Creating Another Success Story

SUSTAINABILITY REPORT 2007

GLOBAL POSCO WAY
We began our journey by creating something from nothing. Now, we are powering ahead with new determination to create something better. With our competitive edge and passion for excellence, we will embrace new challenges to shape POSCO into a sustainable global company.
2007 Sustainability Report

This is the fifth Sustainability Report issued by POSCO. The report demonstrates our responsibility to our stakeholders and reflects our actions towards sustainable development.

Report Particulars

To faithfully reflect information which is of greatest interest to our stakeholders and can help them make informed decisions, we established the POSCO Materiality Test Process to examine issues we believe are most material to POSCO.

With an expert review comprising external experts representing each stakeholder group and assurance by an accounting firm, we have been able to produce a Sustainability Report with greater credibility. The expert review process reviews the material economic, environmental, and social issues. They reviewed a draft version of the report to ensure it provided stakeholders with pertinent information. David Furrer, head of Furrer Group, provides assurance on the Sustainability Report with a team of sustainability experts from Korea and Switzerland.

We endeavored to identify the issues of greatest interest to our stakeholders and reflect them in this report. This was undertaken by conducting a media survey using 72 keywords across the general, environmental, social, and economic sectors in domestic media reports. Issues were grouped into general, environmental, social, and economic issues in 2007. We also sent email surveys to experts regarding ESG and Sustainability Reports to study and refine report needs. POSCO also published a condensed Korean version containing key details of economic, environmental, and social performances.

We published a summary version of the report in the Korean language that focuses on the material economic, environmental, and social issues.

Report Framework

This report is aligned with the Global Reporting Initiative (GRI) G3 Sustainability Reporting Standards and was prepared following POSCO’s internal sustainability reporting framework, as well as President Energy’s internal guidelines and policies. All financial information, standards, and definitions were based on the International Consolidated Financial Statements and financial information related to the Korean Securities and Exchange Commission. The financial information was denominated in Korean won (KRW) and based on the financial reports of Korea’s leading exchange (KRX). The exchange rate was set at 1 USD = KRW 1082 on December 31, 2007. The report was compiled using the U.S. Federal Reserve’s buying rate of the U.S. Federal Reserve in New York City on December 31, 2007. The unit ‘ton’ refers to the metric ton.

Report Distribution and Feedback

The full report is published in both English and Korean. The report is available on the POSCO website (http://www.posco.com/homepage/sustainability/report). Stakeholder feedback on the report is collected through diverse channels, including mail, Internet, and telephone. POSCO also published a condensed Korean version containing key details of economic, environmental, and social performances.

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In preparing a Sustainability Report, it is essential to focus on issues that are of importance to stakeholders and those that have a significant impact on business activities. POSCO conducted a materiality test and prepared the 2007 Sustainability Report in accordance with the test findings.

POSCO’s materiality test process consists of four steps. Step 1 consists of identifying the key issues. An issue pool is formed by identifying the internal issues that are considered important by POSCO itself among a list of issues, as well as external issues such as those revealed through media analysis, stakeholder surveys, GRI indicators and assessment items by sustainability assessment institutions. Step 2 consists of creating a draft report by prioritizing the issues that have significant impact on the company and are of significant concern to stakeholders by rating them on a scale of 1 to 10. Step 3 is drafting a draft report, reviewed by internal experts representing each stakeholder group and the general public, and a final report is published. The final step is reflected in the report production process and including it in the report production framework.

The report production process is based on G2 guidelines. POSCO intends to revise the process in accordance with the new G3 Guidelines after the publication of the 2007 Sustainability Report.
As we pass our 40-year anniversary, we are powering ahead to create another success story as a sustainable and socially responsible company that operates on the world stage. The concerted efforts of everyone at POSCO resulted in sound economic, social and environmental achievements in 2007. POSCO will continue to strive to deliver results.

Proclamation of Global POSCO Way
We proclaimed the ‘Global POSCO Way’ to realize our vision of ‘Creating Another Success Story, Beyond Here, Beyond Now.’

Sustainability Management
In 2007, POSCO was included in the Dow Jones Sustainability Index (DJSI) for the first time as the best company in its sector. DJSI tracks the world’s 1,200 leading companies in sustainability management. POSCO is the first company to be added to the index for three years in a row. We focus on reducing our environmental and social impact. POSCO is the only Korean company in Goldman Sachs’ GS Sustain Focus List.

Corporate Governance
POSCO received the Best Company of Corporate Governance Award from the Korea Corporate Governance Service for its strong governance practices. The board’s Audit Committee is open to public inspection. POSCO was also highly rated for having an independent auditor’s office to support the committee. Separately, POSCO was honored at the 7th Transparent Accounting Awards sponsored by the Korean Accounting Association.

Business Performance
In 2007, our crude steel production and sales climbed to new highs. We focused on high value-added products and low-cost production. The steel output grew by 11%, while sales increased 11% to KRW 22,207 billion. Operating income amounted to KRW 3,393 billion. POSCO paid taxes of more than KRW 1,200 billion, topping the KRW 1 trillion mark for the second year in a row.

Environmental Performance
POKO implemented the FINEX project in May 2007. As the next generation technology to replace the blast furnace method, FINEX markedly reduces the generation of pollutants. By removing the need for preliminary raw material processing, FINEX lowers the emissions of sulfur oxides by 9% and nitrogen oxides by 1% compared to the blast furnace route.

Win-win Cooperation with SMEs
In 2007, POSCO received the Prime Minister’s Award for cooperation with SMEs. That marked the third straight year in which we were recognized for our efforts to promote SMEs. We won the President’s award in 2005 and the Silver Tower Order of Industrial Service Merit in 2006.

Social Performance
POSCO implements social contribution on a global scale, with a special emphasis in India, China and Vietnam. We contributed to New Delhi with ‘Habitat for Humanity,’ sent clothing to disaster victims in China, and advised to build an elementary school in Vietnam. In Korea, we launched an email campaign for youth cultural gardens. Conducted in five languages (Korean, Chinese, Vietnamese, Japanese and English), the program has assisted some 5,000 foreign wives of Korean men adjust to their new surroundings.
Through sustainability management, POSCO is working to maximize the positive effects of its business activities on the environment and society while minimizing the negative impact. This diagram was prepared to identify the environmental and social impact of our activities. It shows the connection between the major issues covered in this report and our operations.

**Environment (29page)**
- Response to UNFCCC
- Environmental strategy and performance

POSCO emits 2.19 tCO2/ton of crude steel. Curbing CO2 emissions and responding to UNFCCC are of utmost priority to POSCO. We are also making steady efforts to reduce pollutants and increase recycling, with our recycling rate reaching 98%. POSEPI, the indicator of environmental activities and performance, was 145 in 2007, up from the previous year.

**Suppliers (52page)**
- Fair Competition
- Win-Win Cooperation with SMEs

POSCO has been fostering trust by maintaining long-term partnerships with suppliers and establishing a supplier development system. We also encourage transactions conducted online and expanding green purchasing activities.

**Employees (46page)**
- Safety
- Communication

The safety of our employees is paramount and we are focusing on improving employee satisfaction and productivity. The average employee engagement index is 80%, while the average turnover rate per employee is below 25%.

**Shareholders (12page)**
- Management Strategy

POSCO achieved 2007 sales of KRW 22 trillion and operating income of KRW 2.3 trillion, and the dividend payment ratio was 150%. POSCO established its 2018 vision and is pursuing growth into a global company with annual sales of KRW 100 trillion.
**Corporate Governance**

POSCO has separated the CEO position and the Board chairmanship, while eight of the 14 Board members are outside directors. We strictly comply with ethical business principles and practices.

**Subsidiaries**

POSCO has 46 subsidiaries in all, 27 overseas and 19 in Korea. With the growing operations of our subsidiaries, POSCO is expanding its sustainability management to subsidiaries to ensure that the entire POSCO Group fulfills its social responsibility.

**Customers**

POSCO's overseas sales amounted to KRW 6,722.8 billion, with its products being sold in 71 countries. Various efforts are being made to enhance customer value, including the development of new products and products that received excellent customer satisfaction, such as customer satisfaction ratings over a year ago. Moreover, we cooperate with customers to develop environment-friendly products as a way of contributing to society.

**Society**

POSCO is focused on nurturing human resources, expanding social welfare, and supporting cultural development. Our social contributions include health and medical care, youth development, disaster relief, and education. POSCO's social contribution spending amounted to KRW 150.5 billion and each employee devoted an average of 22 hours to volunteering.
Message from the CEO

I would like to begin by thanking our customers, shareholders and other stakeholders around the world for their unwavering support of POSCO.

