

POSCO  
Form 20-F  
June 25, 2010

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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)**

- o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934  
OR**
- p 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**
- o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
OR**
- o 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  
Common Stock, par value Won 5,000 per share \*

New York Stock Exchange, Inc.

New York Stock Exchange, Inc. \*

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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 ₩ W	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.

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**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.



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	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

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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.

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- (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.

<b>Period</b>	<b>At End of Period</b>	<b>Average Rate <sup>(1)</sup> (Per US\$1.00)</b>	<b>High</b>	<b>Low</b>
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

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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;

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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



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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 depository 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



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\$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

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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



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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



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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.

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***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



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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.



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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

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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. Our forward-looking 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





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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



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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

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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.

**Table of Contents****For the Year Ended December 31,**

<b>Steel Products</b>	<b>2005</b>		<b>2006</b>		<b>2007</b>		<b>2008</b>		<b>2009</b>	
	<b>Billions of Won</b>	<b>%</b>	<b>Billions of Won</b>	<b>%</b>	<b>Billions of Won</b>	<b>%</b>	<b>Billions of Won</b>	<b>%</b>	<b>Billions of Won</b>	<b>%</b>
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
<b>Total</b>	<b>23,547</b>	<b>100.0</b>	<b>22,329</b>	<b>100.0</b>	<b>27,848</b>	<b>100.0</b>	<b>35,836</b>	<b>100.0</b>	<b>31,467</b>	<b>100.0</b>

**For the Year Ended December 31,**

<b>Steel Products</b>	<b>2005</b>		<b>2006</b>		<b>2007</b>		<b>2008</b>		<b>2009</b>	
	<b>Thousands of Tons</b>	<b>%</b>	<b>Thousands of Tons</b>	<b>%</b>	<b>Thousands of Tons</b>	<b>%</b>	<b>Thousands of Tons</b>	<b>%</b>	<b>Thousands of Tons</b>	<b>%</b>
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
<b>Total</b>	<b>31,115</b>	<b>100.0</b>	<b>30,984</b>	<b>100.0</b>	<b>32,110</b>	<b>100.0</b>	<b>33,522</b>	<b>100.0</b>	<b>31,054</b>	<b>100.0</b>

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.

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### ***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%.

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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>	47,124	100.0	49,634	100.0	55,108	100.0	58,572	100.0	45,411	100.0
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(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.

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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	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)	1,636	19.9	1,895	19.0	2,112	19.5	2,332	22.0	2,449	21.1

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and Japan)										
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

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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	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



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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

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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,



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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.

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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.



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### ***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

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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.

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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.



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***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

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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

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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.

	<b>For the Year Ended December 31,</b>				
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
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.

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Capacity utilization has kept pace with increases in capacity. The following table sets out Gwangyang Works' capacity utilization rates for the periods indicated.

	2005	For the Year Ended December 31,			2009
		2006	2007	2008	
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.

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**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.

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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





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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.

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The table below sets out certain information regarding our efficiency in the production of steel products for the periods indicated.

	<b>For the Year Ended December 31,</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
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.

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***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

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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

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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



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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%.

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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



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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





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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

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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



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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.

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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.





**Table of Contents****Item 5.B. *Liquidity and Capital Resources***

The following table sets forth the summary of our cash flows for the periods indicated:

	<b>For the Year Ended December 31,</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<b>(In billions of Won)</b>		
Net cash provided by operating activities	₩ 5,553	₩ 3,687	₩ 8,633
Net cash used in investing activities	3,737	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 3,737 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 47 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

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forth the amount of long-term debt, capital lease and operating lease obligations as of December 31, 2009.

<b>Contractual Obligations</b>	<b>Total</b>	<b>Payments Due by Period</b>			
		<b>Less Than 1 Year</b>	<b>1 to 3 Years</b>	<b>4 to 5 Years</b>	<b>After 5 Years</b>
		<b>(In billions of Won)</b>			
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
<b>Total</b>	<b>45,982</b>	<b>7,352</b>	<b>15,029</b>	<b>12,795</b>	<b>10,806</b>

- (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.

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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

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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:

	<b>2007</b>	<b>As of December 31, 2008</b>	<b>2009</b>
	<b>(In billions of Won)</b>		
Cash and cash equivalents, net of government grants	₩ 1,293	₩ 2,490	₩ 2,197



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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

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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:

	2007	As of December 31, 2008 (In billions of Won)	2009
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.

**Table of Contents****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.

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**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.

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Our current Inside Directors are:

<b>Name</b>	<b>Position</b>	<b>Responsibilities and Division</b>	<b>Years as Director</b>	<b>Years with POSCO</b>	<b>Age</b>	<b>Expiration of Term of Office</b>
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-II	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.

<b>Name</b>	<b>Position</b>	<b>Principal Occupation</b>	<b>Years as Director</b>	<b>Age</b>	<b>Expiration of Term of Office</b>
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		1	64	February 2012

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Lee, Young-Sun	Director	CEO and Vice Chairman, Samchully Co., Ltd. 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:

<b>Name</b>	<b>Position</b>	<b>Responsibility and Division</b>	<b>Years with POSCO</b>	<b>Age</b>
Kwon, Young-Tae	Senior Executive Vice President	Raw Materials Procurement Dept.	35	60



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<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
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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

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<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

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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-Il. 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-Il. 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.

