Research and development costs amounting to ₩368,207 million and ₩361,341 million were classified to cost of goods sold, while ₩84,382 million and ₩94,571 million were classified to selling and administrative expenses for the years ended December 31, 2009 and 2008, respectively.

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

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

Period	Amount (In millions of Korean Won)
2010. ....	₩ 61,234
2011. ....	44,863
2012. ....	34,320
2013. ....	23,348
2014. ....	16,721
	<u>₩ 180,486</u>

## 10. Pledged Assets

(a) Details of assets pledged as collateral for short-term borrowings and long-term debts, as well as for performance guarantee, as of December 31, 2009 and 2008 are as follows:

	Beneficiaries	2009 (In millions of Korean Won)	2008
Land	Mizuho Bank and others	₩ 220,732	225,628
Buildings and structures (note 8)	Korea Development Bank and others	105,465	172,159
Machinery and equipment (note 8)	Kookmin Bank and others	387,828	431,626
Short-term financial instruments (note 3)	Korea Development Bank and others	2,000	3,000
Trade accounts and notes receivable (note 5)	Mizuho Bank and others	53,898	84,557
Available-for-sale securities <sup>(*)</sup> (note 7)	Exchangeable bond holder and others	1,233,523	2,033,862
Held-to-maturity securities <sup>(*)</sup> (note 7)	Gyeongsangbuk-do provincial office	31,675	31,553
Equity investments (note 7)	Related creditors	15,793	7,196
		<u>₩ 2,050,914</u>	<u>2,989,581</u>

(\*) As of December 31, 2009, 2,030,526 shares, equivalent to 18,274,731 American depository receipts ("ADRs") of SK Telecom Co., Ltd. have been pledged as collateral for the exchangeable bonds issued (note 13) and 156,472,000 shares of Nippon Steel Corporation have been pledged as collateral for the 1st samurai bonds issued.

(\*) As of December 31, 2009, government bonds and bonds issued by Seoul Metropolitan Rapid Transit Corp, amounting to ₩29,749 million and ₩1,926 million, respectively, were provided as collateral to the Gyeongsangbuk-do Provincial Office as guarantee for environmental remediation of POSCO No. 4 disposal site.

(b) Details of loans from foreign financial institutions guaranteed by Korea Development Bank as of December 31, 2009 and 2008 are as follows:

	2009		2008	
Financial Institution	Foreign Currency	Won Equivalent	Foreign Currency	Won Equivalent
	(In millions of Korean Won)			
Korea Development Bank . . . . .	EUR 3,964,242	₩ 6,637	EUR 4,600,591	₩ 8,171

(c) As of December 31, 2009, POSCO and its subsidiaries were provided with guarantees amounting to ₩1,695,156 million from Korea Exchange Bank and others for their contract commitments.



# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

#### 11. Other Assets

Other assets as of December 31, 2009 and 2008 are as follows:

	2009	2008
	(In millions of Korean Won)	
<b>Other current assets</b>		
Short-term loans receivable . . . . .	₩ 163,932	95,918
Accrued income . . . . .	64,370	58,003
Prepaid expenses . . . . .	45,140	82,891
Others . . . . .	76,233	150,016
	349,675	386,828
Less: Allowance for doubtful accounts . . . . .	(33,286)	(34,086)
	₩ 316,389	352,742
<b>Other long-term assets</b>		
Other investment assets . . . . .	₩ 513,878	294,033
Less: Allowance for doubtful accounts . . . . .	(1,636)	(3,308)
Less: Present value discount . . . . .	—	—
	₩ 512,242	290,725

#### 12. Short-Term Borrowings and Current Portion of Long-Term Debts

(a) Short-term borrowings as of December 31, 2009 and 2008 are as follows:

Financial Institutions	Annual Interest Rate (%)		2009		2008
			(In millions of Korean Won)		
<b>Won currency borrowings</b>					
The Export-Import Bank of Korea and others . . . . .	2.61 ~ 9.80	KRW	733,867	₩ 733,867	509,129
					509,129
<b>Foreign currency borrowings</b>					
Bank of America . . . . .	0.50 ~ 1.80	USD	87,641,601	104,833	125,196,920
		CNY	14,629,409		—
Shinhan Bank and others . . . . .	0.71 ~ 17.00	USD	1,192,237,238	2,387,101	1,039,133,496
		JPY	40,030,261,210		40,950,068,039
		CNY	1,876,379,123		2,890,648,137
		MYR	171,400,734		203,334,260
		VND	252,735,770,675		393,895,525,000
		AUD	50,000,000		60,000,000
		THB	1,170,000,000		507,400,000
		MMK	1,184,424,000		1,346,619,061
		NTD	40,000,000		—
		INR	—		250,000,000
				2,491,934	2,745,226
				₩ 3,225,801	3,254,355

**POSCO and Subsidiaries**  
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(b) Current portion of long-term debts as of December 31, 2009 and 2008 are as follows:

Financial Institutions	Annual Interest Rate (%)	2009			2008	
(In millions of Korean Won)						
Debentures						
Domestic and foreign debentures . . . . .	5.26 ~ 6.55	KRW	212,000	₩ 317,084	332,102	332,102
		USD	90,000,000		—	
Less: Discount on debentures issued . . . . .				(219)		(205)
				316,865		331,897
Won currency borrowings						
National Agricultural Cooperative Federation and others . . . . .	1.00 ~ 7.36	KRW	226,622	226,622	9,475	9,475
Foreign currency borrowings						
The Export-Import Bank of Korea and others . . . . .	0.55 ~ 13.2	USD	138,000,000	242,335	309,624,451	427,640
		JPY	10,401,835,976		2,267,000,000	
		VND	2,443,430,595		—	
		MYR	9,680,526		—	
		CNY	—		29,000,000	
				468,957		437,115
Loans from foreign financial institutions						
NATIXIS . . . . .	2.00	EUR	636,350	1,065	636,350	1,130
				₩ 786,887		770,142

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

#### 13. Long-Term Debts

(a) Debentures as of December 31, 2009 and 2008 are as follow:

	Issue date	Maturity	Annual Interest Rate (%)		2009		2008
				(In millions of Korean Won)			
Domestic Debentures . . .	10/21/2004 ~ 11/24/2009	08/18/2009 ~ 08/27/2019	4.02~6.80	KRW	3,372,050	₩ 3,882,688	2,584,102
				USD	340,000,000		340,000,000
				JPY	9,000,000,000		9,000,000,000
9th Samurai Bonds(Public) . . . . .	06/28/2006	06/28/2013	2.05	JPY	50,000,000,000	631,410	50,000,000,000
1st Samurai Bonds(Public) . . . . .	12/29/2008	12/29/2011	Tibor +1.6	JPY	50,000,000,000	631,410	50,000,000,000
1th FRN . . . . .	11/11/2008	11/11/2011	Tibor +2.6	JPY	20,000,000,000	252,564	20,000,000,000
1st Euro Bonds . . . . .	08/10/2006	08/10/2016	5.88	USD	300,000,000	350,280	300,000,000
Exchangeable Bonds (*) . . . . .	08/19/2008	08/19/2013	—	JPY	52,795,000,000	666,706	52,795,000,000
Global Bonds . . . . .	03/26/2009	03/26/2014	8.75	USD	700,000,000	817,320	—
						7,232,378	5,922,924
Add: Premium on bond redemption . . . . .						10,067	11,112
Less: Current portion . . . . .						(317,084)	(332,102)
Less: Discount on debentures issued . . . . .						(70,449)	(74,990)
						<u>₩ 6,854,912</u>	<u>5,526,944</u>

(\*) The Company issued exchangeable bonds, which is exchangeable with 18,274,731 SK Telecom Co., Ltd. ADRs, on August 19, 2008. Details of exchangeable bonds are as follows:

Issuance date:	August 19, 2008
Maturity date:	August 19, 2013
Rate:	Interest rate of zero percent
Face value:	JPY 52,795,000,000
Issuance price:	JPY 52,424,229,136
Premium on bond redemption	JPY 797,204,500 (redeemed on put date or maturity date)
Exchangeable price:	JPY 2,999.11/ADR
Fair value of an exchangeable right at issuance:	JPY 2,867,605,334
Fair value of an exchangeable right as of December 31,2009:	JPY 168,944,000
Exercise period of exchangeable right:	Commencing ten business days following the issuance date until ten business days prior to maturity date
Exercise date of put by bondholders:	August 19, 2011

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

(b) Long-term borrowings as of December 31, 2009 and 2008 are as follows:

Financial Institutions	Annual Interest Rate (%)	2009				2008	
(In millions of Korean Won)							
Won currency borrowings							
The Korea Resources Corporation	Representative Borrowing Rate <sup>(*)</sup> - 2.25	KRW	55,114	₩ 55,114		49,308	49,308
Woori Bank	Representative Borrowing Rate <sup>(*)</sup> - 1.25	KRW	20,405	20,405		—	—
The Korea Development Bank and	1.00 ~ 7.36	KRW	537,418	537,418		595,037	595,037
Less: Current portion				(226,622)			(9,475)
				386,315			634,870
Foreign currency borrowings <sup>(*)2)</sup>							
The Korea Development Bank and others	Representative Borrowing Rate <sup>(*)</sup> - 2.25	CNY	1,307,960,156	1,225,317		29,000,000	1,154,647
		JPY	18,409,435,976			12,099,500,000	
		MYR	149,680,526			140,000,000	
		USD	622,927,180			745,808,410	
		VND	2,443,430,595			—	
Less: Current portion				(242,335)			(427,640)
Loans from foreign financial institutions				982,982			727,007
NATIXIS	2.00	EUR	3,964,241	6,637		4,600,591	8,171
Less: Current portion				(1,065)			(1,130)
				5,572			7,041
				₩ 1,374,869			1,368,918

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

(\*) Foreign currency borrowings include long-term borrowing amounting to ₩5,578 million, the repayment of which depends on the result of the oil exploration in the Aral Sea in Uzbekistan with Korea National Oil Corporation ("KNOC"). (note 16)

(c) Aggregate maturities of long-term debts as of December 31, 2009 are as follows:

Period	Debentures <sup>(*)</sup>	Borrowings	Foreign Currency Borrowings	Loans from Foreign Financial Institutions	Total
(In millions of Korean Won)					
2010 . . . . .	₩ 317,084	₩ 226,622	₩ 242,335	₩ 1,065	₩ 787,106
2011 . . . . .	2,196,964	186,836	332,230	1,065	2,717,095
2012 . . . . .	640,050	73,361	263,892	1,065	978,368
2013 . . . . .	2,060,747	26,047	354,689	1,065	2,442,548
Thereafter . . . . .	2,027,600	100,071	32,171	2,377	2,162,219
	₩ 7,242,445	₩ 612,937	₩ 1,225,317	₩ 6,637	₩ 9,087,336

(\*) The amount includes a premium on bond redemption.

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

(a) The changes in accrued severance benefits for the years ended December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
	<u>(In millions of Korean Won)</u>	
Estimated severance benefits at the beginning of period . . . . .	₩ 1,176,070	986,956
Provision for severance benefits . . . . .	79,186	314,156
Payment . . . . .	(144,007)	(125,374)
Others (*) . . . . .	<u>1,714</u>	<u>332</u>
Estimated severance benefits at the end of period . . . . .	₩ 1,112,963	1,176,070
Transfer to National Pension Fund . . . . .	(1,751)	(1,959)
Deposit for severance benefits trust . . . . .	<u>(810,791)</u>	<u>(790,393)</u>
Net balance at the end of period . . . . .	<u>₩ 300,421</u>	<u>383,718</u>

(\*) Includes foreign currency adjustments, changes in consolidation scope and others.

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

<u>Period</u>	<u>Amount</u>
	<u>(In millions of Korean Won)</u>
2010. . . . .	₩ 48,703
2011. . . . .	60,386
2012. . . . .	69,703
2013. . . . .	70,160
2014~2019 . . . . .	<u>671,826</u>
	<u>₩ 920,778</u>

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

**POSCO and Subsidiaries**  
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**15. Other Liabilities**

Other liabilities as of December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
	<u>(In millions of Korean Won)</u>	
<b>Other current liabilities</b>		
Unearned revenue . . . . .	₩ 2,355	2,292
Derivatives liabilities . . . . .	35,678	225,137
Others . . . . .	<u>96,149</u>	<u>61,736</u>
	<u>₩ 134,182</u>	<u>289,165</u>
<b>Other long-term liabilities</b>		
Reserve for allowance . . . . .	₩ 40,718	35,558
Derivatives liabilities . . . . .	8,831	52,896
Liability related to stock appreciation rights . . . . .	54,272	38,147
Deposit received . . . . .	152,386	70,274
Others . . . . .	<u>54,280</u>	<u>60,867</u>
	<u>₩ 310,487</u>	<u>257,742</u>

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

#### 16. Commitments and Contingencies

(a) As of December 31, 2009, contingent liabilities on outstanding guarantees provided for the repayment of loans of affiliated companies are as follows:

Grantors	Entity Being Guaranteed	Financial Institution	Amount		Won Equivalent
(In millions of Korean Won)					
POSCO	POSCO Investment Co., Ltd.	HSBC	CNY	630,000,000	₩ 107,767
			MYR	280,000,000	95,427
			USD	346,000,000	403,990
	POSCO-Vietnam Co., Ltd.	The Export-Import Bank of Korea and others	JPY	4,806,750,000	60,701
			USD	230,000,000	268,548
POSCO E&C Co., Ltd.	BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	Bank of China and others	CNY	359,180,000	61,441
			USD	13,800,000	16,113
	Taegisan Wind Power Corporation	Korea Development Bank	KRW	7,500	7,500
			IBC Corporation	The Export-Import Bank of Korea	USD
	POSLILAMA Steel Structure Co., Ltd.	The Export-Import Bank of Korea and others	USD	47,522,000	55,487
Posteel Co., Ltd.	POSCO Canada Ltd.	Hana Bank	USD	12,484,500	14,577
POSCO ICT Co., Ltd.	Chungju Enterprise City	Nong Hyup Bank	KRW	2,530	2,530
POSCO Investment Co., Ltd.	POSCO-MPC S.A. de.C.V.	BOTM	USD	50,600,000	59,081
	POSCO-Malaysia SDN. BHD.	HSBC and others	USD	81,751,820	95,453
	POSCO-Mexico Co., Ltd.	HSBC	USD	130,000,000	151,788
	POSCO Poland Wroclaw Steel Processing Center Co., Ltd.	HSBC	EUR	8,600,000	14,399
	Qingdao Pohang Stainless Steel Co., Ltd.	Standard Chartered	USD	42,000,000	49,039
	Zhangjiagang Pohang Stainless Steel Co., Ltd.	Bank of China and others	CNY	630,000,000	107,768
			USD	280,000,000	326,928
	Zhongyue POSCO (Qinhuangdao)	Bank of China and others	CNY	5,100,000	872
	Tinplate Industrial Co., Ltd.				
POSCO-Japan Co., Ltd.	POSCO ICT Co.,Ltd.	Mizuho Bank	JPY	100,000,000	1,263
	POSCO-JKPC Co., Ltd.	Mizuho Bank and others	JPY	2,990,000,000	37,758
	POSCO-JNPC Co., Ltd.	Mizuho Bank and others	JPY	3,300,000,000	41,673
	POSCO-JOPC Co., Ltd.	Mizuho Bank and others	JPY	2,827,500,000	35,706
	POSCO-JYPC Co., Ltd.	Mizuho Bank and others	JPY	2,506,250,000	31,649
POSCO E&C (Zhangjiagang) Engineering & Consulting Co., Ltd.	POSCO E&C(Beijing) Co., Ltd.	Korea Exchange Bank	CNY	8,000,000	1,368
POSCOAST Co., Ltd.	DaiMyung TMS Co., Ltd.	Korea Development Bank	JPY	285,685,976	3,608
			KRW	27,500	27,500
					₩ 2,103,286

As of December 31, 2008, contingent liabilities on outstanding guarantees provided for the repayment of loans of affiliated companies amounted to ₩1,933,521 million.



# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

(b) As of December 31, 2009, contingent liabilities on outstanding guarantees provided to non-affiliated companies for the repayment of loans are as follows:

Grantors	Entity Being Guaranteed	Financial Institution	Amount Guaranteed	Won Equivalent
(In millions of Korean Won)				
POSCO	Zeus (Cayman) Ltd.	Related creditors	JPY 52,795,000,000	₩ 666,706
POSCO E&C Co., Ltd.	The first district of Minrak, Busan	Kookmin Bank	KRW 38,680	38,680
	Association of the first district of Mokdong,	Woori Bank	KRW 5,060	5,060
Posteel Co., Ltd.	GIPI	Qatar National Bank and others	USD 12,000,000	14,011
	Asia Speciality Steel Co., Ltd.	The Yamaguchi Bank and others	JPY 2,700,000,000	34,096
POSCON Co., Ltd.	Dalian Poscon Dongbang Automatic Co., Ltd.	STX Construction(dalian) Co., Ltd. and others	KRW 1,725	1,725
POSCO ICT Co., Ltd.	Innovalley	Industrial Bank of Korea and others	KRW 115,336	115,336
POSCO Plant Engineering Co., Ltd.	Changhwan Dep. Co., Ltd.	Hana Bank	KRW 6,300	6,300
	Jaesan Energy Co., Ltd.	Hana Bank	KRW 6,693	6,693
	Halla Precision Eng. Co.,Ltd.	Shinhan Bank	KRW 5,275	5,275
Samjung Packing & Aluminum Co., Ltd.	Pyungsan Si Co., Ltd.	Seoul Guarantee Insurance Company	KRW 571	571
Daewoo Engineering Company	Sen Structural Engineers Co., Ltd.	Youngdong Construction Co., Ltd. and others	KRW 142	142
	Kocen Co., Ltd.	Korea Power Engineering Co., Inc. and others	KRW 7,270	7,270
	Hyundai ENG Co., Ltd.	Samsung C&T Corporation and others	KRW 75,960	75,960
	DAEWOO TECH THAILAND	Korea Exchange Bank	THB 178,124,800	6,238
				<u>₩ 984,063</u>

As of December 31, 2008, the Company had outstanding payment guarantees for non-affiliated companies and others amounting to ₩942,368 million.

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

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(c) As of December 31, 2009, the Company and certain subsidiaries acquired certain tools and equipment under operating lease agreements with Macquarie Capital Korea Co., Ltd. and others. The Company's lease expenses, with respect to the above lease agreements, amounted to ₩8,091 million for the year ended December 31, 2009. Future lease payments under the above lease agreements are as follows:

Period	Amount (In millions of Korean Won)
2010	₩ 6,070
2011	3,120
2012	1,484
2013	302
2014	297
Thereafter	1
	<u>₩ 11,274</u>

(d) As of December 31, 2009, the Company and certain subsidiaries are defendants in legal actions arising from the normal course of business. Details are as follows:

Company	Plaintiff	Amount (In millions of Korean Won)	Description
POSCO	Songdo Construction Co.,Ltd. and others Korea Development	13,054	13 lawsuits including claim for operation damages due to loss of the sands at beach
POSCO E&C Co., Ltd.	Financing Corporation and others	35,539	44 lawsuits including claim for surety obligations of Korea Development Financing Corporation
Posteel Co., Ltd.	Samjin Line Co.,Ltd.	1,155	2 lawsuits including claims for damages related import and export business
POSCON Co., Ltd.	Hyosung FMC	280	Litigation on subcontract service fees
POSCO ICT Co., Ltd.	Military Mutual Aid Association and others	1,191	2 lawsuits for receivables
POS-AC Co., Ltd.	Sungjee Construction Co.,Ltd. and others	186	Litigation on consulting fee payables related the construction contract
Daewoo Engineering Company	Korea Environment Corporation and others Beijing lantian jianzhu	1,592	5 lawsuits on claims for damages
POSCO E&C (Beijing) Co., Ltd.	gongcheng youxiangongsi and others	850	2 lawsuits including claims of payables related the construction contract

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

(e) POSCO entered into long-term contracts to purchase iron ore, coal, nickel, chrome and stainless steel scrap. These contracts generally have terms of more than three years and provide for periodic price adjustments to the market price. As of December 31, 2009, 364 million tons of iron ore and 59 million tons of coal remained to be purchased under such long-term contracts.

(f) 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. Purchase price is subject to change, following change of monthly standard oil price (JCC) and also price of ceiling is applicable.

## **POSCO and Subsidiaries**

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

#### **December 31, 2009 and 2008**

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(g) POSCO entered into commitments of foreign currency long-term borrowings which are limited up to the amount of USD6.86 million and USD3.54 million. The borrowings are related to the exploration of gas hydrates in Aral Sea, Uzbekistan and the exploration of gas hydrates in Namangan-Chust, respectively. The repayment of borrowings depends on the success of the project. POSCO is not liable for the repayment of full or part of money borrowed if the project fails and also POSCO has agreed to pay certain portion of its profits under certain conditions as defined by borrowing agreements.

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

(i) As of December 31, 2009, commitments and other contingencies provided to non-affiliated companies are as follows:

1) As of December 31, 2009, POSCO has bank overdraft agreements of up to ₩310,000 million with Woori Bank and six other banks. In addition, POSCO entered into a credit purchase loan agreement with Industrial Bank of Korea and five other banks for credit lines of up to ₩240,000 million. POSCO has an agreement with Woori Bank and others to open letters of credit, documents against acceptance and documents against payment amounting to USD1,420 million and to borrow USD500 million in foreign short-term borrowings. The accounts receivables in foreign currency sold to financial institutions and outstanding as of December 31, 2009, amount to USD235 million for which POSCO is contingently liable upon the issuers' default.

2) As of December 31, 2009, POSCO E&C Co., Ltd. has provided 17 blank promissory notes, six blank checks and six other notes, approximately amounting to ₩61,704 million, to Korea Housing Guarantee Co., Ltd. and other financial institutions as collateral for agreements and outstanding loans. In addition, POSCO E&C Co., Ltd. has entered into a contract to guarantee the borrowings of subcontractors amounting to ₩1,188,693 million and USD22 million with financial institutions and also has entered into contracts to guarantee borrowings related to redevelopment project costs amounting to ₩38,608 million.

3) POSCO E&C Co., Ltd. has provided the completion guarantees for Samsung Corporation and Namkwang Engineering & Construction Co., Ltd. amounting to ₩2,678,631 million while Samsung Corporation and SK Engineering & Construction Co., Ltd. provides the completion guarantees and payment guarantees on customers' borrowings on behalf of POSCO E&C Co., Ltd. amounting to ₩1,937,279 million as of December 31, 2009. Also, POSCO E&C Co., Ltd. has loan agreements of up to ₩723,200 million and to open letters of credit of up to USD1,808 million with Woori Bank and others.

4) As of December 31, 2009, Posteel Co., Ltd. has entered into local and foreign credit agreements, of up to ₩671,872 million with Hana Bank and other banks of which ₩394,446 million remains unused.

5) As of December 31, 2009, POSCON Co., Ltd. has a loan agreement of up to ₩145,070 million and USD30 million of which ₩32,413 million and USD20 million remain unused with Shinhan Bank and others.

## **POSCO and Subsidiaries**

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

#### **December 31, 2009 and 2008**

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6) As of December 31, 2009, 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 ₩140,329 million and USD0.5 million with Shinhan Bank and other banks of which ₩78,475 million and USD0.5 million remains unused.

7) As of December 31, 2009, POSCO Plant Engineering Co., Ltd. (formerly, POSCO Machinery & Engineering Co., Ltd.) has entered into a local credit loan agreements, credit purchase loan agreements and foreign credit loan agreement of up to ₩44,000 million with Shinhan Bank and ₩36,612 million remains unused. In addition, POSCO Plant Engineering Co., Ltd. has entered into an agreement with Shinhan Bank of up to NTD500 million and NTD460 million remain unused.

8) As of December 31, 2009, Seoul Guarantee Insurance Company and Korea Software Financial Cooperative have issued guarantees of up to ₩102,624 million and ₩235 million, respectively, for POSCO ICT Co., Ltd. (formerly, POSDATA Co., Ltd.)'s contractual performance related to certain system integration services.

9) As of December 31, 2009, POSCO Specialty Steel Co., Ltd. has a loan agreement, secured by trade accounts receivable, of up to ₩150,000 million with Woori Bank and others. POSCO Specialty Steel Co., Ltd. has used ₩100,955 million of this loan agreement. In addition, POSCO Specialty Steel Co., Ltd. has agreements with Woori Bank and seven other banks for opening letters of credit of up to USD55 million, and for a loan of up to ₩165,000 million and POSCO Specialty Steel Co., Ltd. has used USD0.9 million, JPY210 million and EUR88 thousand.

10) As of December 31, 2009, Samjung Packing & Aluminum Co., Ltd. has a credit purchase loan of up to ₩39,000 million with Woori Bank and four other banks and has entered into loan on bills agreement of up to USD20 million with Export and Import Bank of Korea related to investment to mine of Molybden. Samjung Packing & Aluminum Co., Ltd. has entered into an agreement with Woori Bank and four other banks for usance transaction in relation to trade of up to USD40 million.

11) As of December 31, 2009, POSCO Power Corp. has a loan agreement up to ₩108,000 million and USD70 million with Kookmin Bank and three other banks and has used USD10 million.

12) As of December 31, 2009, Daewoo Engineering Company has a loan agreement and credit purchase loan agreement of up to ₩150,000 million and USD22 million with City bank and others.

13) As of December 31, 2009, POSCO America Corporation has loan agreements of up to USD120 million with Bank of America and others and has used USD92 million.

14) As of December 31, 2009, POSCO Asia Co., Ltd. has loan agreements of up to USD247 million with Bank of America and others and has used USD112 million.

15) As of December 31, 2009, Zhangjiagang Pohang Stainless Steel Co., Ltd. has loan agreements of up to CNY6,596 million and USD280 million with Bank of China and others.

16) As of December 31, 2009, Qingdao Pohang Stainless Steel Co., Ltd. has loan agreements of up to CNY991 million with Bank of China and others, and has used CNY395 million.

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

17) As of December 31, 2009, POSCO (Suzhou) Automotive Processing center Co., Ltd. has loan agreements of up to USD70.6 million with China Agriculture Bank and others and has used USD23.7 million.

18) As of December 31, 2009, POSCO-Japan Co., Ltd. has bank overdraft agreements for working capital of up to JPY53,800 million with MIZUHO bank and others and has used JPY37,000 million.

19) As of December 31, 2009, POSCO-Foshan steel processing center Co., Ltd. has a loan agreement of up to USD170 million and has used USD32 million.

20) As of December 31, 2009, POS-MPC S.A. de C.V. has a loan agreement of up to USD80.6 million with Standard Chartered and others and has used USD49.8 million.

### 17. Capital Stock

Under the Articles of Incorporation, the Company is authorized to issue 200 million shares of capital stock with a par value of ₩5,000 per share. As of December 31, 2009, exclusive of retired stock, 87,186,835 shares of common stock have been issued.

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

As of December 31, 2009, ending balance of capital stock is amounted to ₩482,403 million; however, it is different from par value amounted to ₩435,934 million due to retirement of treasury stock.

As of December 31, 2009, total shares of ADRs are 66,059,024 shares, equivalent to 16,514,756 of common shares.

### 18. Capital Surplus

Capital surplus as of December 31, 2009 and 2008 are as follows:

	2009	2008
	(In millions of Korean Won)	
Additional paid-in capital . . . . .	₩ 463,825	463,825
Revaluation surplus . . . . .	3,224,770	3,224,770
Others . . . . .	757,437	630,488
	<u>₩ 4,446,032</u>	<u>4,319,083</u>

**POSCO and Subsidiaries**  
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**19. Retained Earnings**

Retained earnings as of December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
	<u>(In millions of Korean Won)</u>	
Appropriated		
Legal reserve . . . . .	₩ 241,202	241,202
Appropriated retained earnings for business rationalization . . . . .	918,300	918,300
Reserve under Korean Tax Law . . . . .	720,000	1,071,667
Voluntary reserve . . . . .	<u>22,768,724</u>	<u>18,739,895</u>
	24,648,226	20,971,064
Unappropriated . . . . .	<u>3,287,500</u>	<u>4,422,182</u>
	<u>₩ 27,935,726</u>	<u>25,393,246</u>

**20. Dividends**

(a) Details of interim and year-end dividends for the years ended December 31, 2009, and 2008 are as follows:

**Interim Dividends**

	<u>2009</u>		<u>2008</u>		<u>2007</u>	
	<u>Dividend Ratio (%)</u>	<u>Dividend Amount</u>		<u>Dividend Ratio (%)</u>	<u>Dividend Amount</u>	
			<u>(In millions of Korean Won)</u>			
Common shares . . . . .	30	₩ <u>114,855</u>	50	₩ <u>188,485</u>	50	<u>189,541</u>

**Year-end Cash Dividends**

	<u>2009</u>		<u>2008</u>		<u>2007</u>	
	<u>Dividend Ratio (%)</u>	<u>Dividend Amount</u>		<u>Dividend Ratio (%)</u>	<u>Dividend Amount</u>	
			<u>(In millions of Korean Won)</u>			
Common shares . . . . .	130	₩ <u>500,714</u>	150	₩ <u>574,274</u>	150	<u>566,552</u>

(b) Details of the dividend payout ratios and dividend yield ratios for the years ended December 31, 2009 and 2008 are as follows:

	<u>2009</u>		<u>2008</u>		<u>2007</u>	
	<u>Dividend Payout Ratio (%)</u>	<u>Dividend Yield Ratio (%)</u>		<u>Dividend Payout Ratio (%)</u>	<u>Dividend Yield Ratio (%)</u>	
Common shares . . . . .	19.13	1.29	17.42	2.63	21.25	1.74

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

## 21. Capital Adjustments

(a) Capital adjustments as of December 31, 2009 and 2008 are as follows:

	2009	2008
	(In millions of Korean Won)	
Treasury stock . . . . .	₩ (2,403,263)	(2,502,014)
Others . . . . .	(7,405)	(7,067)
	<u>₩ (2,410,668)</u>	<u>(2,509,081)</u>

(b) Treasury stocks which are maintained for stabilization of stock price in accordance with decision made by board of directors as of December 31, 2009 and 2008 are as follows:

	2009		2008
	Number of shares	Book value	Book value
	(In millions of Korean Won)		
Treasury stock . . . . .	7,792,072	₩ 1,662,068	1,760,819
Specified money in trust . . . . .	2,361,885	741,195	741,195
	<u>10,153,957</u>	<u>₩ 2,403,263</u>	<u>2,502,014</u>

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 462,962 shares of its treasury on October 19, 2009, as approved by the Board of Directors on October 16, 2009, and the difference between the carrying value and the proceeds from the sale of ₩150,373 million, net of tax of ₩33,082 million was recognized as gains on disposal of treasury stock in capital surplus in equity.