On behalf of everyone at POSCO, I am pleased to present our fifth sustainability report which details our activities and performance related to sustainability management.

This year marks the 40th anniversary of our founding. Forty years ago, we set off on an ambitious quest to create a steel mill in Pohang on the southeastern coast of Korea. Through sheer determination, we overcame limitations in capital, technology and experience. As we look forward to the next 40 years, POSCO has declared a new vision, “Creating Another Success Story: Beyond Here, Beyond Now.” This vision reiterates our ongoing efforts to write another success story by taking our founding philosophy to the international stage and contributing to the advancement of global community.

Our new success story involves pursuing sustainability management by considering economic profits, environmental protection and social responsibility to enhance the company’s long-term performance, and further grow into a company that contributes to the global community. To this end, our activities for sustainability cover a wide range of issues including the environment and climate change, safety and health, working partnership with small- and mid-sized enterprises (SMEs), and social contribution activities including volunteering.

These activities are anchored in our commitment to transparent corporate governance and business ethics. We have an advanced governance structure centered around the Board of Directors that maintains a system of checks and balances between the board and management. Our example has been acknowledged in Korea and abroad. To become an even more trusted company, we pledge to work towards further improvement to assure the board’s autonomy and protect shareholders’ rights.
POSCO is facing increasingly greater demands for ethical management. Based on our tradition of upholding basic principles and integrity, we promise to pursue the highest levels of business ethics.

Climate change is a major issue that needs to be urgently addressed by the global community. As a steel company, POSCO consumed vast amounts of energy during the production process and is placing special emphasis on reducing greenhouse gases emitted. We established a greenhouse gas management system in 2006 and are implementing a system to measure and report greenhouse gas emissions. Our efforts in reducing these emissions are recognized by various international standards and organizations.

2007 was a meaningful year for POSCO in terms of environmental performance. We completed the world’s first commercial FINEX plant with a 1.5 million ton/year capacity. FINEX is a new-generation, environmentally friendly technology that reduces the need for pre-treatment and significantly reduces the generation of pollutants.

We firmly believe that promoting mutual growth with our suppliers and outsourcing service partners is not only our duty, but also the key to enhancing our competitiveness. We harness our supplier development and outsourcing efforts to support and nurture SMEs. Through a department dedicated to promoting win-win partnerships with SMEs, we provide financial assistance as well as support for purchasing, sales, R&D and training. In particular, our best-sharing program has been acknowledged as an exemplary model of cooperation with SMEs. Under the program, we jointly carry out improvement projects with our suppliers and share the resulting gains.

POSCO engages in a wide range of activities to fulfill our social responsibilities. These include Korean language and culture classes to support multi-cultural families and the POSCO Asia Fellowships. We also present the POSCO TJ Park Prize to individuals or organizations that have contributed to advancing science, education and philanthropy.

Solid economic performance provides the foundation for our social and environmental activities. In 2007, our crude steel production and sales climbed to new highs backed by our focus on high value-added products and low-cost production. Crude steel output grew by 1.9% to 114.1 million tons, while sales increased 10.4% to KRW 22,207.0 billion. Operating income amounted to KRW 4,308.0 billion.

POSCO was valued at USD 53.4 billion as at the end of 2007. We ranked in second place among listed companies in Korea and second among global steel producers. POSCO has been included in the S&P Dow Jones Sustainability Index (DJSI) in the steel category for three consecutive years. We also garnered awards for excellence in corporate governance and transparent management.

Our commitment to fulfilling our social responsibilities and pursuing mutual prosperity with our diverse stakeholders has remained constant throughout our 40-year history. That commitment will continue to guide us in the coming 40 years as we strive to create a new success story as a globally respected company.

Thank you.

June 2008

Kyu-Tak Lee
Chief Executive Officer
Stakeholder Engagement

POSCO carries out sustainability management activities by exchanging views with stakeholders. The opinions and demands of our stakeholders are collected and reflected in our management decisions through various communication channels, which are also used to deliver our policies and operations-related issues to our stakeholders.

In order to forge a solid partnership with stakeholders, we operate a communication process as described below. For these processes, we are aiming to develop them by finding communication channels and preparing relevant systems.

**Media Survey**

To identify the issues of chief concern to our external stakeholders, POSCO conducted a media survey of all domestic media sources in 2007. Using 72 keywords spanning general, environmental, social and economic news, we identified the major issues for social/NGO, investment/analysts, labor/employees, customers, government, and partner firms. We also checked the positivity/negativity levels of the issues and reports.

The survey revealed a total of 1,368 articles related to POSCO, divided into 363 social (27%), 387 environmental (29%), 282 general (21%) and 436 financial (32%). Our exposure in environmental news doubled compared to a year earlier, reflecting the growing interest in environmental issues. By stakeholder group, social/NGO comprised 42%, investment/analysts came to 11%, labor/employees to 19%, customers 18%, while government and partner firms came to 4% each. Social/NGO groups more than doubled compared to 2004.

Positive articles numbered 810 (60%) while negative articles came to 178 (13%). The 1% rise in positive articles is attributed to POSCO’s efforts in sustainability management, social contributions, waste management and financial performance. Issues of the management rights due to M&As in the steel industry and the labor unions acted as negative factors.

**Email Survey**

Prior to preparing the 2007 Sustainability Report, POSCO conducted a survey of experts in CSM to identify significant issues and stakeholder needs. We surveyed all experts from external agencies such as consulting firms, media firms and NGOs, all internal personnel and team leaders from related departments, and 100 persons who had requested our sustainability report from the POSCO sustainability homepage. The questions were sent via email and fax. According to the survey results, the contents of the report received 4.2 points out of a possible 5 in terms of credibility. Overall satisfaction level came to 3.9 points, signifying high levels of credibility and satisfaction with the report. The report was also judged to be written in plain and easy to understand language, receiving 3.9 points in readers’ understanding of the terminology. Furthermore, when asked about how the report aided in their understanding of POSCO’s CSM performance, respondents gave a high mark of 4.1.

In the 2006 Sustainability Report, the issues which were of most interest were sustainability management and related issues, climate change, social contribution, supply network management, performance indicators and SRI indications. Respondents also expressed desire to learn more about POSCO’s global operations, climate change strategy, and tend to long-term business plans, which we reflected in the 2007 edition.

### Key Issues in 2007 Sustainability Report

<table>
<thead>
<tr>
<th>Issue Area</th>
<th>2007</th>
<th>2006</th>
</tr>
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<tbody>
<tr>
<td>Global Operation</td>
<td>16</td>
<td>8</td>
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<tr>
<td>Climate Change</td>
<td>16</td>
<td>8</td>
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<td>Mid to long-term strategy</td>
<td>17</td>
<td>9</td>
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<tr>
<td>Environmental Management</td>
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<td>10</td>
</tr>
<tr>
<td>Social Activities</td>
<td>20</td>
<td>11</td>
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<tr>
<td>Performance of subsidiaries</td>
<td>21</td>
<td>12</td>
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<tr>
<td>Others</td>
<td>22</td>
<td>13</td>
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</table>

### Media Exposure by Issues

<table>
<thead>
<tr>
<th>Issue Area</th>
<th>2007</th>
<th>2006</th>
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<tbody>
<tr>
<td>Economic</td>
<td>27</td>
<td>19</td>
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<tr>
<td>Social</td>
<td>37</td>
<td>49</td>
</tr>
<tr>
<td>Environmental</td>
<td>30</td>
<td>49</td>
</tr>
<tr>
<td>General</td>
<td>27</td>
<td>7</td>
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### POSCO’s Vision and Communication Regarding Stakeholders