**Table of Contents****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.

<b>Shareholders</b>	<b>Number of Common Shares Owned</b>
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



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<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	16,303

**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

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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

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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.

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**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.

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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**

**Table of Contents*****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.

	<b>High</b>	<b>Price Low</b>	<b>Average Daily Trading Volume (Number of Shares)</b>
	<b>(In Won)</b>		
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 depository 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.



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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
	High	Low	Trading Volume
	(In US\$)		(Number of ADSs)
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

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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.

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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	Price
					Dividend Yield (1)(2)	Earnings Ratio (2)(3)
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.

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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:

<b>Previous Day's Closing Price (Won)</b>	<b>Rounded Down to (Won)</b>
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.

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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			
	Number of Listed Companies	(Billions of Won)	(Millions of US\$) <sup>(1)</sup>	Average Daily Trading Volume, Value 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.



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**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



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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

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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;



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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.



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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 depository, 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 depository 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

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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 dissenters 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



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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

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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.





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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;



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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.



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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.

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### **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

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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





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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;

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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.

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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

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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.

**Table of Contents****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)									
<b>Local currency:</b>										
Fixed rate	1,165	1,276	706	517	575	326	4,565	4,631	2,904	2,900
Weighted average rate										
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
Weighted average rate										
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	3,553
<b>Foreign currency, principally dollars and yen:</b>										
Fixed rate	2,735	333	265	987	822	374	5,517	5,536	5,649	5,443
Weighted average rate										
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	1,400
Weighted average rate										
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	5,453
Total	4,013	2,717	978	2,443	1,407	755	12,313	12,380	10,996	9,013

(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

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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 depository:

<b>Services</b>	<b>Fees</b>
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 depository 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;

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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.

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**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.

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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*. 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>	

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Audit fees	₩	2,539	3,122
Audit-related fees			
Tax fees		254	674
Other fees		200	51
Total fees	₩	2,993	3,847

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

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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

**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**

**POSCO's Corporate Governance Practice**

**Director Independence**

Independent directors must comprise a majority of the board

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.

**Nomination/Corporate Governance Committee**

Listed companies must have a nomination/corporate governance committee composed entirely of independent 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.

**Compensation Committee**

Listed companies must have a compensation committee composed entirely of independent directors

We maintain an Evaluation and Compensation Committee composed of four Outside Directors.

**Executive Session**

Listed companies must hold meetings solely attended by non-management directors to more effectively check and balance management directors

Our Outside Directors hold meetings solely attended by Outside Directors in accordance with operation guidelines of our board of 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

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.

**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

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.

### **Corporate Governance Guidelines**

Listed companies must adopt and disclose corporate governance guidelines

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).

### **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

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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<u>Report of Independent Registered Public Accounting Firm, KPMG Samjong Accounting Corp., on Consolidated Financial Statements</u>	F-1
<u>Report of Independent Registered Public Accounting Firm, KPMG Samjong Accounting Corp., on Internal Control over Financial Reporting</u>	F-2
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<u>Consolidated Statements of Financial Position as of December 31, 2008 and 2009</u>	F-4
<u>Consolidated Statements of Income for the Years Ended December 31, 2007, 2008 and 2009</u>	F-6
<u>Consolidated Statements of Changes in Equity for the Years Ended December 31, 2007, 2008 and 2009</u>	F-7
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<u>Notes to Consolidated Financial Statements</u>	F-13



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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

\* Filed previously

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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

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**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

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**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  
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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.

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**POSCO and Subsidiaries**  
**Consolidated Statements of Financial Position**  
**As of December 31, 2009 and 2008**

	<b>2009</b>	<b>2008</b>	<b>(note 2)</b> <b>2009</b>
	<b>(In millions of Korean Won and thousands of US dollar)</b>		
<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>	<b>20,634,150</b>	<b>22,197,633</b>	<b>17,672,278</b>
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>	<b>29,677,598</b>	<b>24,763,649</b>	<b>25,417,607</b>
<b>Total assets</b>	<b>₩ 50,311,748</b>	<b>46,961,282</b>	<b>\$ 43,089,885</b>

*See accompanying notes to consolidated financial statements.*

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**POSCO and Subsidiaries**  
**Consolidated Statements of Financial Position**  
**As of December 31, 2009 and 2008**

	<b>2009</b>	<b>2008</b>	<b>(note 2)</b> <b>2009</b>
	<b>(In millions of Korean Won and thousands of US dollar)</b>		
<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.*





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**POSCO and Subsidiaries**  
**Consolidated Statements of Income**  
**For the years ended December 31, 2009, 2008 and 2007**

		<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>(note 2)</b> <b>2009</b>
		(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

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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>	<b>₩ 3,242,311</b>	<b>4,350,104</b>	<b>3,677,964</b>	<b>\$ 2,776,901</b>
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			