## 22. Stock Appreciation Rights

(a) The Company 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	Total
<b>Before the modifications (*)</b>							
Number of shares . . . . .	498,000 shares	60,000 shares	22,000 shares	141,500 shares	218,600 shares	90,000 shares	1,030,100 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 (*)</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	970,092 shares
Number of shares cancelled . . . . .	19,409 shares	—	—	—	—	—	19,409 shares
Number of shares exercised . . . . .	434,167 shares	55,896 shares	20,495 shares	134,106 shares	115,064 shares	62,000 shares	821,728 shares
Number of shares outstanding . . . . .	—	—	—	1,791 shares	99,164 shares	28,000 shares	128,955 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	

(\*) The Company modified the number of shares granted under the stock appreciation rights and the exercise price, as presented above (1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup>), in accordance with the resolutions of the Board of Directors on April 26, 2003, October 17, 2003 and October 22, 2004.



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(b) Expenses (or income) related to stock appreciation rights granted to executives incurred for the year ended December 31, 2009 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	Total
	(In millions of Korean Won)						
Prior periods . . . . .	₩ 59,945	₩ 10,801	₩ 4,843	₩ 29,770	₩ 54,680	₩ 25,486	₩ 185,525
Current period . . . . .	—	(21)	1,228	2,126	26,559	6,208	36,100
	<u>₩ 59,945</u>	<u>₩ 10,780</u>	<u>₩ 6,071</u>	<u>₩ 31,896</u>	<u>₩ 81,239</u>	<u>₩ 31,694</u>	<u>₩ 221,625</u>

(c) As of December 31, 2009 and 2008, liabilities related to stock appreciation rights which are stated as long-term accrued expenses amounted to ₩55,141 million and ₩42,779 million, respectively.

(d) The following table summarizes information about appreciation rights granted:

Stock Appreciation Rights Outstanding	2009		2008		2007	
	Number of Stock Appreciation Rights	Weighted-Average Exercise Price per Share	Number of Stock Appreciation Rights	Weighted-Average Exercise Price per Share	Number of Stock Appreciation Rights	Weighted-Average Exercise Price per Share
	(In Korean Won)					
Beginning of year . . . . .	198,481	₩ 150,770	279,472	₩ 145,170	460,335	₩ 145,238
Granted . . . . .	—	—	—	—	—	—
Exercised . . . . .	(69,526)	117,169	(80,991)	115,715	(180,863)	145,344
Canceled . . . . .	—	—	—	—	—	—
Forfeited . . . . .	—	—	—	—	—	—
Stock appreciation rights outstanding, end of year . . . . .	<u>128,955</u>	<u>160,402</u>	<u>198,481</u>	<u>150,770</u>	<u>279,472</u>	<u>145,170</u>
Exercisable at the year end . . . . .	<u>128,955</u>	<u>₩ 160,402</u>	<u>198,481</u>	<u>₩ 150,770</u>	<u>279,472</u>	<u>₩ 145,170</u>
Weighted-average fair value at grant date . . . . .		<u>₩ 143,779</u>		<u>₩ 140,206</u>		<u>₩ 116,176</u>

(e) The following table summarizes information about stock appreciation rights outstanding at December 31, 2009:

Exercise Prices	Appreciation Rights Outstanding		
	Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price per Share
	(In Korean Won)		
102,900 . . . . .	1,791	0.32 years	102,900
151,700 . . . . .	99,164	1.56 years	151,700
194,900 . . . . .	28,000	2.33 years	194,900
	<u>128,955</u>	<u>1.71 years</u>	<u>₩ 160,402</u>

## 23. Derivative Financial Instruments

The Company has entered into cross currency swap agreements to reduce interest rates and currency risks and currency forward contracts with financial institutions to hedge the fluctuation risk of future cash flows. The gains and losses on currency swap and currency forward contracts for the

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years ended December 31, 2009 and 2008 and related contracts outstanding as of December 31, 2009 and 2008 are as follows:

Company	Type of Transaction	Purpose of Transaction	Financial Institutions	Valuation Gain/Loss						Transaction Gain/Loss			
				Income Statement				Comprehensive Income		Income Statement			
				2009		2008		2009	2008	2009	2008		
(In millions of Korean Won)													
POSCO	Currency forward	Trading	Woori Bank and others	₩	—	₩	—	₩	—	₩	—	₩ 14,177	₩ 830
	Embedded derivative (*)	Exchangeable Bonds	Related creditors		7,065		17,985		—		—		—
POSCO E&C Co., Ltd.	Currency forward	Fair value hedge	HSBC and others		10,659		(124,870)		—		—	12,527	(53,070)
	Interest Swap	Cash flow hedge	Calyon Bank and others		(28,045)		72,182		—		(4,634)	(4,322)	1,718
	Valuation of Fixed contract	Fair market value hedge	—		(34,328)		177,940		—		—		—
Posteel Co., Ltd.	Currency forward	Trading	SC Korea First Bank		23		—		—		—	(41)	2,659
Pohang Coated Steel Co., Ltd.	Currency forward	Trading	Shinhan Bank										
	Currency Option	Trading	SC Korea First Bank and others		—		—		—		—		(3,325)
					5,145		(138,472)		—		—	(6,935)	(19,228)
	Currency Swap	Trading	SC Korea First Bank		—		10,451		—		—		9,570
POSCO Plant Engineering	Non-derivatives	Cash flow hedge	Citi Bank		—		—		—		—	2,150	—
	Currency forward	Trading	Korea Exchange Bank and others		—		(2,482)		—		—	(1,270)	(3,606)
Posco Specialty Steel Co., Ltd.	Currency forward	Trading	SC Korea First Bank		6		(2)		—		—	211	—
	Currency Swap	Cash flow hedge	SC Korea First Bank		—		—		—		—		9,186
Samjung Packing & Aluminum Co., Ltd.	Currency future	Trading	Woori Bank and others		—		215		—		—	969	—
POSCO Power Corp.	Currency forward	Trading	Nong Hyup Bank and others		5,251		—		—		—	—	(1,365)
	Currency Swap	Cash flow hedge	Calyon Bank and others		(18,670)		51,800		—		(6,166)	—	—
Daewoo engineering Company	Currency forward	Trading	Citi Bank		354		(5,886)		—		—	(7,284)	(5,385)
POSCO Austrailia Pty. Ltd.	Derivatives	Trading	MML		9,295		(584)		—		—	—	—
POS-MPC S.A. de C.V.	Currency future	Fair value hedge	Standard Chartered		—		—		—		—		(149)
				₩	(43,245)	₩	58,277	₩	—	₩	(10,800)	₩	10,182
												₩	(62,165)

(\*) The Company applied derivative accounting as exchangeable right to investors related to exchangeable bond issued in August 19, 2008 meets certain criteria of embedded derivatives. Fair values of exchangeable right are ₩2,133 million (JPY168,994,000) and ₩9,199 million (JPY659,937,500) as of December 31, 2009 and 2008, respectively. This exchangeable right is included in other long-term liabilities. (note 15)

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#### 24. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
	(In millions of Korean Won)		
Transportation and storage . . . . .	₩ 648,345	₩ 781,425	₩ 619,499
Salaries . . . . .	280,529	256,959	218,206
Welfare . . . . .	142,429	159,732	123,584
Depreciation and amortization . . . . .	123,525	106,271	87,257
Fees and charges . . . . .	158,158	124,123	97,100
Advertising . . . . .	94,696	98,780	103,979
Research and development expenses . . . . .	84,382	94,571	52,846
Severance benefits . . . . .	27,482	52,433	44,779
Sales commissions . . . . .	80,159	83,057	54,955
Travel . . . . .	24,827	30,537	25,870
Rent . . . . .	30,929	24,204	19,389
Repairs . . . . .	20,439	13,135	12,693
Training . . . . .	18,104	24,397	20,094
Office supplies . . . . .	8,378	8,482	9,053
Provision for doubtful accounts . . . . .	42,020	24,033	62,026
Meetings . . . . .	11,012	11,612	10,240
Taxes and public dues . . . . .	24,500	29,595	29,519
Vehicle expenses . . . . .	5,627	4,626	3,947
Membership fees . . . . .	8,417	8,312	8,593
Sales promotions . . . . .	8,186	7,638	5,651
Entertainment . . . . .	11,393	12,542	10,561
Others . . . . .	95,877	49,904	165,376
	<u>₩ 1,949,414</u>	<u>₩ 2,006,368</u>	<u>₩ 1,785,217</u>

#### 25. Income Taxes

(a) Income tax expense for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
	(In millions of Korean Won)		
Current income taxes . . . . .	₩ 576,303	₩ 2,181,238	₩ 1,341,252
Deferred income taxes . . . . .	475,187	(712,233)	294,418
Carryforward income tax . . . . .	(309,942)	(9,976)	2,714
Items charged directly to shareholders' equity . . . . .	(229,701)	303,060	(304,580)
Tax effect due to consolidation entries . . . . .	24,149	(28,106)	(59,578)
	<u>₩ 535,996</u>	<u>₩ 1,733,983</u>	<u>₩ 1,274,226</u>

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(b) The following table reconciles the expected amount of income tax expense based on statutory rates to the actual amount of tax expense recognized by the Company for the years ended December 31, 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	(In millions of Korean Won)		
Net income before income tax expense . . . . .	₩ 3,739,275	₩ 6,095,639	₩4,898,931
Income tax expense computed at statutory . . . . .	904,905	1,676,301	1,347,206
Adjustments:			
Tax credit . . . . .	(370,958)	(167,962)	(159,816)
Effect of changes in tax rate . . . . .	14,074	74,493	—
Tax refunds <sup>(*)1</sup> . . . . .	(140,442)	—	—
Others, net <sup>(*)2</sup> . . . . .	128,417	151,151	86,836
Income tax expense . . . . .	<u>₩ 535,996</u>	<u>₩ 1,733,983</u>	<u>₩1,274,226</u>
Effective rate (%) . . . . .	<u>14.3</u>	<u>28.4</u>	<u>26.0</u>

(\*)1) Refunds of additional tax payments made in 2005 in accordance with a decision of Tax Tribunal that was finalized in 2009.

(\*)2) Consists of deferred tax assets, which have not been recognized as realization is not considered probable, of ₩49,995 million and foreign tax rate differential of ₩12,896 million for the year ended December 31, 2009 and deferred tax assets, which have not been recognized, as realization is not considered probable, of ₩119,632 million for the year ended December 31, 2008.

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(c) Changes in temporary differences and deferred income taxes for the years ended December 31, 2009 and 2008 are as follows:

	Temporary Differences			Deferred Income Tax		
	Dec. 31, 2008	Inc. (dec.)	Dec. 31, 2009	Dec. 31, 2008	Inc. (dec.)	Dec. 31, 2009
	(In millions of Korean Won)					
Deductible (taxable) temporary differences:						
Reserve for special repairs . . . . .	₩ (281,825)	₩ 107,835	₩ (173,990)	₩ (62,422)	₩ 22,922	₩ (39,500)
Allowance for doubtful accounts . . . . .	292,571	(124,231)	168,340	63,786	(24,261)	39,525
Reserve for technology developments . . . . .	(9,464)	(826,236)	(835,700)	(2,150)	(182,109)	(184,259)
Dividend income from related companies . . . . .	431,497	59,545	491,042	94,929	13,100	108,029
Depreciation expense . . . . .	(274,668)	(90,165)	(364,833)	(60,194)	(23,064)	(83,258)
Valuation of equity method investments . . . . .	(1,376,045)	(430,446)	(1,806,491)	(210,804)	(96,584)	(307,388)
Prepaid expenses . . . . .	69,227	4,769	73,996	16,289	1,593	17,882
Impairment loss on property, plant and equipment . . . . .	126,027	(5,160)	120,867	42,667	(31,358)	11,309
Gain/Loss on foreign currency . . . . .	634,028	(395,179)	238,849	140,283	(88,776)	51,507
Accrued severance benefits . . . . .	175,238	40,704	215,942	39,376	9,244	48,620
Group severance insurance deposits . . . . .	(114,741)	(74,998)	(189,739)	(25,921)	(17,039)	(42,960)
Provision for construction losses . . . . .	36,243	22,037	58,280	8,112	5,992	14,104
Provision for construction warranty . . . . .	26,595	6,575	33,170	5,852	1,612	7,464
Appropriated retained earnings for technological development . . . . .	(2,000)	1,000	(1,000)	(462)	220	(242)
Accrued income . . . . .	68	(3,895)	(3,827)	15	(665)	(650)
Accrued on valuation of Inventories . . . . .	12,121	22,391	34,512	2,944	5,255	8,199
Others . . . . .	275,369	367,309	642,678	32,248	114,418	146,666
	<u>₩ 20,241</u>	<u>₩ (1,318,145)</u>	<u>₩ (1,297,904)</u>	<u>₩ 84,548</u>	<u>₩ (289,500)</u>	<u>₩ (204,952)</u>
Current and deferred income taxes recognized directly to equity:						
Capital adjustment arising from equity method investments . . . . .	₩ (721,748)	₩ (7,579)	₩ (729,327)	₩ (159,500)	₩ (1,013)	₩ (160,513)
Gain on valuation of available-for-sale securities . . . . .	(340,226)	(680,246)	(1,020,472)	(74,222)	(164,351)	(238,573)
Loss on valuation of available-for-sale securities . . . . .	962,542	(80,000)	882,542	212,140	(17,124)	195,016
Others . . . . .	14,618	(14,618)	—	3,199	(3,199)	—
	<u>₩ (84,814)</u>	<u>₩ (782,443)</u>	<u>₩ (867,257)</u>	<u>₩ (18,383)</u>	<u>₩ (185,687)</u>	<u>₩ (204,070)</u>
Deferred tax from tax credit and others:						
Tax credit . . . . .				₩ 16,471	₩ 272,079	₩ 288,550
Deficit carryforwards . . . . .				7,813	37,863	45,676
				<u>₩ 24,284</u>	<u>₩ 309,942</u>	<u>₩ 334,226</u>
Tax effect on elimination of intercompany profit . . . . .				265,789	(24,149)	241,640
				<u>₩ 356,238</u>	<u>₩ (189,394)</u>	<u>₩ 166,844</u>