<table>
<thead>
<tr>
<th>Shareholders/Investors</th>
<th>Best company to invest in</th>
</tr>
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<tbody>
<tr>
<td>CEO Forum (once a year)</td>
<td>Investor conference (every quarter)</td>
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<tr>
<td>Disclosure (website)</td>
<td>Face-to-face meeting (on demand)</td>
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<tr>
<td>Visits for reviews by credit rating agencies</td>
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<tr>
<th>Employees</th>
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<tr>
<td>Best company to work for</td>
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<tr>
<td>Employee engagement survey</td>
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<td>Labor-Management Council</td>
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<tr>
<td>Young Board</td>
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<td>POS-B</td>
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<td>Company Operating Meeting</td>
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<th>Customers/Suppliers</th>
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<tr>
<td>Best company to do business with</td>
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<tr>
<td>Customer Relationship Management</td>
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<tr>
<td>Customer satisfaction survey</td>
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<tr>
<td>Joint research</td>
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<tr>
<td>Supplier Relationship Management</td>
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<td>Supplier Forum</td>
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<tr>
<td>Benefit Sharing Steering Committee</td>
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<td>Meetings by division</td>
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<td>Information sharing sessions</td>
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<th>Communities</th>
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<tr>
<td>Best company to inspire pride</td>
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<tr>
<td>Digital environmental watch system</td>
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<tr>
<td>Environmental Improvement Council (Gwangyang)</td>
</tr>
<tr>
<td>Social Contribution Activities</td>
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<tr>
<td>Community cooperation team</td>
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<tr>
<td>Cooperation with local communities</td>
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<td>POSCO Weekly</td>
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<tr>
<td>POSCO Website</td>
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<tr>
<td>Corporate image survey</td>
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40 years of history

POSCO's success story was the result of sheer determination. We are now building on our success to date to carve out a new future on the global stage.

http://www.posco.com/homepage/sustainability
Since its founding on April 1, 1968, under the name of Pohang Iron & Steel Co., POSCO has taken a remarkable journey over the last forty years, from playing a critical role in the development of the Korean economy to becoming a world leading steel maker.

Our assets surged over 19,000 times to KRW 30.4928 trillion last year compared to a mere KRW 1.6 billion back in 1968. Revenues have more than 530 times, to KRW 22.207 trillion in 2007 compared to KRW 41.6 billion in 1973 when our first production line started operation.

POSCO has produced 550,850,000 tons of steel products over four decades, including 69,250,000 tons of steel plates, 213,760,000 tons of hot-rolled steel, 133,660,000 tons of cold-rolled steel, 34,260,000 tons of steel rod, and 18,100,000 tons of stainless steel. This is equivalent to the amount of steel that could manufacture about 580 million mid-sized automobiles.

The history of Korea’s economic development cannot be told without the history of POSCO.

Korea’s dream to set up a steel industry, a hope once dashed by the Japanese colonial rule, was revived in the 1960’s with the Korean government’s comprehensive steelworks plan. We had no capital, technology, or experience. However, the government was determined to build up the foundry industries to modernize the Korean economy. Under this master plan, Park Tax-Jo, then president and current honorary chairman of POSCO, and 39 workers held a launch ceremony on April 1, 1968 and set out to build POSCO’s first production line.

Armed with a strong sense of duty, all of the workers were committed to constructing a steelworks for the country. They worked day and night, taking cut ropes in what was called the ‘Rommel house.’ Then in 1973, we successfully built Korea’s first crude steel production facility with a capacity of 1.03 million tons. Four expansion phases later, in 1983, we completed Pohang Works with the capacity to produce 1.1 million tons of crude steel.

To cope with Korea’s growing demand for steel, POSCO took on the challenge of creating another success story in Gwangyang. From the launch of the first Gwangyang plant in 1985 to the completion of the fifth expansion phase in 1996, we built a suite of the art steelworks that spans iron making, steelmaking, and rolling. Realizing the crucial role of technology, we also established Pohang University of Science and Technology and the R&D Center for Industrial Science and Technology.

Continued efforts to raise efficiency and productivity catapulted POSCO into the world’s No. 1 steel producer (based on crude steel output) in 1998. In the following year, POSCO revamped its business processes and set up an integrated digital system. Since being privatized in 2003, the company has been expanding its global production network. We are currently pursuing the construction of steel mills in India and Vietnam. We have also made major strides in technology, with the development of innovative technologies such as FINEX and P-GOIP. Securing a stable supply of raw materials is of importance, which is why we are investing overseas in resource development. In addition, we are fostering sales of high-value, strategic products such as automotive steel and API steel.

We strive to uphold transparency and wease innovation into the fabric of our corporate culture. As a responsible corporate citizen, we practice sustainability management whereby balanced consideration is given to environmental soundness and our

![POSCO - 40 Years of History](image)


<table>
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<tr>
<th>Date</th>
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<tr>
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<td>Pohang chosen as home of an integrated steelworks</td>
</tr>
<tr>
<td>Apr. 1, 1968</td>
<td>POSCO established</td>
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<tr>
<td>Jul. 3, 1973</td>
<td>Pohang Works phase 1 construction complete (annual crude steel capacity of 1.03 million tons)</td>
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<td>Feb. 8, 1981</td>
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[Success Story Continues in Gwangyang Bay] 1981-1992

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<th>Event</th>
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<td>Dec. 5, 1985</td>
<td>Gwangyang Works phase 1 construction begins</td>
</tr>
<tr>
<td>Dec. 3, 1986</td>
<td>Pohang University of Science and Technology established</td>
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<tr>
<td>Mar. 3, 1987</td>
<td>R&amp;D Center for Industrial Science and Technology established</td>
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<td>Jun. 10, 1988</td>
<td>Shares listed on Korea Stock Exchange (1st popular share)</td>
</tr>
<tr>
<td>Oct. 2, 1992</td>
<td>Gwangyang Works completed in time to celebrate quarter century of POSCO's existence (annual crude steel capacity of 20.8 million tons)</td>
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[Timeline of POSCO Events]

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obligations to society in addition to economic performance.

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POSCO at a Glance

[Table showing Crude Steel Production, Sales Volume, Revenue, Net Income, Assets, and No. of Employees from 1993 to 2007.]

POSCO's New Beginning with Privatization 1993 - 2002

- Mar. 14, 1997: Introduced outside directors and outside auditor
- Oct. 4, 2000: Privatization complete
- Mar. 15, 2002: Company name changed to POSCO

POSCO's New Beginning through Growth and Innovation 2003 - 2008

- May 29, 2003: Launch of POSCO Volunteer Group
- Nov. 7, 2003: Launched POSCO-China
- Jun. 30, 2005: Signed MOU to build integrated steelworks in Orissa, India
- May 30, 2007: Completed conversion of FINEX facilities

[Graphs showing trends in Crude Steel Production, Sales Volume, Revenue, Net Income, Assets, and No. of Employees from 1993 to 2007.]
Global POSCO Way

Following the appointment of Ku-Taek Lee as CEO in 2003, POSCO has been pursuing growth and innovation to evolve into a global corporation. In line with that pursuit, we launched the ‘Global POSCO Way’ project, under which we redefined our corporate vision to exist in the global business environment, connecting every POSCO employee to share and participate in the advancement of the company.

POSCO’s management strategy revolves around the basic principle of uniting our employees to work together towards our vision. Over the course of ten months, between February and December 2003, we held in-depth interviews with top management, total workshops and conducted surveys to gather suggestions and ideas from our 5,000 employees to devise the ‘Global POSCO Way’ management strategy. It builds on our earlier management practices and benchmarks strategies of other world-leading corporations. The new vision and core values are as follows.

Vision and Core Value Diagram

The vision ‘Creating Another Success Story’ is our affirmation to move beyond our past successes and create a better future. Our vision is born from our resolve to become a global POSCO and a leader in technology, process and culture. Our commitment is reflected in our corporate ethos, ‘Beyond Here, Beyond Now.’

POSCO’s core values are the standards every employee must uphold to turn tomorrow’s vision into reality. Our five core values have been designated to reflect the rapidly changing business environment. Customer, Challenge, Execution, People, and Integrity. Collectively, they reflect the basic beliefs that have driven POSCO’s success over the last four decades. The core values incorporate the company’s philosophy to grow hand in hand with our customers by tackling challenges and executing new ideas based on the basic principles of respect for mankind and integrity.

Vision

Creating Another Success Story
Beyond Here, Beyond Now

Roadmap to the World, Innovation for the future

- Moving beyond Korea to build a global steel network
- Moving beyond today’s technology to pilot the global steel industry

Local → Global
Follower → Leader

Core Value

Customer
Challenge
Execution
People
Integrity

Challenging the impossible, the living spirit of POSCO
Respecting people in all business activities, the essential principle of POSCO
Succeeding with the customer, the operating principle of POSCO
Upholding basic principles and ethics, the basic course of POSCO

Accomplishing any target, the attitude of POSCO

People Integrity
**POSCO Vision 2018**

As we celebrated our 40th anniversary, we proclaimed 'POSCO Vision 2018' under which we will build on our steel business to secure new growth drivers and grow into a global corporation. Our vision is to realize a ‘New POSCO’, a company with stability and sustainability that achieves both growth and profits.