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	Temporary Differences			Deferred Income Tax		
	Dec. 31, 2007	Inc. (dec.)	Dec. 31, 2008	Dec. 31, 2007	Inc. (dec.)	Dec. 31, 2008
	(In millions of Korean Won)					
Deductible (taxable) temporary differences:						
Reserve for special repairs . . . . .	₩ (301,751)	₩ 19,926	₩ (281,825)	₩ (82,982)	₩ 20,560	₩ (62,422)
Allowance for doubtful accounts . . . . .	292,763	(192)	292,571	80,532	(16,746)	63,786
Reserve for technology developments . . . . .	(1,101,734)	1,092,270	(9,464)	(302,976)	300,826	(2,150)
Dividend income from related companies . . . . .	366,233	65,264	431,497	100,714	(5,785)	94,929
Depreciation expense . . . . .	(147,993)	(126,675)	(274,668)	(40,115)	(20,079)	(60,194)
Valuation of equity method investments . . . . .	(1,296,880)	(79,165)	(1,376,045)	(274,370)	63,566	(210,804)
Prepaid expenses . . . . .	34,431	34,796	69,227	9,467	6,822	16,289
Impairment loss on property, plant and equipment . . . . .	420,085	(294,058)	126,027	121,483	(78,816)	42,667
Gain/Loss on foreign currency . . . . .	—	634,028	634,028	—	140,283	140,283
Accrued severance benefits . . . . .	161,926	13,312	175,238	44,574	(5,198)	39,376
Group severance insurance deposits . . . . .	(44,275)	(70,466)	(114,741)	(12,175)	(13,746)	(25,921)
Provision for construction losses . . . . .	21,227	15,016	36,243	5,836	2,276	8,112
Provision for construction warranty . . . . .	21,065	5,530	26,595	5,794	58	5,852
Appropriated Retained Earnings for Technological Development . . . . .	(2,833)	833	(2,000)	(780)	318	(462)
Accrued income . . . . .	(8,328)	8,396	68	(2,313)	2,328	15
Accrued on valuation of Inventories . . . . .	695	11,426	12,121	190	2,754	2,944
Others . . . . .	293,860	(18,491)	275,369	73,419	(41,171)	32,248
	<u>₩ (1,291,509)</u>	<u>₩ 1,311,750</u>	<u>₩ 20,241</u>	<u>₩ (273,702)</u>	<u>₩ 358,250</u>	<u>₩ 84,548</u>
Current and deferred income taxes recognized directly to equity:						
Capital adjustment arising from equity method investments . . . . .	₩ (272,948)	₩ (448,800)	₩ (721,748)	₩ (75,060)	₩ (84,440)	₩(159,500)
Gain on valuation of available-for-sale securities . . . . .	(1,315,772)	975,546	(340,226)	(364,373)	290,151	(74,222)
Loss on valuation of available-for-sale securities . . . . .	239,451	723,091	962,542	65,891	146,249	212,140
Others . . . . .	4,276	10,342	14,618	1,176	2,023	3,199
	<u>₩ (1,344,993)</u>	<u>₩ 1,260,179</u>	<u>₩ (84,814)</u>	<u>₩ (372,366)</u>	<u>₩ 353,983</u>	<u>₩ (18,383)</u>
Deferred tax from tax credit and others: . . . . .				₩ 19,949	₩ (3,478)	₩ 16,471
Tax credit . . . . .				2,526	5,287	7,813
Deficit carryforwards . . . . .				(8,167)	8,167	—
				<u>₩ 14,308</u>	<u>₩ 9,976</u>	<u>₩ 24,284</u>
Tax effect on elimination of intercompany profit . . . . .				237,683	28,106	265,789
				<u>₩ (394,077)</u>	<u>₩ 750,315</u>	<u>₩ 356,238</u>

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#### 26. Earnings Per Share

Basic and diluted earnings per share for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
	(In millions of Korean Won, except per share information)		
Net income attributable to controlling interest . . . . .	₩ 3,218,425	₩ 4,378,751	₩ 3,558,660
Weighted-average number of common shares outstanding <sup>(*)</sup> . . . . .	76,661,240	75,493,523	75,952,869
Basic and diluted earnings per share . . . . .	₩ 41,982	₩ 58,002	₩ 46,854

(\*) Basic and diluted earnings per share is computed by dividing net income attributable to the shareholders of POSCO's common stock, by the weighted-average number of common shares outstanding for the years ended December 31, 2009, 2008 and 2007 :

	2009	2008	2007
Total number of common shares issued . . . . .	87,186,835	87,186,835	87,186,835
Weighted-average number of treasury shares . . . . .	(10,525,595)	(11,693,312)	(11,233,966)
Weighted-average number of common shares outstanding . . . . .	76,661,240	75,493,523	75,952,869

#### 27. Comprehensive Income

Comprehensive income for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
	(In millions of Korean Won)		
Net income . . . . .	₩ 3,242,311	₩ 4,350,104	₩ 3,677,964
Other comprehensive income			
Gain (loss) on valuation of available-for-sale securities, net . .	776,060	(1,714,939)	690,805
Less: tax effect . . . . .	(181,471)	427,512	(192,094)
Changes in capital adjustments arising from equity method accounted investments . . . . .	34,077	48,139	27,243
Less: tax effect . . . . .	(22,983)	(11,903)	(34,698)
Foreign currency translation adjustments . . . . .	(165,124)	576,489	99,408
Less: tax effect . . . . .	21,961	(75,291)	(11,451)
Gain on valuation of derivative instruments . . . . .	14,541	(9,175)	(5,365)
Less: tax effect . . . . .	(3,199)	1,868	1,331
	473,862	(757,300)	575,179
Comprehensive income . . . . .	₩ 3,716,173	₩ 3,592,804	₩ 4,253,143
Controlling interest . . . . .	₩ 3,695,881	₩ 3,571,832	₩ 4,118,011
Non controlling interest . . . . .	₩ 20,292	₩ 20,972	₩ 135,132



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

Monetary assets and liabilities denominated in foreign currencies as of December 31, 2009 and 2008 are as follows:

	2009			2008				
	Foreign Currency <sup>(*)2</sup>		Won Equivalent	Foreign Currency <sup>(*)2</sup>		Won Equivalent		
	(In millions of Korean Won, other currencies in thousands)							
Assets								
Cash and cash equivalents and financial instruments	USD	362,217	₩	422,925	USD	129,977	₩	163,447
	JPY	502		6	JPY	574,721		8,011
	EUR	882		1,477	EUR	2,313		4,109
	Foreign subsidiaries	723,876		845,198	Foreign subsidiaries	728,786		916,448
Trade accounts and notes receivable	USD	448,193		523,310	USD	370,388		465,763
	JPY	5,552,183		70,114	JPY	6,855,809		95,562
	EUR	38,941		65,198	EUR	14,802		26,292
	Foreign subsidiaries	1,075,209		1,255,413	Foreign subsidiaries	807,654		1,015,625
Other accounts and notes receivable	USD	14,023		16,373	USD	5,740		7,218
	JPY	8,879		112	JPY	8,879		124
	Foreign subsidiaries	82,694		96,552	Foreign subsidiaries	101,680		127,863
Short-term and long-term loans receivable	USD	849		991	USD	—		—
	Foreign subsidiaries	481,875		562,637	Foreign subsidiaries	331,900		417,365
Long-term trade accounts and notes receivable	Foreign subsidiaries	71		82	Foreign subsidiaries	71		89
Investment securities <sup>(*)1</sup>	Foreign subsidiaries	405,168		473,075	Foreign subsidiaries	96,983		121,956
Guarantee deposits	USD	361		422	USD	553		695
	EUR	135		226	EUR	129		229
	Foreign subsidiaries	6,526		7,619	Foreign subsidiaries	7,355		9,249
			₩	4,341,730			₩	3,380,045

(\*)1 Presented at face value.

(\*)2 Currencies other than US dollars, Japanese yen, and Euros are converted into US dollars. The amounts of foreign subsidiaries are converted into US dollars.

**POSCO and Subsidiaries**  
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	2009				2008			
	Foreign Currency <sup>(*)2</sup>		Won Equivalent		Foreign Currency <sup>(*)2</sup>		Won Equivalent	
	(In millions of Korean Won, other currencies in thousands)							
Liabilities								
Trade accounts and notes payable	USD	357,303	₩	417,187	USD	432,531	₩	543,907
	JPY	1,972,372		24,908	JPY	5,308,193		73,990
	EUR	40,581		67,944	EUR	3,455		6,136
	Foreign subsidiaries	883,962		1,032,114	Foreign subsidiaries	439,043		552,097
Other accounts and notes payable	USD	45,841		53,524	USD	37,652		47,347
	JPY	420,914		5,315	JPY	2,861,507		39,886
	EUR	3,396		5,686	EUR	9,256		16,441
	Foreign subsidiaries	44,249		51,666	Foreign subsidiaries	76,183		95,800
Accrued expenses	USD	1,479		1,727	USD	1,573		1,977
	JPY	137,450		1,736	JPY	2,322		32
	Foreign subsidiaries	29,795		34,789	Foreign subsidiaries	26,472		33,289
Short-term borrowings	USD	435,784		508,821	USD	304,956		383,482
	Foreign subsidiaries	1,984,096		2,316,630	Foreign subsidiaries	1,926,753		2,422,892
Withholdings	USD	39,148		45,709	USD	19,349		24,331
	JPY	372,553		4,705	JPY	161,870		2,256
	EUR	11,827		19,802	EUR	5,179		9,199
	Foreign subsidiaries	1,614		1,885	Foreign subsidiaries	3,688		4,638
Debentures <sup>(*)1</sup>	USD	1,340,000		1,564,584	USD	640,000		804,800
	JPY	182,592,205		2,305,811	JPY	182,592,205		2,545,134
	Foreign subsidiaries	—		—	Foreign subsidiaries	15,776		19,838
Loans from foreign financial institutions	USD	64,550		75,369	USD	36,134		45,439
	JPY	285,686		3,608	JPY	192,000		2,676
	Foreign subsidiaries	1,103,630		1,288,598	Foreign subsidiaries	923,439		1,161,224
Foreign currency loans	EUR	3,964		6,637	EUR	4,601		8,172
			₩	9,838,755			₩	8,844,983

(\*)1) Presented at face value.

(\*)2) Currencies other than US dollars, Japanese yen, and Euros are converted into US dollars. The amounts of foreign subsidiaries are converted into US dollars.

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

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#### 29. Related Party Transactions

(a) As of December 31, 2009, the subsidiaries of the Company are as follows:

<b>Domestic (30)</b> . . . . .	POSCO E&C Co., Ltd., Posteel Co., Ltd., POSCON Co., Ltd., POSCO Coated & Color Steel Co., Ltd., POSCO Plant Engineering Co.,Ltd., POSCO ICT Co., Ltd., POSCO Research Institute, Seung Kwang Co., Ltd., POSCO Architects & Consultants Co., Ltd., POSCO Specialty Steel Co., Ltd., POSCO Machinery Co., Ltd., POSTECH Venture Capital Corp, POSTECH 2006 Energy Fund, POSCO Refractories & Environment Co., Ltd. (POSREC), POSCO Terminal Co., Ltd., POSMATE Co., Ltd., Samjung Packing & Aluminum Co., Ltd., POSCO Power Corp., PHP Co., Ltd., PNR Co., Ltd., Megaasset Co., Ltd., Daewoo engineering Company, Metapolis Co., Ltd., POSCORE Co., Ltd., PoHang Fuel Cell Co., Ltd., POSCO-AST Co., Ltd., DaiMyung TMS Co., Ltd., POS-HiMetal Co., Ltd., POSCO E&E, Universal Studio Resort Development Co., Ltd.
<b>Foreign (50)</b> . . . . .	POSCO America Corporation, POSCO Australia Pty. Ltd., POSCO Canada Limited, POSCAN Elkview Coal Ltd., POSCO Asia Co., Ltd., VSC POSCO Steel Corp., Dalian POSCO-CFM Coated Steel Co., Ltd., POSCO-CTPC Co., Ltd., POSCO-JKPC Co., Ltd., International Business Center Corporation, POSLILAMA E&C Co., Ltd., Zhangjiagang Pohang Stainless Steel Co., Ltd., Guangdong Pohang Coated Steel Co., Ltd., POSCO(Thailand) Co.,Ltd., Myanmar POSCO Steel Co., Ltd., Zhangjiagang Posha Steel Port Co., Ltd., POSCO-JOPC Co., Ltd., POSCO Investment Co., Ltd., POSCO-MKPC SDN BHD., Qingdao Pohang Stainless Steel Co., Ltd., POSCO (Suzhou) Automotive Processing Center Co.,Ltd., POSEC-Hawaii Inc., POS-Qingdao Coil Center Co., Ltd., POS-ORE Pty. Ltd., POSCO-China Holding Corp., POSCO-Japan Co., Ltd., POSCO E&C (Zhangjiagang) Engineering & Consulting Co., Ltd., POS-CD Pty. Ltd., POS-GC Pty. Ltd., POSCO-India Private. Ltd., POS-India Pune Steel Processing Centre Pvt. Ltd., POSCO-JNPC Co., Ltd., POSCO-Foshan Steel Processing Centre Pvt. Ltd., POSCO E&C (Beijing) Co., Ltd., POSCO-MPC S.A. de C.V., Zhanjiagang Pohang Port Co., Ltd., POSCO-Vietnam Co., Ltd., POSCO Mexico Co., Ltd., POSCO-India Delhi Steel Processing Centre Pvt. Ltd., POSCO (Chongqing) Automotive Processing Center Co., Ltd., POS-NP Pty. Ltd., POSCO Vietnam Processing Center Co., Ltd., Suzhou pos-core Technology Co., Ltd., POSCO-JYPC Co., Ltd., POSCO-Malaysia SDN. BHD., POS-Minerals Corporation, POSCO (Wuhu) Automotive Processing Center Co., Ltd., &TV Communications, POSCO-Phillippine Manila Processing Center INC., POSCO VST Co., Ltd.