Construction and energy are among POSCO’s key next-generation growth platforms as we branch out from our traditional steel-making business. We will continue to seek new growth engines as we move towards our goal of achieving sales of KRW 100 trillion (consolidated basis) by 2018. To achieve Vision 2018, POSCO will implement the ‘3S Strategy’ where the 3S represents ‘size up,’ ‘speed up,’ and ‘synergy up.’

**Size Up**

- We will boost production capacity centered on growing markets overseas and cultivate future growth drivers in strategic industries. We will implement reform and restructure our business model to thrive in the global marketplace. Moreover, we will pursue growth of the entire POSCO Group through concerted efforts with all subsidiaries.
- The mission to become a global big three and top three involves raising production overseas. In China, we will raise market share by strengthening ties with local steel companies and extending our Supply Chain Management (SCM) system of strategic products.
- POSCO’s two prong strategy involves the advancement of existing businesses and uncovering new growth areas to increase non-steel consolidated sales to KRW 30 trillion by 2018. In the energy field, we will increase commercial power generation capacity and enhance operational efficiency of the LNG terminal while exploring opportunities in renewable energy. In construction, we will expand our presence in the plant business which is showing explosive growth. In addition, we will aggressively target entry into overseas markets.
- For example, in the Middle East and Africa, considered the next generation growth regions, we will pursue resource development as well as energy and construction businesses.

**Speed Up**

- The ‘Speed Up’ strategy is aimed at building our capabilities to operate efficiently in the face of change and uncertainty in a global business environment. In terms of technology, we will pursue ‘World Best’ through the development of FINEX and endless hot rolling technologies.
- We will reform our operating system to enhance domestic and international cooperation within the framework of fair competition and ethical management. We will also promote sharing of our vision and brand, and human resources for the continuous expansion of shared management resources among all POSCO affiliates.

**Strengthen the Group’s Competitive Edge**

- One of POSCO’s Group strategies is to efficiently utilize available resources. In construction, we will expand the scale of plants and overseas development projects. In energy, we will devote our attention to renewable energy such as fuel cells. We will also explore opportunities in new materials such as magnesium steel plates.
- Another core strategy is to maximize synergy among the various business fields to spur growth for POSCO and our affiliates. This will entail increasing each affiliate’s competitiveness in the steel support business.

**Along with efforts to expand our global marketing network, we will explore opportunities in resource development and ways to raise investment efficiency.**

POSCO is is committed to creating non-ferrous products. We are trying to reduce carbon dioxide and pollutants generated during production and energy use, minimize the negative effects on the human body and environment during the use of POSCO products, and promote recycling.

Along with efforts to expand our global marketing network, we will explore opportunities in resource development and ways to raise investment efficiency. POSCO will also secure greater cost competitiveness by seeking technologies and innovations to bring down costs.

**Strength the Group’s Competitive Edge**

- One of POSCO’s Group strategies is to efficiently utilize available resources. In construction, we will expand the scale of plants and overseas development projects. In energy, we will devote our attention to renewable energy such as fuel cells. We will also explore opportunities in new materials such as magnesium steel plates.
- Another core strategy is to maximize synergy among the various business fields to spur growth for POSCO and our affiliates. This will entail increasing each affiliate’s competitiveness in the steel support business.

**Vision 2018**

- We will reform our operating system to enhance domestic and international cooperation within the framework of fair competition and ethical management. We will also promote sharing of our vision and brand, and human resources for the continuous expansion of shared management resources among all POSCO affiliates.

**POSCO’s Vision & Strategy**

**Vision**

- Global Big 3, Top 3 Steel Leader
- Discover a second growth engine through the development of strategic new business

**Strategy**

- 3S (Size ∙ Speed ∙ Synergy) Up
- Increase production in overseas growth markets
- Secure new strategic growth engines
- Upfront and strategic growth programs
- Maximize the value of POSCO and its subsidiaries
- Strengthen the POSCO and its subsidiaries

**POSCO’s Vision & Strategy**
Corporate Governance

Based on our Corporate Governance Charter which sets forth the vision and principles of our governance structure, we have been making continued efforts to ensure independence of the Board of Directors and protect the rights of shareholders. POSCO is proud to be recognized domestically and internationally as an outstanding model of transparent governance. We introduced the written and cumulative voting system to protect shareholders, while the Insider Trading Committee oversees transactions with companies with whom POSCO has a special relationship for greater transparency.

Ownership Structure
As of the end of December 2007, we had a total of 87,186,835 issued shares. Our shares are listed on the Korea Exchange. We also have 42,194,333 ADRs (175,159,512 issued shares traded on the New York, London, and Tokyo markets. As of the end of December 2007, the five biggest shareholders collectively held 18.28% of the company.

Board of Directors
POSCO’s BOD consists of eight outside directors and six standing directors. The outside directors are appointed through a careful selection process. Candidates are first chosen by the Outside Director Selection Consulting Group, which consists of five experts from various fields. The candidates list is then narrowed down by the Director Candidate Recommendation Committee and are made at the general shareholders’ meeting. Outside directors play a crucial role, sitting on the BOD’s special committees as members or as committee chair. We have set up a system such that outside directors also hold their own executive meeting to provide them with an opportunity to independently discuss key corporate issues.

In 2007, POSCO’s BOD held a total of seven meetings with a 96.2% attendance rate. Standing directors’ attendance rate was 100% while outside directors’, including foreigners, attendance rate was 93.7%. All BOD decisions in 2007 included an investment proposal for Pohang Works line 1, expansion of steel plate production capacity, plans for E&P joint ventures, takeover of MKGS, a Malaysian EG mill, and 2008 business plans.

The BOD also approved critical proposals related to our global expansion and sustainable growth such as the decision to purchase a stake in Uzbekistan’s Aral Mine Excavation Business, joint investment in a US steel pipe factory, plan for a new overseas production base, and Group subsidiaries’ public offerings.

Shareholder Composition

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign</td>
<td>894,255,000</td>
<td>826,260,544</td>
<td>826,260,544</td>
<td>826,260,544</td>
<td>826,260,544</td>
</tr>
<tr>
<td>Domestic</td>
<td>87,186,835</td>
<td>87,186,835</td>
<td>87,186,835</td>
<td>87,186,835</td>
<td>87,186,835</td>
</tr>
<tr>
<td>Total</td>
<td>981,441,835</td>
<td>909,447,379</td>
<td>909,447,379</td>
<td>909,447,379</td>
<td>909,447,379</td>
</tr>
</tbody>
</table>

| Shareholder Composition (as of Dec. 31, 2007) |
| Nippon Steel Corp. | 5.06% |
| Mirae Asset Investments | 4.28% |
| National Pension Service | 3.91% |
| SK Telecom | 2.85% |
| POSTECH | 2.29% |

BOD and Special Committees

- **General Shareholders’ Meeting**
  - Chairman: Yoon Suk Suh (Chairman, Ewha Women’s University Professor)
  - Conducted preliminary deliberation or approval on key investment plans.
  - 2007 meetings: 12
  - Deliberated on 28 issues, including Gwangyang #4 blast furnace 1st stage repair.

- **CEO**
  - Ku-Taek Lee
  - Responsible for the execution of legal rights such as auditing the performance of directors’ duties and appointment of outside auditors.
  - 2007 meetings: 5
  - Deliberated on issues such as audit of fiscal 2006 consolidated earnings results.

- **Executive Management Committee**
  - 6 Standing Directors
  - Conducts preliminary deliberation or approval on key investment plans.
  - 2007 meetings: 12
  - Deliberated on 28 issues, including Gwangyang #4 blast furnace 1st stage repair.

- **Director Candidate Recommendation Committee**
  - 3 Outside Directors, 1 Standing Director
  - Evaluation of standing director candidates and recommendation of outside director candidates.
  - 2007 meetings: 3
  - Deliberated on 6 issues, including recommendation of outside director candidates and evaluation of standing director candidates.

- **Evaluation and Compensation Committee**
  - 4 Outside Directors
  - Preliminary deliberation on the evaluation and compensation form management and evaluation of business performance.
  - 2007 meetings: 2
  - Deliberated on 2 issues, including overall corporate performance result evaluation.

- **Finance & Operation Committee**
  - 3 Outside Directors, 2 Standing Directors
  - Preliminary deliberation on major external investment plans and amendment of operation regulations for BOD.
  - 2007 meetings: 5
  - Deliberated on 21 issues, including stock purchase plan of Hyundai Heavy Industries and takeover of MEGS, a Malaysian EG mill, and 2008 business plans.