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

(b) Significant transactions, which occurred in the ordinary course of business, with consolidated subsidiaries for the years ended December 31, 2009, 2008 and 2007, and the related account balances as of December 31, 2009 and 2008 are as follows:

	Sales and Others <sup>(*)</sup>			Purchases and Others <sup>(*)</sup>		
	2009	2008	2007	2009	2008	2007
	(In millions of Korean Won)					
POSCO E&C Co., Ltd. . . . .	₩ 4,605	₩ 13,626	₩ 20,000	₩ 2,546,163	₩ 1,121,335	₩ 984,030
Posteel Co., Ltd. . . . .	1,167,877	1,455,354	1,072,032	158,260	244,908	220,459
POSCON Co., Ltd. . . . .	106	105	120	278,407	229,119	244,365
POSCO Coated Steel Co., Ltd. . . . .	494,938	609,377	436,206	1,490	1,916	1,327
POSCO Plant Engineering Co., Ltd. (formerly, POSCO Machinery & Engineering Co., Ltd.) . . . . .	1,509	4,309	157	200,772	158,275	152,844
POSCO ICT Co., Ltd. (formerly, POSDATA Co., Ltd.) . . . . .	1,015	1,685	4,516	190,127	187,186	173,660
POSCO Machinery Co., Ltd. . . . .	8,843	15,302	3,480	79,801	79,549	114,378
POSCO Refractories & Environment Co., Ltd. (POSREC) . . . . .	87,121	57,189	250	475,269	350,153	213,753
Samjung Packing & Aluminum Co., Ltd. . . . .	18,945	25,115	16,985	203,179	268,044	233,125
POSCORE Co., Ltd. . . . .	130,964	131,497	39,002	39	176	—
POSCOAST Co., Ltd. (formerly, Taihan ST Co., Ltd.) . . . . .	83,245	—	—	20,938	—	—
POSCO America Corporation (POSAM) . . . . .	169,274	168,663	130,150	—	93	686
POSCO Canada Ltd. (POSCAN) . . . . .	—	40	40	84,192	289,015	71,120
POSCO Asia Co., Ltd. (POA) . . . . .	1,093,589	951,867	600,059	76,004	215,318	121,098
POSCO (Thailand) Co., Ltd. . . . .	70,129	91,077	47,248	5	—	—
Qingdao Pohang Stainless Steel Co., Ltd. . . . .	185,002	93,232	82,581	—	—	—
POSCO — Japan Co., Ltd. . . . .	690,289	1,191,222	831,711	84,112	23,233	50,939
POS-India Pune Steel Processing Centre Pvt. Ltd. . . . .	110,901	66,931	53,981	—	—	9
POSCO Vietnam Co., Ltd. . . . .	117,296	1,026	—	—	—	—
Others . . . . .	867,508	347,681	80,231	123,096	125,627	168,596
	<u>₩ 5,303,156</u>	<u>₩ 5,225,298</u>	<u>₩ 3,418,749</u>	<u>₩ 4,521,854</u>	<u>₩ 3,293,947</u>	<u>₩ 2,750,389</u>

**POSCO and Subsidiaries**  
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	Receivables <sup>(*)2</sup>		Payables <sup>(*)2</sup>	
	2009	2008	2009	2008
	(In millions of Korean Won)			
POSCO E&C Co., Ltd. . . . .	₩ 142,813	₩ 396,743	₩ 536,857	₩ 249,792
Posteel Co., Ltd. . . . .	114,697	220,360	3,494	21,651
POSCON Co., Ltd. . . . .	30,071	62,895	65,126	62,943
POSCO Coated Steel Co., Ltd. . . . .	109,616	48,785	199	71
POSCO Plant Engineering Co.,Ltd. (formerly, POSCO Machinery & Engineering Co., Ltd.) . . . . .	2,959	18,770	44,669	26,054
POSCO ICT Co.,Ltd. (formerly, POSDATA Co., Ltd.) . . . . .	10,387	1,103	46,060	27,322
POSCO Machinery Co., Ltd. . . . .	1,724	5,032	15,315	16,401
POSCO Refractories & Environment Co., Ltd. (POSREC) . . . . .	6,879	19,064	68,529	57,788
Samjung Packing & Aluminum Co., Ltd. . . . .	1,472	2,578	24,942	23,678
POSCORE Co., Ltd. . . . .	11,678	20,330	24	—
POSCOAST Co., Ltd. (formerly, Taihan ST Co., Ltd.) . . . . .	17,492	—	7,572	—
POSCO America Corporation (POSAM) . . . . .	6,163	2,818	—	—
POSCO Canada Ltd. (POSCAN) . . . . .	—	20	—	—
POSCO Asia Co., Ltd. (POA) . . . . .	40,548	27,224	1,170	2,978
POSCO (Thiland) Co., Ltd. . . . .	19,835	32,415	—	—
Qingdao Pohang Stainless Steel Co., Ltd. . . . .	24,205	12,904	—	—
POSCO — Japan Co., Ltd. . . . .	25,637	21,040	8,949	1,104
POS-India Pune Steel Processing Centre Pvt. Ltd. . . . .	12,356	3,831	—	—
POSCO Vietnam Co., Ltd. . . . .	95,518	1,024	—	—
Others . . . . .	43,597	29,520	19,237	21,728
	₩ 717,647	₩ 926,456	₩ 842,143	₩ 511,510

Significant transactions, which occurred in the ordinary course of business, with equity method investees for the years ended December 31, 2009, 2008 and 2007, and related account balances as of December 31, 2009 and 2008, are as follows:

	Sales and Others <sup>(*)1</sup>			Purchases and Others <sup>(*)1</sup>		
	2009	2008	2007	2009	2008	2007
	(In millions of Korean Won)					
eNtoB Corporation . . . . .	₩ —	₩ —	₩ —	₩ 225,439	₩ 288,604	₩ 216,920
KOBRASCO . . . . .	—	4,115	—	2,857	63,968	72,514
Poschrome (Proprietary) Limited . . . . .	—	98	35	53,711	91,467	41,735
POSVINA Co., Ltd. . . . .	5,973	12,550	5,056	—	—	—
USS — POSCO Industries (UPI) . . . . .	241,921	428,092	245,814	58	—	—
Guangdong Xingpu Steel Center Co., Ltd. . . . .	—	10,011	3,094	—	—	—
SNNC Co., Ltd. . . . .	1,437	2,245	343	368,742	33,867	—
Others . . . . .	—	1	—	161	—	—
	₩ 249,331	₩ 457,112	₩ 254,342	₩ 650,968	₩ 477,906	₩ 331,169

**POSCO and Subsidiaries**  
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	Receivables <sup>(*2)</sup>		Payables <sup>(*2)</sup>	
	2009	2008	2009	2008
	(In millions of Korean Won)			
eNtoB Corporation. . . . .	₩ —	₩ —	₩ 6,561	₩ 6,016
KOBRASCO. . . . .	—	4,115	—	—
Poschrome (Proprietary) Limited . . . . .	176	—	—	—
POSVINA . . . . .	—	—	33,962	—
USS — POSCO Industries (UPI) . . . . .	39,052	—	—	—
Guangdong Xingpu Steel Conter Co., Ltd. . . . .	—	1,825	—	—
SNNC Co., Ltd. . . . .	1,974	19	26,963	1,926
Others. . . . .	—	—	78	—
	₩ 41,202	₩ 5,959	₩ 67,564	₩ 7,942

(\*1) Sales and others include sales, non-operating income and others; purchases and others include purchases, acquisition of property, plant and equipment, overhead expenses and others.

(\*2) Receivables include trade accounts and notes receivable, other accounts receivable and others; payables include trade accounts payable, other accounts payable and others.

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

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(c) Eliminations of inter-company revenues and expenses for the year ended December 31, 2009, 2008 and 2007, and receivables and payables as of December 31, 2009, 2008 and 2007, are as follows:

	Sales and Others <sup>(*)</sup>	Purchase and Others <sup>(*)</sup>	Receivables <sup>(*)</sup>	Payables <sup>(*)</sup>
	(In millions of Korean Won)			
<b>Subsidiaries</b>				
POSCO . . . . .	₩ 5,303,156	₩ 4,521,854	₩ 717,647	₩ 842,143
POSCO E&C Co., Ltd. . . . .	3,634,705	332,882	762,020	278,340
Posteel Co., Ltd. . . . .	365,946	1,312,127	57,227	126,282
POSCON Co., Ltd. . . . .	342,839	9,537	96,467	41,300
POSCO Coated Steel Co., Ltd. . . . .	84,296	504,020	5,979	111,075
POSCO Plant Engineering Co.,Ltd. (formerly, POSCO Machinery & Engineering Co., Ltd.) . .	226,438	7,296	51,990	9,233
POSCO ICT Co.,Ltd. (formerly, POSDATA Co., Ltd.) . . . . .	245,956	5,963	60,041	12,196
POSCO Machinery Co., Ltd. . . . .	93,257	12,082	16,050	2,494
Mtapolis Co.,Ltd. . . . .	—	153,390	—	24,763
Samjung Packing & Aluminum Co., Ltd. . . . .	205,443	19,356	24,942	1,625
POSCO Power Corporation . . . . .	25,609	566,365	37,654	141,486
PHP Co.,Ltd. . . . .	—	237,909	618	12,549
POSCORE Co., Ltd. . . . .	5,178	134,986	—	9,197
POSCO America Corporation (POSAM). . . . .	11,154	187,075	1,950	10,919
POSCO Canada Ltd. (POSCAN) . . . . .	84,192	90	—	61
POSCO Asia Co., Ltd. (POA) . . . . .	534,184	1,138,943	94,705	41,055
POSCO-CTPC Co., Ltd. . . . .	46	153,909	—	37,351
Zhangjiagang Pohang Stainless Steel Co., Ltd. . . . .	380,268	27,011	62,434	1,625
POSCO Thailand Bangkok Processing Center Co., Ltd. . . . .	5	107,936	27	39,413
POSCO Investment Co., Ltd. . . . .	1,885	—	241,371	—
Qingdao Pohang Stainless Steel Co., Ltd. . . . .	169,883	330,015	23,452	64,432
POSCO (Suzhou) Automotive Processing Center Co., Ltd. . . . .	1,532	261,279	34	44,801
POS-Qingdao Coil Center Co., Ltd. . . . .	—	136,989	45,631	—
POSCO — Japan Co., Ltd. . . . .	226,753	722,445	105,527	28,323
POS-India Pune Steel Processing Centre Pvt Ltd. . . . .	983	114,210	63	—
POSCO-JNPC Co., Ltd. . . . .	8,939	103,412	—	24,515
POSCO-Foshan Steel Processing Center Pvt. Ltd. . . . .	76	459,444	842	82,278
POSCO-MPC S.A. de C.V. . . . .	544	109,537	—	1,305
POSCO-Vietnam Co.,Ltd. . . . .	25,068	196,210	—	93
POSCO-Mexico Co., Ltd. . . . .	6,501	133,972	3,600	108,666
Others . . . . .	1,005,836	990,428	243,594	556,345
2009. . . . .	₩ 12,990,672	₩ 12,990,672	₩ 2,653,865	₩ 2,653,865
2008. . . . .	11,440,682	11,440,682	2,458,650	2,458,650
2007. . . . .	8,153,327	8,153,327	1,125,494	1,125,494

(\*) Sales and others include sales, non-operating income and others; purchases and others include purchases, acquisition of property, plant and equipment, overhead expenses and others.

(\*) Receivables include trade accounts and notes receivable, other accounts receivable and others; payables include trade accounts payable, other accounts payable and others.



# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

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(d) For the years ended December 31, 2009 and 2008, details of compensation to key management officers excluding stock appreciation rights are as follows:

	2009	2008
	(In millions of Korean Won)	
Salaries . . . . .	₩ 43,608	46,142
Severance benefits . . . . .	15,216	11,481
Management achievement awards and others . . . . .	34,455	37,347
Total . . . . .	₩ 93,279	94,970

Key management officers include directors (including non-standing directors), executive officials and fellow officials who have significant influence and responsibilities in the Company's business and operations. The Company recognized expense related to stock appreciation rights which were increased by ₩36,100 million, and decreased by ₩55,155 million for the year ended December 31, 2009 and 2008, respectively.

### 30. Segment and Geographic Information

Our operating businesses are organized based on the nature of markets and customers. We have four reportable operating segments — the steel segment, the engineering and construction segment, the trading segment and the segment that contains operations of all other entities which fall below the reporting thresholds. The steel segment includes production of steel products and sale of such products. The engineering and construction segment includes planning, designing and construction of industrial plants, civil engineering projects and commercial and residential buildings, both in Korea and overseas. The trading segment consists of exporting and importing a wide range of steel products and raw materials that are both obtained from and supplied to POSCO, as well as between other suppliers and purchasers in Korea and overseas.

The segment results are measured based on sales and operating income in accordance with Korean GAAP without any adjustment for corporate allocations. The segment assets are measured based on total assets in accordance with Korean GAAP without any adjustment for corporate allocations.

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2009 and 2008

(a) The following table provides POSCO's segment financial information as of and for the year ended December 31, 2009:

	Steel	Engineering and Construction	Trading	Others	Consolidation Adjustment	Consolidated
	(In millions of Korean Won)					
Sales						
Total sales . . . . .	₩ 34,503,317	7,760,374	4,120,088	3,420,139	(12,948,917)	₩ 36,855,001
Inter-company sales . . . . .	(6,090,338)	(3,852,222)	(1,137,776)	(1,868,581)	12,948,917	—
Net sales . . . . .	₩ 28,412,979	3,908,152	2,982,312	1,551,558	—	₩ 36,855,001
Operating income . . . . .	₩ 3,217,117	345,647	32,795	268,027	4,576	₩ 3,868,162
Inventories . . . . .	₩ 4,208,446	718,815	156,083	157,836	(88,341)	₩ 5,152,839
Investments (non-current) . .	10,319,818	888,745	594,174	1,241,058	(6,572,796)	6,470,999
Equity method investments . .	5,712,306	496,807	536,999	546,857	(6,465,386)	827,583
Property, plant and equipment . . . . .	19,694,065	1,143,885	220,729	2,087,110	(1,306,004)	21,839,785
Intangible assets <sup>(*)</sup> . . . . .	198,763	20,042	1,646	101,972	307,546	629,969
Goodwill . . . . .	46,968	198,580	—	26,544	—	272,092
Total Assets . . . . .	₩ 46,249,396	6,080,744	1,808,745	5,539,673	(9,366,810)	₩ 50,311,748
Depreciation and amortization <sup>(*)</sup> . . . . .	₩ 2,368,575	25,363	5,564	205,800	(52,220)	₩ 2,553,082
Capital expenditure . . . . .	4,802,933	207,588	1,435	830,126	564,421	6,406,503
Stock compensation expenses . . . . .	36,100	—	—	—	—	36,100

The following table provides POSCO's segment information as of and for the year ended December 31, 2008:

	Steel	Engineering and Construction	Trading	Others	Consolidation Adjustment	Consolidated
	(In millions of Korean Won)					
Sales						
Total sales . . . . .	₩ 38,448,113	5,528,105	5,656,959	3,749,459	(11,640,000)	₩ 41,742,636
Inter-company sales . . . . .	(6,547,017)	(1,855,696)	(1,392,356)	(1,844,931)	11,640,000	—
Net sales . . . . .	₩ 31,901,096	3,672,409	4,264,603	1,904,528	—	₩ 41,742,636
Operating income . . . . .	₩ 6,628,789	283,973	49,117	488,078	(276,028)	₩ 7,173,929
Inventories . . . . .	₩ 7,569,508	847,481	323,164	219,574	(298,006)	₩ 8,661,721
Investments (non-current) . .	8,722,560	1,067,694	603,289	1,027,891	(6,143,269)	5,278,165
Equity method investments . . . . .	5,094,239	659,363	537,533	688,493	(6,147,092)	832,536
Property, plant and equipment . . . . .	17,393,603	614,477	231,164	1,637,042	(1,807,187)	18,069,099
Intangible assets <sup>(*)</sup> . . . . .	223,177	21,825	957	157,206	320,602	723,767
Goodwill . . . . .	13,698	209,461	—	47,683	—	270,842
Total Assets . . . . .	₩ 42,884,329	6,324,810	1,976,797	4,916,085	(9,140,739)	₩ 46,961,282
Depreciation and amortization <sup>(*)</sup> . . . . .	₩ 2,171,387	17,710	5,660	150,177	35,124	₩ 2,380,058
Capital expenditure . . . . .	3,922,096	289,775	88,405	320,417	(527,380)	4,093,313
Stock compensation expenses . . . . .	—	—	—	—	—	—

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

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The following table provides POSCO's segment information as of and for the year ended December 31, 2007:

	Steel	Engineering and Construction	Trading	Others	Consolida- tion Adjustment	Consolidated
	(In millions of Korean Won)					
Sales						
Total sales . . . . .	₩ 29,184,546	3,801,882	4,018,003	2,715,242	(8,111,932)	₩ 31,607,741
Inter-company sales . . . .	(4,757,641)	(1,092,309)	(874,520)	(1,387,462)	8,111,932	—
Net sales . . . . .	₩ 24,426,905	2,709,573	3,143,483	1,327,780	—	₩ 31,607,741
Operating income . . . . .	₩ 4,534,201	284,632	31,068	187,613	(117,652)	₩ 4,919,862
Inventories . . . . .	₩ 4,258,206	454,338	126,182	145,708	(82,418)	₩ 4,902,016
Investments (non-current) . .	8,205,751	565,983	333,688	775,105	(4,641,501)	5,239,026
Equity method investments . . . . .	4,344,174	229,022	286,404	382,443	(4,637,431)	604,612
Property, plant and equipment . . . . .	15,110,911	142,157	198,856	1,341,015	(1,211,174)	15,581,765
Intangible assets <sup>(*)</sup> . . . . .	246,932	25,152	897	166,992	130,806	570,779
Goodwill . . . . .	—	—	—	75,556	—	75,556
Total Assets . . . . .	₩ 34,634,495	3,246,818	1,195,492	3,530,588	(6,332,630)	₩ 36,274,763
Depreciation and amortization <sup>(*)</sup> . . . . .	₩ 1,940,677	16,527	5,591	140,059	24,578	₩ 2,127,432
Capital expenditure . . . . .	2,787,662	79,961	919	241,643	(217,938)	2,892,247
Stock compensation expenses . . . . .	123,881	—	—	—	—	123,881

(\*) Includes goodwill.

(\*) Includes depreciation expense of idle property.

The following table provides reconciliation from the total segment operating profit to the Company's income before income taxes and net income (loss) of consolidated subsidiaries before acquisition for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
	(In millions of Korean Won)		
Total of segment results . . . . .	₩ 3,863,586	7,449,957	5,037,514
Consolidation adjustment <sup>(*)</sup> . . . . .	4,576	(276,028)	(117,652)
Non-operating expense, net <sup>(*)</sup> . . . . .	(128,887)	(1,078,290)	(20,931)
Net income before income tax expenses . . . . .	₩ 3,739,275	6,095,639	4,898,931

(\*) Consolidated adjustments consist primarily of the elimination of intersegment transactions.

(\*) See the Consolidated Statements of Income for details of non-operating income and expense items.

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(b) Net sales for the years ended December 31, 2009, 2008 and 2007, and long-lived assets by geographic location as of December 31, 2009 and 2008, are as follows:

	Sales <sup>(*)</sup>			Property, Plant and Equipment	
	2009	2008	2007	2009	2008
	(In millions of Korean Won)				
Customer Location					
Korea . . . . .	₩ 22,528,633	26,886,852	19,969,637	₩19,384,333	15,487,750
Japan . . . . .	1,387,095	2,043,819	1,741,972	266,515	252,277
China . . . . .	5,049,354	4,875,784	4,503,900	1,030,625	1,350,731
Asia/Pacific, excluding Japan and China . . . . .	2,898,798	3,138,884	2,041,587	687,234	665,155
North America . . . . .	751,983	800,817	732,002	18,984	19,703
Others . . . . .	4,239,138	3,996,480	2,618,644	452,094	293,483
	<u>₩ 36,855,001</u>	<u>41,742,636</u>	<u>31,607,742</u>	<u>₩21,839,785</u>	<u>18,069,099</u>

(\*) Represents revenues, net of consolidation adjustments, incurred based on customers' locations instead of the Company and subsidiaries' locations.

(c) Condensed consolidated statements of financial position as of December 31, 2009 and 2008 categorized by type of business are as follows:

	Non-Financial Institution		Financial Institution	
	2009	2008	2009	2008
	(In millions of Korean Won)			
<b>Assets</b>				
Current assets . . . . .	₩ 20,233,636	21,819,672	₩ 400,514	377,961
Non-Current assets . . . . .	29,535,124	24,588,267	142,474	175,382
Investment assets . . . . .	6,332,198	5,106,522	138,801	171,643
Property, plant and equipment . . . . .	21,839,775	18,069,079	10	20
Intangible assets . . . . .	629,918	723,724	51	43
Other non-current assets . . . . .	733,233	688,942	3,612	3,676
Total Assets . . . . .	<u>49,768,760</u>	<u>46,407,939</u>	<u>542,988</u>	<u>553,343</u>
<b>Liabilities</b>				
Current liabilities . . . . .	8,878,677	10,609,425	396,141	399,967
Non-Current liabilities . . . . .	9,371,979	7,607,183	637	502
Total Liabilities . . . . .	<u>₩ 18,250,656</u>	<u>18,216,608</u>	<u>₩ 396,778</u>	<u>400,469</u>

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(d) Condensed consolidated statements of income for the years ended December 31, 2009 and 2008 categorized by type of business are as follows:

	<b>Non-financial Institution</b>		<b>Financial Institution</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(In millions of Korean Won)</b>			
Sales . . . . .	₩ 36,836,780	41,727,093	₩ 18,221	15,543
Cost of goods sold . . . . .	31,032,184	32,555,721	5,241	6,618
Selling and administrative expenses . . . . .	1,944,829	1,999,701	4,585	6,667
Operating income . . . . .	3,859,767	7,171,671	8,395	2,258
Non-operating income . . . . .	2,361,475	2,368,851	918	1,025
Non-operating expenses . . . . .	2,481,060	3,441,729	10,220	6,437
Net income before income tax expense . . . . .	3,740,182	6,098,793	(907)	(3,154)
Income tax expense . . . . .	536,068	1,734,095	(72)	(112)
Net income of Subsidiaries before purchasing . . . . .	(39,032)	11,552	—	—
Net income . . . . .	₩ 3,243,146	4,353,146	₩ (835)	(3,042)
Controlling interest . . . . .	₩ 3,219,260	4,381,793	₩ (835)	(3,042)
Non controlling interest . . . . .	₩ 23,886	(28,647)	₩ —	—

**31. Significant Differences between Korean GAAP and U.S. GAAP**

**Reconciliation to U.S. Generally Accepted Accounting Principles**

The consolidated financial statements of the Company are prepared in accordance with generally accepted accounting principles in the Republic of Korea ("Korean GAAP"), which differs in certain significant respects from generally accepted accounting principles in the United States of America ("U.S. GAAP"). Application of U.S. GAAP would have affected the consolidated financial position of POSCO as of December 31, 2009 and 2008 and the related consolidated net income for the three years ended December 31, 2009, 2008 and 2007 to the extent described below.

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

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

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#### (a) Reconciliation of Net Income from Korean GAAP to U.S. GAAP

	Adjustments Before Deferred Income Tax	Deferred Income Tax Effect	Net Adjustments to Net Income
	(In millions of Korean Won, except share information)		
For the year ended December 31, 2009			
Net income attributable to controlling interest under Korean GAAP . . . . .			₩ 3,218,425
Net income attributable to non controlling interest under Korean GAAP . . . . .			23,886
Net income under Korean GAAP . . . . .			3,242,311
Adjustments:			
Fixed asset revaluation . . . . .	₩ 10,361	₩ (2,280)	₩ 8,081
Capitalized costs . . . . .	131,843	(29,005)	102,838
Investment securities . . . . .	210,762	(46,368)	164,394
Goodwill . . . . .	56,433	(12,414)	44,019
Derivatives . . . . .	90,846	(22,446)	68,400
Others, net . . . . .	576	(128)	448
	₩ 500,821	₩ (112,641)	₩ 388,180
Tax effects resulting from intercompany transactions . . . . .			(21,680)
			₩ 366,500
Net income in accordance with U.S. GAAP . . . . .			₩ 3,608,811
Net income attributable to non controlling interest in accordance with U.S. GAAP . . . . .			41,462
Net income attributable to controlling interest in accordance with U.S. GAAP . . . . .			3,567,349
Basic and diluted earnings per share in accordance with U.S. GAAP . . . . .			₩ 46,534
Weighted-average shares outstanding . . . . .			76,661,240

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	Adjustments Before Deferred Income Tax	Deferred Income Tax Effect	Net Adjustments to Net Income
	(In millions of Korean Won, except share information)		
For the year ended December 31, 2008			
Net income attributable to controlling interest under Korean GAAP . . . . .			₩ 4,378,751
Net income attributable to non controlling interest under Korean GAAP . . . . .			(28,647)
Net income under Korean GAAP . . . . .			<u>4,350,104</u>
Adjustments:			
Fixed asset revaluation . . . . .	₩ 12,046	₩ (2,650)	₩ 9,396
Capitalized costs . . . . .	29,517	(6,494)	23,023
Investment securities . . . . .	(444,834)	97,863	(346,971)
Goodwill . . . . .	41,248	(9,074)	32,174
Derivatives . . . . .	(72,981)	21,517	(51,466)
Others, net . . . . .	<u>(17,310)</u>	<u>(1,652)</u>	<u>(18,962)</u>
	₩ (452,314)	₩ 99,510	₩ (352,806)
Effects of changes in tax rates . . . . .			13,216
Tax effects resulting from intercompany transactions . . . . .			73,300
			<u>₩ (266,290)</u>
Net income in accordance with U.S. GAAP . . . . .			<u>₩ 4,083,814</u>
Net loss attributable to non controlling interest in accordance with U.S. GAAP . . . . .			(22,076)
Net income attributable to controlling interest in accordance with U.S. GAAP . . . . .			<u>4,105,890</u>
Basic and diluted earnings per share in accordance with U.S. GAAP . . . . .			₩ 54,387
Weighted-average shares outstanding . . . . .			75,493,523



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	Adjustments Before Deferred Income Tax	Deferred Income Tax Effect	Net Adjustments to Net Income
	(In millions of Korean Won, except share information)		
For the year ended December 31, 2007			
Net income attributable to controlling interest under Korean GAAP . . . . .			₩ 3,558,660
Net income attributable to non controlling interest under Korean GAAP . . . . .			119,304
Net income under Korean GAAP . . . . .			3,677,964
Adjustments:			
Fixed asset revaluation . . . . .	₩ 12,489	₩ (3,434)	₩ 9,055
Capitalized costs . . . . .	17,859	(4,911)	12,948
Investment securities . . . . .	537	(148)	389
Goodwill . . . . .	29,160	(8,019)	21,141
Derivatives . . . . .	(71,011)	19,528	(51,483)
Others, net . . . . .	9,311	(2,561)	6,750
	₩ (1,655)	₩ 455	₩ (1,200)
Net income in accordance with U.S. GAAP . . . . .			₩ 3,676,764
Net income attributable to non controlling interest in accordance with U.S. GAAP . . . . .			111,717
Net income attributable to controlling interest in accordance with U.S. GAAP . . . . .			3,565,047
Basic and diluted earnings per share in accordance with U.S. GAAP . . . . .			₩ 46,938
Weighted-average shares outstanding . . . . .			75,952,869

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**(b) Reconciliation of Total Equity from Korean GAAP to U.S. GAAP**

	Adjustments Before Deferred Income Tax Effect	Deferred Income Tax Effect	Net Adjustments to Equity
	(In millions of Korean Won)		
As of December 31, 2009			
Controlling interest . . . . .			₩ 30,908,964
Non controlling interest . . . . .			<u>755,350</u>
Total equity under Korean GAAP . . . . .			<u><u>31,664,314</u></u>
Adjustments:			
Fixed asset revaluation . . . . .	₩ (122,940)	₩ 7,798	₩ (115,142)
Capitalized costs . . . . .	479,526	(105,496)	374,030
Investment securities . . . . .	6,449	(1,419)	5,030
Goodwill . . . . .	161,037	(35,428)	125,609
Derivatives . . . . .	(53,147)	11,692	(41,455)
Others, net . . . . .	(9,496)	2,090	(7,406)
Tax effects resulting from intercompany transactions . . . . .	—	51,620	51,620
	<u>₩ 461,429</u>	<u>₩ (69,143)</u>	<u>₩ 392,286</u>
Total equity in accordance with U.S. GAAP . . . . .			₩ 32,056,600
Non controlling interest in accordance with U.S. GAAP . . . . .			<u>747,460</u>
Shareholders' equity attributable to controlling interest in accordance with U.S. GAAP . . . . .			<u><u>31,309,140</u></u>

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	Adjustments Before Deferred Income Tax Effect	Deferred Income Tax Effect	Net Adjustments to Equity
	(In millions of Korean Won)		
<b>As of December 31, 2008</b>			
Controlling interest . . . . .			₩ 27,663,665
Non controlling interest . . . . .			680,540
Total equity under Korean GAAP . . . . .			<u>28,344,205</u>
Adjustments:			
Fixed asset revaluation . . . . .	₩ (133,301)	₩ 10,077	₩ (123,224)
Capitalized costs . . . . .	347,683	(76,490)	271,193
Investment securities . . . . .	(142,071)	31,256	(110,815)
Goodwill . . . . .	104,604	(23,013)	81,591
Derivatives . . . . .	(143,993)	34,138	(109,855)
Others, net . . . . .	(10,072)	2,216	(7,856)
Tax effects resulting from intercompany transactions . . . . .	—	73,300	73,300
	<u>₩ 22,850</u>	<u>₩ 51,484</u>	<u>₩ 74,334</u>
Total equity in accordance with U.S. GAAP . . . . .			₩ 28,418,539
Non controlling interest in accordance with U.S. GAAP . . . . .			<u>659,176</u>
Shareholders' equity attributable to controlling interest in accordance with U.S. GAAP . . . . .			<u>27,759,363</u>

**(c) Fixed Asset Revaluation**

Under Korean GAAP, certain fixed assets were subject to upward revaluations in accordance with the Asset Revaluation Law, with the revaluation increment credited to capital surplus. As a result of this revaluation, depreciation expense on these assets were adjusted to reflect the increased basis. Under U.S. GAAP, such a revaluation is not permitted and depreciation expense should be based on historical cost. As a result, the gain or loss on sale of fixed assets determined in accordance with U.S. GAAP is different from the amount determined under Korean GAAP.

**(d) Capitalized Costs**

Under Korean GAAP, the Company capitalizes certain foreign exchange gains and losses on borrowings associated with property, plant and equipment during the construction period. Under U.S. GAAP, all foreign exchange gains and losses are included in the results of operations for the current period. No foreign exchange gains and losses have been capitalized for the years ended December 31, 2009, 2008 and 2007 under Korean GAAP. Depreciation of net capitalized foreign exchange gains and losses carried forward from prior periods amounted to ₩(135) million, ₩841 million and ₩1,048 million for the years ended December 31, 2009, 2008 and 2007, respectively.

In addition, effective from the period beginning after December 31, 2002, under Korean GAAP, interest costs that would have been theoretically avoided had expenditures not been made for assets

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which require a period of time to prepare them for their intended use are generally expensed as incurred, except when certain criteria are met for capitalization. The Company has adopted this application and expensed financing costs. Under U.S. GAAP, the Company is required to capitalize such amount. Capital projects that have had their progress halted would suspend the capitalization of interest.

Capitalized interests for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
	(In millions of Korean Won)		
Capitalized interest . . . . .	₩ 184,955	96,980	104,014
Depreciation of capitalized interest . . . . .	(98,328)	(90,113)	(73,888)
Net income impact . . . . .	₩ 86,627	6,867	30,126

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

U.S. GAAP reconciliation adjustments for the capitalization and amortization of intangible assets, which arose mostly from capitalized research and development costs, for the years ended December 31, 2009, 2008 and 2007, are as follows:

	2009	2008	2007
	(In millions of Korean Won)		
Net income impact . . . . .	₩ 45,351	21,809	(13,315)

#### (e) Guarantees

Under Korean GAAP, the guarantor is required to disclose guarantees, including indirect guarantees of indebtedness of others. Under U.S. GAAP, the guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. As of December 31, 2009, the aggregate initial fair value of outstanding guarantees issued by the Company for the repayment of loans was ₩420,212 million, excluding guarantees issued either between parents and their subsidiaries or between corporations under common control (note 16). Upon initial recognition of the liability for the fair value of the obligation undertaken in issuing the guarantee, the corresponding amount is recorded in selling and administrative expenses in the statement of income as such obligation is undertaken on a stand alone basis for no consideration. Subsequent to initial recognition, the Company's release from the risk of guarantee is recognized as the fair value of obligation changes. The changes in fair value are recognized in the statement of income. The Company has recognized guarantee expense amounting to ₩837 million and ₩3,260 million and ₩566 million for the years ended December 31, 2009, 2008 and 2007, respectively. This adjustment is included in others, net in the reconciliation of net income and equity from Korean GAAP to U.S. GAAP.