- **Audit Committee**
  - 4 Outside Directors
  - Conduction preliminary deliberation or resolution on internal transactions in accordance with antitrust regulations and Fair Trade Act.
  - 2007 meetings: 5
  - Deliberated on issues such as contribution to POSCO Educational Foundation.

- **Insider Trading Committee**
  - 4 Outside Directors
  - Conduct preliminary deliberation or approval on key investment plans.
  - 2007 meetings: 12
  - Deliberated on 28 issues, including Gwangyang #4 blast furnace 1st stage repair.

- **General Shareholders’ Meeting**
  - Chairman: Yoon Suk Suh
  - Conducted preliminary deliberation or approval on key investment plans.
  - 2007 meetings: 12
  - Deliberated on 28 issues, including Gwangyang #4 blast furnace 1st stage repair.
**Special Committees**

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

**External Evaluation**

POSCO had the honor of being named the best Korean company for corporate governance in a survey conducted by the Hong Kong-based publication “Finance Asia” in 2006. Subsequently, we received the Best Company of Corporate Governance Award from the Korea Corporate Governance Service for the second straight year in 2007. We also received the Transparent Management Grand Prize given by five economic organizations including the Korea Employers Federation in December.

**Compensation for Directors and Executives**

Compensation for outside and standing directors is determined based on the parameters approved at the general shareholders’ meeting. The 2007 meeting set the maximum compensation amount to KRW 6 billion, same as the previous year. The actual compensation disbursement was KRW 4.4 billion. Directors’ compensation consists of a basic salary, performance-based salary, and incentive. The basic salary is decided by the BOD in the designated amount according to one’s position, while the performance-based salary portion is decided based on the BOD’s evaluation standard. Other details regarding compensation are decided by the BOD’s Evaluation & Compensation Committee. POSCO adopted a performance-based compensation system to define the executive salary with the company’s performance. The performance salary of the CEO is based on the evaluation of overall management performance, which combines qualitative and quantitative evaluations. The quantitative part is made in accordance with the achievement of management targets set by the BOD and the achievement in comparison to past performance in terms of EVA (Economic Value Added) CERT01A, and revenue. The qualitative part is made in accordance with the achievement of mid-term management strategies as determined by the Evaluation and Compensation Committee. Other standing directors and executive officers receive performance salaries in accordance with the management performance of POSCO and evaluation by the BOD.

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**BOD Profile**

<table>
<thead>
<tr>
<th>Name</th>
<th>Political Position and Professional Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Outside Director</strong></td>
<td></td>
</tr>
<tr>
<td>Yoon-suk Suh</td>
<td>CEO of Nongshim, Former President &amp; CEO of Samsung Human Resources Development Center, Director Candidate Recommendation Committee, Audit Committee, Chairman of the Audit Committee, Chairman of the Insider Trading Committee, Chairman of the Evaluation and Compensation Committee, Chairman of Ewha Womans University College of Business Administration, Chairman of the Board of Directors of Korea-based University</td>
</tr>
<tr>
<td>Won-Soon Park</td>
<td>Chairman of the Board of Directors of the Beautiful Foundation, Former Chief of Staff of People’s Solidarity for Participatory Democracy, Chairman of the Director Candidate Recommendation Committee, Chairman of the Finance and Operations Committee</td>
</tr>
<tr>
<td>Young-chul Park</td>
<td>Chairman of AhnLab, Former President &amp; CEO of AhnLab, Director Candidate Recommendation Committee, Chairman of the Audit Committee, Chairman of AhnLab’s Board of Directors</td>
</tr>
<tr>
<td>Sung-won Hong</td>
<td>Chairman of the Board of Directors of AhnLab, Former President &amp; CEO of AhnLab, Director Candidate Recommendation Committee, Chairman of the Audit Committee, Chairman of AhnLab’s Board of Directors</td>
</tr>
<tr>
<td><strong>Standing Director</strong></td>
<td></td>
</tr>
<tr>
<td>Park Young-chul</td>
<td>CEO of Eagon Industrial Co, Chairman of the Director Candidate Recommendation Committee, Chairman of the Finance and Operations Committee</td>
</tr>
<tr>
<td>Jung-woo Lee</td>
<td>Chairman of the Board of Directors of Yonsei University Business Administration, Former President of the Korea Securities Research Institute, Director Candidate Recommendation Committee, Chairman of the Audit Committee, Chairman of the Executive Management Committee</td>
</tr>
<tr>
<td><strong>Chairman of the Board</strong></td>
<td></td>
</tr>
<tr>
<td>Ku-Taek Lee</td>
<td>Chairman of the Executive Management Committee, Former President of Korea Securities Research Institute, Director Candidate Recommendation Committee, Chairman of the Executive Management Committee, Chairman of the Audit Committee, Chairman of the Executive Management Committee, Chairman of the Executive Management Committee</td>
</tr>
<tr>
<td>Seok-Man Yoon</td>
<td>President of the Federation of Korean Industries, Chairman of the Finance and Operations Committee, Executive Management Committee, Chairman of the Executive Management Committee, Chairman of the Audit Committee, Chairman of the Executive Management Committee</td>
</tr>
<tr>
<td>Jun-Yang Chung</td>
<td>President of the Federation of Korean Industries, Chairman of the Finance and Operations Committee, Executive Management Committee, Chairman of the Executive Management Committee, Chairman of the Audit Committee, Chairman of the Executive Management Committee</td>
</tr>
<tr>
<td>Soung-Sik Cho</td>
<td>Senior Executive Vice President, Chairman of the Executive Management Committee, Senior Executive Vice President, Chairman of the Executive Management Committee, Senior Executive Vice President, Chairman of the Executive Management Committee</td>
</tr>
<tr>
<td>Dong-Hee Lee</td>
<td>Senior Executive Vice President, Chairman of the Executive Management Committee, Senior Executive Vice President, Chairman of the Executive Management Committee, Senior Executive Vice President, Chairman of the Executive Management Committee</td>
</tr>
<tr>
<td>Jong-Tae Choi</td>
<td>Senior Executive Vice President, Chairman of the Executive Management Committee, Senior Executive Vice President, Chairman of the Executive Management Committee, Senior Executive Vice President, Chairman of the Executive Management Committee</td>
</tr>
<tr>
<td>Sang-Yong Park</td>
<td>Senior Executive Vice President, Chairman of the Executive Management Committee, Senior Executive Vice President, Chairman of the Executive Management Committee, Senior Executive Vice President, Chairman of the Executive Management Committee</td>
</tr>
<tr>
<td>Charles Ahn</td>
<td>Former President &amp; CEO of AhnLab, Director Candidate Recommendation Committee, Chairman of the Audit Committee, Chairman of AhnLab’s Board of Directors, Chairman of the Executive Management Committee, Chairman of the Audit Committee, Chairman of AhnLab’s Board of Directors, Chairman of the Executive Management Committee</td>
</tr>
<tr>
<td>Jeffrey D. Jones</td>
<td>US Attorney at Law, Kim &amp; Chang, Chairman of the Director Candidate Recommendation Committee, Chairman of the Audit Committee, Chairman of AhnLab’s Board of Directors, Chairman of the Executive Management Committee, Chairman of the Audit Committee, Chairman of AhnLab’s Board of Directors, Chairman of the Executive Management Committee</td>
</tr>
<tr>
<td>Sang-Young Park</td>
<td>Former President &amp; CEO of AhnLab, Director Candidate Recommendation Committee, Chairman of the Audit Committee, Chairman of AhnLab’s Board of Directors, Chairman of the Executive Management Committee, Chairman of the Audit Committee, Chairman of AhnLab’s Board of Directors, Chairman of the Executive Management Committee</td>
</tr>
<tr>
<td>Moon Hee-Ki</td>
<td>Former President &amp; CEO of AhnLab, Director Candidate Recommendation Committee, Chairman of the Audit Committee, Chairman of AhnLab’s Board of Directors, Chairman of the Executive Management Committee, Chairman of the Audit Committee, Chairman of AhnLab’s Board of Directors, Chairman of the Executive Management Committee</td>
</tr>
<tr>
<td>Won-Chul Park</td>
<td>Former President &amp; CEO of AhnLab, Director Candidate Recommendation Committee, Chairman of the Audit Committee, Chairman of AhnLab’s Board of Directors, Chairman of the Executive Management Committee, Chairman of the Audit Committee, Chairman of AhnLab’s Board of Directors, Chairman of the Executive Management Committee</td>
</tr>
</tbody>
</table>
Business Ethics

At POSCO, we devote ourselves to creating a culture that is based on high ethical standards. This commitment is underlined by our extensive infrastructure, training and communication.