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#### (f) Stock Appreciation Rights

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

Under U.S. GAAP, Accounting Standards Codification ("ASC") Topic 718, "Compensation — Stock Compensation" (Statement of Financial Accounting Standards ("SFAS") No. 123(R)) is effective as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. The Company adopted ASC Topic 718 (FAS 123(R)) on January 1, 2006 using the modified prospective method, under which a grant-date fair value approach is applied to all awards granted after the effective date and to awards modified, repurchased or cancelled after effective date. The cumulative effect of initially applying this statement is recognized as of the required effective date. The compensation expense for the portion of the awards that are outstanding at December 31, 2005 for which the requisite service period has not been rendered was determined based on its fair value on the adoption date, and any difference to be reflected as the cumulative effect of change in accounting principle, net of any related tax effect. Also, reflected in the cumulative effect of change in accounting principle is the net cumulative impact of estimating future forfeitures in the determination of periodic expense, rather than recording forfeitures when they occur as previously permitted. Prior to adoption of ASC Topic 718 (FAS 123(R)), the Company applied the intrinsic value approach under APB 25 and recorded stock-based compensation liabilities using the quoted market value of the shares of the Company's stock in excess of option price.

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

All the stock appreciation rights will be settled in cash upon vesting under service condition, therefore, stock appreciation right is classified as liability awards, and the fair value of stock options granted was remeasured as of the reporting date using a Black-Scholes option-pricing model with the following assumptions:

	2009
Dividend yield range . . . . .	1.29 ~ 1.89%
Expected volatility range . . . . .	30 ~ 50.5%
Risk-free interest rate range . . . . .	2.82 ~ 3.69%
Expected lives (in years) . . . . .	0.25 ~ 1.82

The percentage of the fair value of the awards that is accrued as compensation cost at the end of each period equals the percentage of the requisite service that has been rendered at that date. Changes in the fair value of the liability that occur after the end of the requisite service period are recorded as compensation cost of the period in which the changes occur.

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U.S. GAAP reconciliation adjustments for stock appreciation rights granted to employees and executives recognized for the years ended December 31, 2009, 2008 and 2007 are included in others, net and are as follows:

	2009	2008	2007
	(In millions of Korean Won)		
Net income impact . . . . .	₩ 1,969	(13,056)	10,759

The total stock compensation expenses, in accordance with U.S. GAAP, for the years ended December 31, 2009, 2008 and 2007 amount to ₩34,131 million, ₩(42,099) million and ₩113,122 million, respectively.

#### (g) Investment Securities

The differences in accounting for investment securities between Korean GAAP and U.S. GAAP relate to (i) recognition of impairment losses, (ii) recognition of gain or loss on disposal of investments due to different classifications and (iii) classification of and accounting for certain non-marketable equity securities.

##### *(i) Recognition of an impairment loss*

Under Korean GAAP, investment securities are evaluated at each balance sheet date to determine whether there is any objective evidence of indicating an impairment loss. A significant deterioration in financial position of the issuer, such as bankruptcy, liquidation, negative net asset values and cessation of operations, would be the type of objective evidence that indicates an impairment loss. When any such objective evidence exists, unless there is a clear counter-evidence that recognition of impairment is unnecessary, management estimates the recoverable amount of the impaired security and recognizes any impairment loss in current operations. A significant or prolonged decline in the fair value of a marketable equity security below its carrying value would not be an indicator of an impairment loss unless there is also objective evidence that the financial position of the issuer has also deteriorated as described above.

The amount of impairment loss of a non-marketable equity security, measured as the difference between the estimated recoverable amount and its carrying amount, is charged to current operations by a write-down of the carrying amount of the investment. For available-for-sale marketable equity securities carried at fair value, the impairment loss is charged to current operations by reversing the unrealized loss recorded in accumulated other comprehensive (loss) income. If the fair value of the impaired investment security subsequently recovers, a gain is recognized up to the amount of previously recognized impairment loss.

Under U.S. GAAP, a significant and prolonged decline in fair value of an equity investment below its cost would result in an impairment loss if the decline in value is determined to be other-than-temporary. The impairment loss is charged to current operations and a new cost basis is established. Any subsequent reversal of previously recognized impairment losses is prohibited.

The reconciliation of net income determined in accordance with Korean GAAP and U.S. GAAP for the year ended December 31, 2008 included other-than-temporary impairment losses amounting to ₩442,840 million recognized under U.S. GAAP but not under Korean GAAP for certain available-for-sale marketable equity securities. The aggregate acquisition cost and fair value of these available-for-sales marketable equity securities were ₩937,929 million and ₩225,646 million, respectively, at December 31, 2008 under Korean GAAP and U.S. GAAP, both of which are recorded

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at fair value. Under Korean GAAP, the unrealized losses recorded in accumulated comprehensive (loss) income related to these securities amounted to ₩615,498 million at December 31, 2008. There was no unrealized loss for U.S. GAAP purposes related to these securities due to the other-than-temporary impairment losses of ₩442, 840 million recorded in 2008 and the impairment losses recorded in the prior years of ₩172,658 million.

Included in other-than-temporary impairment losses recorded under U.S. GAAP in 2008 is an impairment loss of ₩364,878 million related to the Company's available-for-sale investment in MacArthur Coal Limited. The Company acquired a 10% equity interest in MacArthur Coal Limited on July 22, 2008 for ₩420,805 million. For Korean GAAP purposes, the Company recognized the excess of the acquisition cost of this investment over its fair value at the acquisition date as an impairment loss amounting to ₩96,785 million (note 7(b)). As of December 31, 2008, the fair value of this investment was ₩55,927 million, which was significantly lower than the Company's acquisition cost. No additional impairment loss was recognized in the statement of income under Korean GAAP as management, based on its assessment, concluded no objective evidence existed that would indicate a significant deterioration in the financial position of MacArthur Coal Limited. For U.S. GAAP purposes, management determined that the decline in fair value of this investment is other-than-temporary and as a result, an impairment loss amounting to ₩364,878 million was recorded in earnings resulting in an additional impairment loss of ₩268,093 million.

The reconciliation of net income determined in accordance with Korean GAAP and U.S. GAAP for the year ended December 31, 2009 included impairment losses amounting to ₩207,000 million recognized under Korean GAAP but not under U.S. GAAP for LG Powercom. Under Korean GAAP, the Company recorded an impairment loss in 2009 because in 2009, LG Powercom & LG Telecom announced their decision to exchange shares in 2010. The Company considered the announcement as objective evidence of indicating an impairment loss since the Company would have loss upon the disposal of those shares and accordingly, the differences between the fair values and the acquisition costs were recognized as impairment losses while the Company had recorded other-than-temporary impairment losses prior to 2009 under U.S. GAAP.

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

The Company disposed certain securities that had been previously impaired under U.S. GAAP purposes. The fair value of these securities subsequently recovered resulting in the reversal of the impairment under Korean GAAP. As a result, the Company's cost basis relating to those securities was higher under Korean GAAP than under U.S. GAAP. This difference in cost basis resulted in a gain of ₩3,762 million under U.S. GAAP upon disposal for the year ended December 31, 2009.

A summary of the U.S. GAAP adjustments relating to investment securities for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
	(In millions of Korean Won)		
Impairment loss . . . . .	₩ 207,000	(445,225)	—
Recognition of gains on disposal . . . . .	3,762	391	537
Net income impact . . . . .	₩ 210,762	(444,834)	537



# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

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#### (iii) Classification of and accounting for certain non-marketable equity securities

Under Korean GAAP, a non-marketable equity security with no quoted price is classified as available-for-sale if a reasonable estimate of its fair value can be made without incurring excessive costs. Such investments in non-marketable equity securities are carried at fair value, with any unrealized gain or loss recorded as a component accumulated other comprehensive (loss) income. When a reasonable estimate of fair value cannot be made without incurring excessive costs, the investment is carried at cost within the available-for-sale securities category. Under U.S. GAAP, investments in non-marketable equity securities for which the fair value is not readily determinable are accounted for using the cost method and classified as other investment securities.

The Company recorded an adjustment to cancel net unrealized loss amounting to ₩54,992 million which recorded as a component accumulated other comprehensive loss or gain under Korean GAAP related with non-marketable securities including Nacional Minerios S.A.(formerly, Big Jump Energy Participacoes S.A) as of December 31, 2009.

Information with respect to available-for-sale debt and equity securities as of December 31, 2009, 2008 and 2007 is as follows:

#### **Available-for-Sale Securities and Other Investments Securities:**

	2009	2008
	(In millions of Korean Won)	
<b>Available-for-Sale Securities under Korean GAAP</b>		
Marketable Securities . . . . .	₩ 3,973,531	2,917,595
Non-marketable Securities . . . . .	1,354,806	1,370,918
	<u>₩ 5,328,337</u>	<u>4,288,513</u>
<b>Available-for-Sale Securities and Other Investment Securities under U.S. GAAP</b>		
Available-for-Sale Securities . . . . .	₩ 3,973,531	2,917,595
Other Investment Securities . . . . .	1,354,806	1,370,918
Accumulated impairment loss added (deducted) under U.S. GAAP . . . . .	6,449	(142,071)
	<u>1,361,255</u>	<u>1,228,847</u>
	<u>₩ 5,334,786</u>	<u>4,146,442</u>

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2009 were as follows:

	Less than 12 Months		12 Months or More		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
	(In millions of Korean Won)					
Available for Sale Securities:						
Equity securities . . . . .	₩ 97,946	₩ 398,314	₩ 101,587	₩ 311,707	₩ 199,533	₩ 710,021

# **POSCO and Subsidiaries**

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#### **(h) Goodwill**

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

Goodwill is tested annually for impairment and whenever events or circumstances indicate that the carrying value may not be recoverable. The evaluation of impairment involves comparing the current fair value of each of the Company's reporting units to their recorded value, including goodwill. The Company uses a discounted cash flow model (DCF model) to determine the current fair value of its reporting units. Based on its assessment, management concluded that goodwill was not impaired as of December 31, 2009.

Under U.S. GAAP, total goodwill as of December 31, 2009 and 2008 amounted to ₩389,174 million and ₩350,314 million, respectively. Goodwill allocated to the steel segment, engineering and construction segment and others segment as of December 31, 2009 amounted to ₩56,711 million, ₩217,622 million and ₩114,841 million, respectively. Goodwill allocated to the steel segment, engineering and construction segment and others segment as of December 31, 2008 amounted to ₩17,851 million, ₩217,622 million and ₩114,841 million, respectively.

#### **(i) Embedded Derivative**

The Company issued exchangeable bonds in 2003 and 2008. And the issued in 2003 was redeemed in 2008. The exchangeable bonds are exchangeable into SK Telecom American Depository Receipts at the option of the holders. The exchangeable right is considered an embedded derivative instrument. Both Korean GAAP and U.S. GAAP requires that an embedded derivative instrument shall be separated from the host contract and accounted for as a derivative instrument if all of the specific criteria are met.

#### Prior to 2008

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

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

As of December 31, 2007, The Company did not bifurcate exchangeable right related to exchangeable bond issued in 2003 since it did not meet the criteria of derivatives under Korean GAAP. However, exchangeable right is bifurcated and stated at fair value under U.S. GAAP.

# **POSCO and Subsidiaries**

## **Notes to Consolidated Financial Statements**

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#### 2008 and thereafter

The Company adopted the following new Statements of Korean Financial Accounting Standards (SKFAS) issued by the Korea Accounting Standards Board:

In 2007, Financial Supervisory Service's Accounting Implementation Guide [2007-2] issued by the Korea Accounting Standards Board. According to implementation guide, the daily transaction volume is not a factor to determine whether readily convertible to cash or not when there is not significant risk to sell or process the shares converted. Due to the adoption of this implementation guide, there is no GAAP difference in determining net-settlement.

As of December 31, 2009, Exchangeable right in relation to exchangeable bond issued in 2008 is bifurcated and stated at fair value both under Korean GAAP and U.S. GAAP.

#### **(j) Change in Hedge Accounting**

According to the Implementation Guidance [2008-2] issued by KASB, effective January 1, 2008, the Company could change the designation of hedging prospectively when the contracts meet conditions of firm commitment whereas U.S. GAAP does not permit the prospective approach and therefore it's not accounted for as derivative. The impact resulting from this GAAP difference is increase to net income of ₩68,400 million (net of income tax effect of ₩22,446 million) under U.S. GAAP for the year ended December 31, 2009.

#### **(k) Deferred Income Taxes**

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

Under Korean GAAP, the elimination of the net tax effect of an intercompany transaction is recorded at the tax rate of the purchaser as a deferred tax asset that is subject to changes in tax rates or laws. Under U.S. GAAP, such net tax effect arising in the seller's jurisdiction is recorded as a deferred charge, not as a deferred tax asset, and the tax effects of changes in tax rates or laws are included in income from continuing operations in the period that includes the enactment date. The impact resulting from this GAAP difference in applicable tax rate in elimination of the net tax effect of an intercompany transaction is a decrease to net income of ₩21,680 million and an increase to net income of ₩73,300 million under U.S. GAAP for the years ended December 31, 2009 and 2008, respectively. In addition, such net tax effect arising in the seller's jurisdiction which is recorded as a deferred charge amounted to ₩293,260 million and ₩339,089 million under U.S. GAAP as of December 31, 2009 and 2008, respectively while the corresponding amounts are recorded as deferred income taxes under Korean GAAP.

Under Korean GAAP, a deferred tax asset is recognized only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and tax loss and credit carryforwards can be utilized. Under U.S. GAAP, deferred tax assets are recognized and then reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

#### **(l) Accounting for Uncertainty in Income Taxes**

In July 2006, the FASB issued ASC Subtopic 740-10, "Income Taxes — Overall" (FASB Interpretation No. 48 ("FIN 48")) — "Accounting for Uncertainty in Income Taxes, an interpretation of

## **POSCO and Subsidiaries**

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

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FASB Statement No. 109,") which set outs a consistent framework to use to determine the appropriate level of liability for unrecognized tax benefits. This interpretation uses a two-step approach wherein a tax benefit is recognized if a position is more likely than not to be sustained based on the tax technical merits upon examination. A recognized tax position is then measured at the largest amount that is greater than 50% likely of being realized. The difference between the benefit recognized for a position in accordance with ASC Subtopic 740-10 (FIN 48) and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit.

As of the ASC Subtopic 740-10 (FIN 48) adoption date on January 1, 2007, and for the years ended December 31, 2007, 2008 and 2009, the Company did not have any unrecognized tax benefits and thus, no interest and penalties related to unrecognized tax benefits were accrued. The Company's policy is to record interest and penalties related to unrecognized tax benefits as components of income tax expense in the consolidated statements of income.

The Company's major tax jurisdiction is the Republic of Korea. POSCO is currently under audit by the local tax authority for the fiscal years 2005 and 2006. With few exceptions, the tax years from 2007 to 2009 remain open to tax examination by the local tax authority for POSCO and its Korean subsidiaries.