The firm dedication to integrity demonstrated by our top leadership inspires our employees to make responsible and ethical decisions in their everyday operations. At POSCO, repeated training, strict disciplinary action against ethics violators and leading by example are the keywords that sum up its governance principles. The CEO frequently highlights the importance of integrity and proposes various ways to implement the culture of compliance. In addition, we offer continuous education to instill proper ethical values in our employees.

Code of Conduct

Our code of conduct, first adopted in 2003, includes a wide range of sophisticated policies and system to maintain high standards for personal and business integrity. At the beginning of every year, employees make an online pledge to adhere to the Code of Conduct.

To encourage our employees and the general public to uphold integrity and ethical behavior, we offer ethics counseling via our corporate website as well as the cyber consultation center. Anyone can freely report or discuss their concerns about illegal or unethical solutions by phone, fax, mail or the Internet. For those who prefer anonymous communication, the company has a system that ensures their privacy. To encourage the reporting of unethical actions, we introduced a reward system of 400-1,000 million. A report of an illegal monetary transaction will result in a reward of ten times the reported amount; in the case of a voluntary confession of being a party to an illegal monetary transaction, the person will receive a reward of five times the reported value. In 2020, we opened the country’s first “gift return center” to cut out the old corporate culture of receiving gifts during major holidays. Gifts that cannot be returned are sold through in-house auctions and the proceeds are donated to support charitable causes.

Employee Education and Communication

We believe that the only way business ethics can be embedded in our corporate culture is through continuous education. Under this belief, we have developed a unique blend of in-line and off-line training. All employees are required to receive a three-hour mandatory training on business ethics and a 24-hour mandatory re-training program. In 2005, we initiated the Ethics Practice Program, under which each department chief is responsible for installing ethical practices within his/her department. Utilizing the Six Sigma method, each department conducts workshops to discover ethical risks and seeks ways to address the identified risks. Under the program, which is conducted on a one-year cycle, the business ethics executive leader of each division takes on the role of facilitator, designing the ethics practice program, consulting with the staff, and communicating with the ethics department.

Various other events are organized to spread the code of ethics among our employees. We publish the bimonthly Ethics Digest, an online newsletter to promote compliance awareness. When logging onto our intranet, pop-ups with specific ethics-related information show up once every week. A business ethics screen saver is offered twice a year. In addition, the CEO delivers a periodically message highlighting the importance of integrity.

Ethical Practice Program

Our code of conduct represents POSCO’s commitment to integrity, defining what is expected of every POSCO employee and detailing their responsibilities for behaving ethically. On the back of every employee ID is a business ethics checklist. The five-item checklist offers answers to key ethical questions to ensure that our employees make the right choices and off their job. In addition, the best ethical motto and quotes are printed on company elevators and lobbies while the in-house magazine features regular columns on workplace compliance.

Enhancing Supplier Code of Conduct

POSCO is enhancing and implementing our supplier code of conduct to promote ethical standards among our business partners. We hold an ethics seminar for all our clients and new business partners. Also, upon signing a contract, we attach a special clause regarding code of conduct, a disciplinary tool which helps to prevent unethical behaviors such as bribery that can undermine trust. The special clause goes into effect only after reaching an agreement with our counterparty.

Chronology of Business Ethics at POSCO

2003. 7. 3 Declaration of POSCO code of conduct and distribution of handbook on business ethics
2003. 7. 23 Opening of ethics counseling center
2003. 8. 21 Ethics seminar for suppliers and business partners
2003. 8. 25 Operation of gift return center
2003.12.15 Opening of online courses on business ethics
2004. 6. 2 Revealed ethics mascot, Baro-man (meaning proper person), and ethics motto, ‘Pride of Clean POSCO’
2004. 8. 24 Introduced reward system for reporting unethical conduct
2004. 9. 13 Ethics seminar for new business partners
2005. 1. 3 Pledge by all POSCO employees to honor the code of conduct (start of every year)
2005. 4 Ethics training for employees of overseas subsidiaries
2005. 6. 10 Computerized the business ethics voluntary implementation program
2005. 6. 17 Ethics workshop for senior executives of client firms
2006. 6. 9 Announced results of Gallup survey on the five stakeholder groups
2006. 7. 27 Published the first issue of Ethics Digest
2006. 8. 23 Meeting of ethics committee (held once every quarter)
2007. 3. 14 Ethics Immersion Class (EIC)
2007. 6. 20 Gifts for important clients at close times
2008. 4. 9 Arranged results of Gallup survey on the five stakeholder groups
2008. 6. 20 Meeting of ethics committee (held once every quarter)
2008. 8. 23 Meeting of ethics committee (held once every quarter)

http://www.posco.com/homepage/sustainability/businessethics
Fair Competition

In 2002, POSCO introduced the ‘Compliance Program (CP)’ to promote fair competition. The CEO’s support for voluntary compliance and principles are described in POSCO’s Code of Ethics unveiled in June 2003. And since 2005, all employees make a pledge to honor the ethics code at the beginning of every year.

Since 2006, the board of directors appoints a management-planning director to run the program for compliance with fair competition in cooperation with the compliance manager who reports the operational status to the board every year. In 2006, POSCO established the Insider Trading Committee under the BJD to ensure transparent transactions with our subsidiaries. The committee deliberates and reports on eight cases in 2007. We also established a Fair Competition Support Team, a department that oversees, plans, and modifies fair competition-related operations as part of our goal to foster a culture of compliance with pertinent regulations.

Voluntary Advisory Committee

This committee consists of managers who run departments that are highly related to fair competition such as sales, purchasing and outsourcing. Through routine inspections, the committee monitors key issues of the compliance program, thus serving as an advisory body to the compliance manager. Departments represented in the committee each appoint a ‘fair competition compliance leader’ to oversee related affairs, playing a supporting role to the committee members. The leaders also supervise each department’s voluntary inspection and consulting.

Education Programs

Since the October 2002 launch of our e-learning program on fair competition, a total of 14,459 employees have completed the course. In addition to that program, we offer practical training led by outside experts from the Fair Trade Commission and others. In 2007, 1,514 people attended 13 group sessions on compliance.

Voluntary Inspection by Departments

Our system of inspection and consulting by each business department is a mechanism for monitoring unfair or illegal activities. Workers in fair competition related departments go through a checklist to measure the status and update the appropriate department for activities that have a risk of violating the law. In 2006, POSCO spent in a fair competition website, allowing online inspection and consulting. Seven core departments including those involved in sales, purchasing and outsourcing were designated to conduct mandatory inspections. In addition, we created and published our fair competition inspection handbook that explains the system, method, and fair competition checklists.

2007 Performance

In 2007, we conducted a survey of employees working in departments related to fair competition to evaluate awareness of the compliance program and incorporate suggestions for improvement. We strengthened our internal monitoring system to get a better group of the compliance status in the related departments. Through our Fair Competition News and Intranet pop-up windows, we have raised our employees awareness on the importance of fair competition.

CP Adoption by Subsidiaries

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<thead>
<tr>
<th>Category</th>
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<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008 (planned)</th>
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<tbody>
<tr>
<td>POSC C &amp; POSC E C &amp; POSC NOE</td>
<td>3</td>
<td>7</td>
<td>9</td>
<td>12</td>
<td></td>
</tr>
</tbody>
</table>
Risk Management

We believe rigorous internal control that complies with international laws and regulations is at the core of our sustainability as a global business. We rolled out an extensive risk management program which includes tools enabling early detection and prevention of risks.

**Internal Audit**

In 2004, we built and started to maintain a companywide Risk Management System (RMS) that identifies and prioritizes the risk elements in each work process. The system then gives risk ratings by assessing possibility of risk occurrences and their impact as well as the current control level. As of now, a total of 1,116 risk factors are under RMS supervision.

The RMS is organically connected to internal auditing activities. Based on risk ratings, the internal auditing concentrates on high risk areas to implement change and adjust the rating accordingly.

Since 2006, we have been building an auditing portal per each business department. The auditing portal system allows for constant monitoring of information irregularities. This not only reduces the monitoring workload for auditors but also minimizes potential Tds(X) risks. We have also launched a departmental voluntary inspection system, which enables each department to use the RMS to constantly check and prevent work-related risks. In 2007, we overhead risk related systems to facilitate each department to search and adjust key risk factors, by pursuing common risk inspection tasks among all relevant departments.

Our plan for 2008 is to further promote the culture of voluntary risk management by increasing system sharing among relevant departments and stepping up support and inspection efforts. We also plan to create a new team which will be responsible for process oversighting and other supportive activities such as selecting and rewarding departments with outstanding track record in voluntary risk management. High risk areas will receive separate rigorous inspections to enhance overall risk management competency.

**Internal Control for Financial Reporting**

POSCO is listed on the Korean and New York stock markets. In December 2003, we established a system that can assess internal control during financial reporting. They include CED/CFO certification on disclosure and internal controls and operation of a disclosure committee. We have been conducting self-assessments on internal control activities since 2004.

Under the Sarbanes-Oxley Act, an external audit attestation has become mandatory since fiscal year 2006. Accordingly, we completed implementation of the group-level internal control evaluation system which also covers our affiliates in March 2005 and conducted external auditing in 2006.

For our financial reporting internal control system, we employed external experts for consultation and used the Standard Control Activity Framework presented by COSO and the US SEC to document key processes in 16 areas, mastery job risk factors, and design control schedules. An internal control evaluation should take place every quarter or every six months. We have set up an online evaluation system that enables internal control evaluation through simultaneous access to all sectors.

**Internal Control Evaluation System**

Members of an independent team with full understanding of the job functions carry out the effectiveness evaluation of internal controls to support top management’s certification on internal controls. Based on the team’s report, the management reports the status of the internal accounting control system every six months to the BOD and Audit Committee in accordance with the Act on External Audit of Stock Companies.

**Sarbanes-Oxley Act**

US law on accounting reform introduced in July 2002 that requires more stringent corporate accounting controls.

**COSO (Committee of Sponsoring Organizations of the Treadway Commission)**

The US corporate internal control system evaluation group set up in 1985.
Sustainability Management

POSCO’s commitment to sustainability management was delivered in its 2008 New Year’s message. In order to gain respect and trust of the global community, we must continue our pursuit of corporate accountability and build a global market and competitiveness. That is the way for POSCO to attain its vision of creating another success story by becoming a sustainable global company that is committed to corporate citizenship.

The steel industry consumes vast amount of resources and energy to create intermediate materials, meaning that we have a significant economic, environmental and social impact. Recognizing our corporate responsibilities, we have been striving to address the difficult challenges that affect our communities in a responsible manner.

To give greater efficiency to our citizenship initiatives, POSCO organized a CSM team in 2003 and declared sustainability management as our core value. Our approach to sustainability considers profitability, environmental soundness and social responsibility in a comprehensive and systematic manner, in order to pursue stable and long-term growth in a rapidly changing global business environment.

On the strength of transparent corporate governance, POSCO promotes environmental management, win-win partnerships, social contribution and business ethics. Details on each subject can be found in the following pages:

▶ Environmental Management 30p, Win-Win Cooperation 54p, Social Contribution 58p, Business Ethics 14p

Awards and Recognitions

- Goldman Sachs Standards for Selecting Sustainability Company
- Sustainable Management
- Leading Company ESG
- Cash Returns
- Industry Themes
- SAM-DJSI Sector Leader (3 years in a row) Silver Class
- Goldman-Sachs Sustainability Focus List
- Korea Accounting Association Transparent accounting grand prize
- Korea Academic Society of Business Administration
- Business Week Asia’s Most Admired Company
- Korea Management Association Most respected company (4 years in a row)
- Korea Accounting Association Transparent accounting grand prize
- Korea Economic Daily Chairman Lee Ku-Taek, Dasan Management Award for CEO
- Korea Academic Society of Business Administration Chairman Lee Ku-Taek, Best CEO Award
- World Steel Dynamics POSCO ranked 2nd in global steel industry competitiveness
- IISI Lee Ku-Taek, appointed as the chairman of Korea Iron & Steel Association
- Moody’s A1 rated (higher than Korea’s sovereign credit rating)
- Standard & Poor’s A-rated (same as Korea’s sovereign credit rating)
- Moody’s & Standard & Poor’s Sustainalytics Sustainalytics ratings
- Sustainability Management as our core value. Our approach to sustainability considers profitability, environmental soundness and social responsibility in a comprehensive and systematic manner, in order to pursue stable and long-term growth in a rapidly changing global business environment.

On the strength of transparent corporate governance, POSCO promotes environmental management, win-win partnerships, social contribution and business ethics. Details on each subject can be found in the following pages:

▶ Environmental Management 30p, Win-Win Cooperation 54p, Social Contribution 58p, Business Ethics 14p

THE GS SUSTAIN FOCUS LIST

Goldman Sachs included POSCO in its focus list of ‘Introducing GS Sustain’ report presented at the UN Global Compact Summit in 2008. The report lists the criteria for selecting sustainability companies based on the Guidelines for Selecting Sustainability Company.

Awards and Recognitions

- Goldman Sachs Standards for Selecting Sustainability Company
- Sustainable Management
- Leading Company ESG
- Cash Returns
- Industry Themes
- SAM-DJSI Sector Leader (3 years in a row) Silver Class
- Goldman-Sachs Sustainability Focus List
- Korea Accounting Association Transparent accounting grand prize
- Korea Academic Society of Business Administration
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Activities with Major Sustainability Related Organizations

<table>
<thead>
<tr>
<th>Category</th>
<th>Name</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global &amp; Domestic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global</td>
<td>POSCO</td>
<td>As the chair company of GS, and steel industry’s response to key issues such as market supply/ demand, etc.</td>
</tr>
<tr>
<td>Global</td>
<td>GS Sustainability Project Group</td>
<td>As the leader, we coordinate with member companies to create a transparent sustainability report for the global steel industry.</td>
</tr>
<tr>
<td>Global</td>
<td>GS Sustainability Information Network</td>
<td>As the chair company, we promote GS sustainability information network to provide transparency and accountability.</td>
</tr>
<tr>
<td>Global</td>
<td>World Steel Dynamics</td>
<td>As the chair company, we promote GS sustainability information network to provide transparency and accountability.</td>
</tr>
<tr>
<td>Domestic</td>
<td>Korea Sustainability Council (KSC)</td>
<td>As the chair company, we promote GS sustainability information network to provide transparency and accountability.</td>
</tr>
<tr>
<td>Domestic</td>
<td>Korea Iron &amp; Steel Association (KOSIA)</td>
<td>As the chair company, we promote GS sustainability information network to provide transparency and accountability.</td>
</tr>
</tbody>
</table>
July 2007. POSCO was the only Korean company on the list. The GS Sustain focus list contains 44 companies positioned for sustainable growth. The picks were made after analyzing 100 companies that practice sustainability management in 8 sectors. POSCO was given high marks for sound corporate governance and transparent management and accounting.

In addition, POSCO had the honor of being included in the SAM Dow Jones Sustainability Index (DJSI) in the steel category for three consecutive years since 2005. DJSI is a representative index that tracks the value of the world’s 2,300 leading companies in sustainability management. POSCO was also the only company to be added to the index for three years in a row from the steel industry that has high environmental risks. In particular, POSCO received the highest marks in 13 out of 18 categories in economic, environmental and social sections in 2007.

Dow Jones Sustainability Indexes (DJSI)
The Dow Jones Sustainability Indexes (DJSI) track the performance of leading sustainability-driven companies worldwide. The DJSI World investable stocks universe consists of 2,500 companies that are included in the Dow Jones Global Indexes (DJGI). DJGI stocks are selected based on corporate sustainability evaluations by SAM Research, which bases its findings on media assessment, stakeholder analysis and extensive surveys. The component companies are subject to regular monitoring. Based on annual reviews, an average 15-16% of the DJGI companies are replaced every year. In the 2007 review, 30 companies were excluded and 60 new ones were added. Of all DJGI companies in 19 industries, were included in the 2007 SAM DJSI component companies are given priority recommendation for investment by SRI (socially responsible investing) funds, meaning exposure to stable, long-term investors.