The Company does not believe that it is reasonably possible that the amount of unrecognized tax benefits will significantly change within 12 months after December 31, 2009.

#### **(m) Capitalized Repairs**

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

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**(n) Income Taxes and Deferred Income Taxes in accordance with U.S. GAAP**

Net income before income tax expense and income tax expense are as follows:

	2009	2008	2007
	(In millions of Korean Won)		
Net income before income tax expense:			
POSCO and domestic subsidiaries . . . . .	₩ 4,236,360	5,496,976	4,777,705
Foreign subsidiaries . . . . .	48,777	131,135	191,300
	<u>₩ 4,285,137</u>	<u>5,628,111</u>	<u>4,969,005</u>
Current:			
POSCO and domestic subsidiaries . . . . .	₩ 540,138	2,035,904	1,308,986
Foreign subsidiaries . . . . .	36,165	145,334	32,266
	<u>576,303</u>	<u>2,181,238</u>	<u>1,341,252</u>
Deferred:			
POSCO and domestic subsidiaries . . . . .	96,182	(635,043)	(51,028)
Foreign subsidiaries . . . . .	3,841	(1,898)	2,017
	<u>100,023</u>	<u>(636,941)</u>	<u>(49,011)</u>
Income tax expense . . . . .	<u>₩ 676,326</u>	<u>1,544,297</u>	<u>1,292,241</u>

# POSCO and Subsidiaries

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2009 and 2008 under U.S. GAAP are as follows:

	2009	2008
	(In millions of Korean Won)	
<b>Deferred tax assets:</b>		
Fixed asset revaluation . . . . .	₩ 7,798	10,077
Impairment loss on property, plant and equipment . . . . .	40,464	72,052
Investment securities . . . . .	272,833	243,731
Allowance for doubtful accounts . . . . .	40,966	63,905
Allowance for severance benefits . . . . .	5,660	13,455
Derivatives . . . . .	11,692	34,138
Gain/Loss on foreign currency translation . . . . .	51,823	141,181
Tax credit carryforwards . . . . .	303,144	18,994
Tax loss carryforwards . . . . .	141,269	78,161
Others . . . . .	47,192	11,916
Total gross deferred tax assets . . . . .	922,841	687,610
Less: Valuation allowance . . . . .	(154,375)	(104,380)
Net deferred tax assets . . . . .	₩ 768,466	583,230
<b>Deferred tax liabilities:</b>		
Equity in earnings of equity method investments and subsidiaries . . . . .	₩ 395,300	298,388
Reserve for special repairs . . . . .	39,500	62,422
Reserve for technology developments . . . . .	184,501	2,612
Capitalized repairs . . . . .	5	128
Accrued income . . . . .	650	—
Capitalized costs . . . . .	105,496	76,490
Investment securities . . . . .	238,573	74,222
Total gross deferred tax liabilities . . . . .	₩ 964,025	514,262
<b>Net deferred tax assets (liabilities)</b> . . . . .	₩ (195,559)	68,968

Current and non-current deferred tax assets and deferred tax liabilities as of December 31, 2009 and 2008 are as follows:

	2009	2008
	(In millions of Korean Won)	
Current deferred tax assets . . . . .	₩ 334,385	65,515
Non-current deferred tax assets . . . . .	208,014	288,654
Non-current deferred tax liabilities . . . . .	737,958	285,201

The beginning of the year balance of valuation allowance was increased because of change in circumstances that caused a change in judgment regarding the realization of the related deferred tax assets in future years. Such amounts were ₩154,375 million and ₩104,380 million as of December 31, 2009 and 2008, respectively, and is primarily attributable to the uncertainty regarding the realization of a portion of tax loss carryforwards and tax credit carryforwards.

In assessing the realization of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized.

# POSCO and Subsidiaries

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The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred income tax liabilities and projected future taxable income in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred income tax assets are deductible or utilized, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the valuation allowance recorded at December 31, 2009 and 2008. The amount of the deferred income tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

As of December 31, 2009, the Company has available unused tax loss carryforwards of ₩612,414 million and investment tax credit carryforwards of ₩303,144 million. The amounts of tax loss carryforwards will expire if not used by the end of 2010, 2011, 2012, 2013 and 2014 are ₩83,662 million, ₩60,532 million, ₩71,564 million, ₩69,661 million and ₩326,995 million, respectively. The amounts of investment tax credit carryforwards will expire if not used by the end of 2010, 2011, 2012, 2013, 2014 and afterwards are ₩2,188 million, ₩4,553 million, ₩4,071 million, ₩3,439 million, ₩287,036 million and ₩1,857 million, respectively.

#### (o) Comprehensive Income

Under U.S. GAAP, comprehensive income and its components are required to be presented under the provisions of ASC Topic 220, Comprehensive income, (SFAS No. 130), Reporting Comprehensive Income. Comprehensive income includes all changes in equity during the period except those resulting from investments by, or distributions to owners, including certain items not included in the current year's results of operations. Comprehensive income for the years ended December 31, 2009, 2008 and 2007 is summarized as follows:

	2009	2008	2007
	(In millions of Korean Won)		
Net income in accordance with U.S. GAAP . . . . .	₩ 3,608,811	4,083,814	3,676,764
Other comprehensive income, net of tax:			
Foreign currency translation adjustments . . . . .	(143,163)	501,199	98,939
Change in fair value of derivative instruments . . . . .	11,342	(7,308)	(4,034)
Unrealized gains (losses) on investments . . . . .	562,544	(931,373)	505,629
Reclassification adjustment for losses (gains) included in income . . . . .	(5,408)	4	(658)
Comprehensive income, in accordance with U.S. GAAP . . . . .	₩ 4,034,126	3,646,336	4,276,640
Less: Non controlling interest . . . . .	(33,765)	(74,558)	(120,179)
Comprehensive income attributable to controlling interest as adjusted in accordance with U.S. GAAP . . . . .	4,000,361	3,571,778	4,156,461



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Accumulated other comprehensive income, net of tax benefit (expense) as of December 31, 2009, 2008 and 2007 is summarized as follows:

	Foreign Currency Translation Adjustments	Change in Fair Value of a Derivative Instrument	Unrealized Gains (Losses) on Investment Securities	Accumulated Other Comprehensive Income
	(In millions of Korean Won)			
Balance, December 31, 2006 . . . . .	₩ (69,416)	₩ —	₩ 680,019	₩ 610,603
Foreign currency translation adjustments, net of tax ₩37,528 million . . . . .	98,939	—	—	98,939
Change in fair value of a derivative instrument, net of tax ₩1,530 million . . . . .	—	(4,034)	—	(4,034)
Unrealized gains on investments, net of tax ₩191,790 million . . . . .	—	—	505,629	505,629
Less: Reclassification adjustment for net realized losses included in income, net of tax ₩249 million . . . . .	—	—	(658)	(658)
Current period change . . . . .	98,939	(4,034)	504,971	599,876
Balance, December 31, 2007 . . . . .	₩ 29,523	₩ (4,034)	₩ 1,184,990	₩ 1,210,479
Foreign currency translation adjustments, net of tax ₩190,110 million . . . . .	501,199	—	—	501,199
Change in fair value of a derivative instrument, net of tax ₩2,772 million . . . . .	—	(7,308)	—	(7,308)
Unrealized loss on investments, net of tax ₩353,279 million . . . . .	—	—	(931,373)	(931,373)
Add: Reclassification adjustment for net realized losses included in income, net of tax ₩(1) million . . . . .	—	—	4	4
Current period change . . . . .	501,199	(7,308)	(931,369)	(437,478)
Balance, December 31, 2008 . . . . .	₩ 530,722	₩ (11,342)	₩ 253,621	₩ 773,001
Foreign currency translation adjustments, net of tax ₩48,425 million . . . . .	(143,163)	—	—	(143,163)
Change in fair value of a derivative instrument, net of tax ₩(4,302) million . . . . .	—	11,342	—	11,342
Unrealized gains on investments, net of tax ₩(213,509) million . . . . .	—	—	562,544	562,544
Less: Reclassification adjustment for net realized losses included in income, net of tax ₩2,051 million . . . . .	—	—	(5,408)	(5,408)
Current period change . . . . .	(143,163)	11,342	557,136	425,315
Balance, December 31, 2009 . . . . .	₩ 387,559	₩ —	₩ 810,757	₩ 1,198,316

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

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#### (p) Fair Value of Financial Instruments

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

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

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

- (ii) *Investment securities*

The fair value of market-traded investments such as listed company's stocks, public bonds and other marketable securities are based on quoted market prices for those investments.

- (iii) *Derivative financial instruments*

All derivatives are recognized on the consolidated statements of financial position at fair value based on quoted market prices, dealer or counterparty quotes, where available. If quoted market prices are not available, pricing or valuation models are applied to current market information to estimate fair value.

- (iv) *Long-term loans and trade accounts and notes receivable*

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

- (v) *Long-term debts*

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

The estimated fair values of the Company's financial instruments stated under U.S. GAAP as of December 31, 2009 and 2008 are summarized as follows:

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions of Korean Won)			
Cash and cash equivalents . . . . .	₩ 2,196,731	₩ 2,196,731	2,490,264	2,490,264
Short-term financial instruments . . . . .	5,820,447	5,820,447	1,827,450	1,827,450
Trading securities . . . . .	505,811	505,811	1,238,261	1,238,261
Trade accounts and notes receivable and others . . . . .	5,874,364	5,874,364	6,626,560	6,626,560
Investments securities, including current portion				
Marketable securities . . . . .	3,973,531	3,973,531	2,917,595	2,917,595
Not practicable . . . . .	2,301,347	—	2,165,702	—
Short-term borrowings . . . . .	3,225,801	3,225,801	3,254,355	3,254,355
Long-term debts, including current portion . . . . .	9,016,668	9,144,532	7,666,004	7,535,074

# POSCO and Subsidiaries

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#### (q) Fair Value of Assets and Liabilities

The Company's financial assets and liabilities are valued utilizing the market approach to measure fair value. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. ASC Topic 820, "Fair Value Measurements and Disclosures" (SFAS 157, "Fair value measurements"), describes a fair value hierarchy based on three levels of inputs that may be used to measure fair value which are the following:

- Level 1 — Quoted prices in active exchange markets involving identical assets or liabilities.
- Level 2 — Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 — Unobservable inputs for the asset or liability, either directly or indirectly, and management assessments and inputs using a binomial lattice model as the valuation technique.

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis in accordance with FAS 157 as of December 31, 2009:

	Level 1	Level 2	Level 3	Total
	(In millions of Korean Won)			
<b>Assets</b>				
Trading securities . . . . .	₩ 505,811	₩ —	₩ —	₩ 505,811
Investments Securities . . . . .	3,973,531	—	—	3,973,531
Derivatives . . . . .	—	86,494	—	86,494
<b>Liabilities</b>				
Derivatives . . . . .	—	43,711	—	43,711

#### (r) Classification Differences in the Consolidated Statements of Income

Certain income and expense items in the Company's consolidated statements of income including: (i) gains and losses on disposal of property, plant and equipment; (ii) impairment of property, plant and equipment; (iii) gains on recovery of allowance for doubtful accounts; (iv) other bad debt expenses; (v) reversal of stock compensation expense; (vi) donations; (vii) impairment of intangible assets; (viii) and provision for early retirement benefits have been classified as non-operating under Korean GAAP and excluded from the determination of operating income. Under U.S. GAAP, the above noted income and expense items would be included in the determination of operating income. After reclassification of those items, operating income under U.S. GAAP would be ₩3,664,219 million and ₩7,092,851 million and ₩4,990,642 million for the years ended December 31, 2009, 2008 and 2007, respectively.

#### (s) Consolidated Statement of Cash Flows

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

Under U.S. GAAP, cash flows related to purchases and sales of trading securities are classified as cash flows from operating activities. However, under Korean GAAP, they are classified as cash flows from investing activities. Net cash flows from purchases and sales of trading securities are

# POSCO and Subsidiaries

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₩762,179 million, ₩(49,390) million and ₩891,032 million for the years ended December 31, 2009, 2008 and 2007, respectively.

#### Components of “Others” Financing Activities

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

	2009	2008	2007
	(In millions of Korean Won)		
Dividends paid to minority shareholders . . . . .	₩ (16,915)	(21,936)	(13,765)
Issuance of new shares by subsidiaries . . . . .	58,593	71,448	1,996
Additional acquisition of interest of subsidiaries (*) . . . . .	(117,458)	(302,319)	(142,778)
Proceeds from disposal of interest of subsidiaries . . . . .	—	—	11,338
Government grants received . . . . .	3,031	—	—
Total . . . . .	₩ (72,749)	(252,807)	(143,209)

(\*) Additional acquisition of non controlling interests in a subsidiary is classified as investing activities under U.S. GAAP, while it is required to be classified as financing activities under Korean GAAP.

#### (t) Significant Risks and Uncertainties

Recent difficulties affecting global financial sectors, adverse conditions and volatility in worldwide credit and financial markets and general weakness of global economy have increased the uncertainty of global economic prospects in general and have adversely affected the global and Korean economies. Accordingly, the conditions of major Korean steel consuming industries, such as automobile and shipbuilding and construction, could have adverse effect on the Company's results of operation as domestic sales are approximately 61% of total sales of the Company.

Also, fluctuation of foreign exchange rate on foreign currency denominated liabilities of the Company, such as debentures and long-term borrowings, could affect the financial condition and results of operation of the Company.

#### (u) Additional Segment Information and Enterprise-Wide Information

The segment information that is compiled for Korean GAAP purposes is also used by the Company's chief operating decision maker. Therefore, there is no difference between Korean GAAP and the management approach under U.S. GAAP with respect to how the Company has identified its operating segments and measures segment results and assets for U.S. GAAP reporting purposes. While segment assets include all long-lived assets and investments in equity method investees, the determination of segment operating income does not include impairment charges for these assets nor does it include the equity in the earnings (losses) of equity method investees.

A substantial portion of the Company's consolidated sales is from the production of steel products, which consists of hot rolled products, plates, wire rods, cold rolled products, silicon steel sheets, stainless steel products and others. The Company does not maintain consolidated sales information of each steel product line category.

# **POSCO and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **December 31, 2009 and 2008**

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#### **(v) Recently adopted U.S. GAAP**

In December 2007, the FASB issued ASC Topic 810, Consolidation (FAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements — an amendment of Accounting Research Bulletin No. 51” (FAS 160)). ASC Topic 810 requires all entities to report noncontrolling interests in subsidiaries (also known as minority interests) as a separate component of equity in the consolidated statement of financial position, to clearly identify consolidated net income attributable to the parent and to the noncontrolling interest on the face of the consolidated statement of income and to provide sufficient disclosure that clearly identifies and distinguishes between the interest of the parent and the interests of noncontrolling owners. ASC Topic 810 also establishes accounting and reporting standards for changes in a parent’s ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. POSCO has adopted ASC Topic 810 in 2009 and it was retrospectively applied to all period presented. The adoption of this ASC did not have a material impact on POSCO’s U.S. GAAP financial information.

In December 2007, the FASB issued ASC Topic 805, Business Combinations, (SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS 141R”)). ASC Topic 805 establishes principles and requirements for how the acquirer in business combinations should recognize and measure identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree. ASC Topic 805 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. There were no significant business combinations during 2009.

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