2007 SAM Dow Jones Steel Industry Sustainability Index Evaluation

<table>
<thead>
<tr>
<th>Category</th>
<th>POSCO</th>
<th>Steel Industry Average</th>
<th>Steel Industry’s Highest Points</th>
<th>Versus Steel Industry’s Highest Points (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic</td>
<td>96</td>
<td>100</td>
<td>100</td>
<td>40</td>
</tr>
<tr>
<td>Environmental</td>
<td>86</td>
<td>100</td>
<td>100</td>
<td>10</td>
</tr>
<tr>
<td>Social</td>
<td>95</td>
<td>100</td>
<td>100</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>277</td>
<td>300</td>
<td>300</td>
<td>0</td>
</tr>
</tbody>
</table>
### ECONOMIC Contribution

<table>
<thead>
<tr>
<th>Index</th>
<th>Unit</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude steel production</td>
<td>Million tons</td>
<td>30.1</td>
<td>30.5</td>
<td>31.1</td>
</tr>
<tr>
<td>Sales</td>
<td>KRW billion</td>
<td>21,695</td>
<td>20,043</td>
<td>22,207</td>
</tr>
<tr>
<td>Operating income</td>
<td>KRW billion</td>
<td>3,913</td>
<td>3,987</td>
<td>4,679</td>
</tr>
<tr>
<td>Net income</td>
<td>KRW billion</td>
<td>1,578</td>
<td>2,284</td>
<td>2,094</td>
</tr>
<tr>
<td>Purchasing cost</td>
<td>KRW billion</td>
<td>11,570</td>
<td>11,387</td>
<td>13,006</td>
</tr>
<tr>
<td>Dividends</td>
<td>KRW billion</td>
<td>638.4</td>
<td>621.1</td>
<td>756.1</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>KRW billion</td>
<td>88.3</td>
<td>78.8</td>
<td>96.1</td>
</tr>
<tr>
<td>Wages</td>
<td>KRW billion</td>
<td>1,446.9</td>
<td>1,141.8</td>
<td>1,243</td>
</tr>
<tr>
<td>Support for pensions</td>
<td>KRW billion</td>
<td>47.8</td>
<td>41.7</td>
<td>41.7</td>
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<tr>
<td>Tax</td>
<td>KRW billion</td>
<td>1,301</td>
<td>1,365</td>
<td>1,318</td>
</tr>
<tr>
<td>Donations</td>
<td>KRW billion</td>
<td>125.4</td>
<td>125.3</td>
<td>156.5</td>
</tr>
</tbody>
</table>

Management Strategy 1 2006 Economic Performance
Global Strategy

Global Strategy

To overcome the constraints of the mature market at home, POSCO is seeking new opportunities overseas to sustain growth. An important facet of our global strategy is expanding our production facilities in Asia, a region that has strong growth prospects.

In 2006, POSCO became the first foreign company to operate an integrated stainless steel mill in China. We have also made inroads into India, another growing market that ensures access to raw materials. Under an MOU signed with the state of Orissa, POSCO has secured mineral rights and will build a steel plant with annual capacity of 12 million tons. Separately, we are reviewing plans to build an integrated steel mill in Vietnam.

Construction is underway for cold-rolled steel plant in Vietnam with target completion of 2009. In the Americas, we are building an automotive steel sheet plant in Mexico and an API steel pipe mill in the U.S. Additionally, POSCO has 20 processing centers in various regions around the world, including China, Japan, India, Southeast Asia and Mexico.

Mine Development

Consolidation in the mining industry and rising prices have created a seller’s market for raw materials such as iron ore and coking coal. To ensure a steady supply of cheap raw materials, POSCO has invested in various mine development projects.

POSCO is taking part in the development of eight coal mines (e.g., Mt. Thorley in Australia, Green Hills in Canada) and two iron ore mines (e.g., POSMAC mine in Australia). We are also pursuing projects for raw materials which are essential raw materials in high-grade steel products. We entered into a joint venture for a nickel mine and refinery with INMET, a mining company based in New Caledonia, and invested in a multimineral mine.

POSCO will continue to invest in mine development projects with the goal of raising its raw material self-sufficiency rate from the current 17% to 30%.

Global SCM

POSCO is seeking to expand its global operations by providing customized services to each region through its SCM (Supply Chain Management) network spanning key locations worldwide.

Our SCM bases, strategically located in markets where our customers operate, processes materials to match specific customer requirements and makes just-in-time delivery. Offering greater customer services directly from key global steel markets in fields such as steel processing and JIT logistics, the SCM bases are engaged in frontline export work to expand sales of high-grade, strategic products including automotive steel, high-performance cold-rolled steel and stainless steel. They also support POSCO’s EV (Early Vendor Involvement) activities by collecting vital information on market demand and technology.

Early securing of a sales network in China, India and Vietnam, the sites where our overseas production bases are being built, is expected to maximize synergies as well.

As of the end of June 2008, POSCO is operating 30 overseas SCM offices. By region, there are 15 offices in China, 5 in Japan, 6 in Southeast Asia, 3 in India and 5 in Europe. In 2007, the SCM offices sold 1.6 million tons of products to bring in revenues of USD 5.5 billion. Under our Global SCM MR3 initiative, we plan to invest a total of USD 88 million, operate 30 SCM offices, sell 3 million tons of products and achieve USD 2 billion in sales by 2011.

As the first step, we are to increase our SCM offices to 35 by the end of 2008.

Since its operations began in October 2004, POSCO-CSPC, our automotive steel sheet processing center in Suzhou, China, has been playing a vital role in increasing sales. It has been providing high quality steel and services to local automotive like Shanghai Volkswagen, Shanghai GM and Nanjing Ford as well as the world’s top 15 auto parts makers including BMW and Brembo. In July 2007, the company completed the second-phase construction, additionally installing heavy gauge slitter and progress press. Leveraging its advanced facilities, the center has grown into China’s largest automotive steel sheet processing facility with an annual capacity of 270,000 tons.

POSCO-IPPC, the electrical steel processing center in Pune, India, is in the process of building an additional auto plate processing facility. The move is aimed at further increasing its presence in India’s automotive plate market following the opening of GM and Volkswagen auto plants near the region. POSCO-IPPI Plant 1 and 2, along with POSCO-IDPC, in Delhi will form the basis for POSCO-India’s sales network.

Moving forward, we plan to expand or newly set up SCM bases in key export markets of China, Japan and Southeast Asia in an effort to strengthen our marketing competency.

Global Technology Leadership

POSCO has selected 12 technology development projects to establish a system for producing and distributing high-grade steel with the goal of redefining product competitiveness.

In 2007, we focused on eight strategic, value-added products for technology development, such as automotive steel and electrical steel. Their sales portion exceeded 60% of the total. Over KRW 1 trillion was invested in strategic products over the year. Some new facility projects were completed including a new heat
treatment furnace at the No. 3 plate mill in Pohang Works and rationalization of the No. 3 hot rolled steel mill in Gwangyang Works. Moreover, we developed 37 new products including an 1180 MPa-class hot-dipped galvanized iron plate for automobiles.

POSCO is stepping up R&D activity to establish itself as a global technology leader in steel making. On May 30, 2007, we set up the world’s first FINEX commercialization plant with annual capacity of 15 million tons. We were also the first in the world to achieve continuous rolling of 45 sheets of hot-rolled coil, and moreover, expanded monthly capacity to 100,000 tons.

Automotive Steel Sheets

POSCO is a major steel supplier to automakers with sales of automotive steel sheets exceeding 5 million tons in 2007. We developed core manufacturing technology to attain the world’s highest line speed for galvannealed steel sheets. By adopting sulfur nitrate we developed proprietary automotive steel products, and also developed PSM sheets that retained high class, high performance surface processing using the high accuracy roll roughness processing facility. In addition, we supplied GA780 MPa-grade dual-phase steel and G275 MA-grade AHF.

API-Grade Steel Mass Production Technology

We are making continued efforts to increase the volume of API-grade steel supply. API-grade steel is high-grade, high-strength American Petroleum Institute-specification linepipe steel that helps counteract harsh environments at oil wells and in long distance petroleum transport. Our achievements include commercial production of 15,000 tons of X80 (E375) grade linepipe steel with heavy thickness and low-temperature toughness, and X70 grade linepipe steel with heavy thickness.

Stainless Steel Quality and Competitiveness

Amid increased supply from China and unstable raw material prices, POSCO focused on promoting strategic products and advancing technologies for the 400 series to enhance its competitive edge in high-performance stainless steel.

Electrical Steel

We expanded production of high-grade grain-oriented electrical steel and developed three new items including a non-oriented electrical steel sheet having low core loss and high magnetic flux density. Work was carried out to develop chromium-free casting and processing technologies to meet diverse needs relating to insulation coating. Moreover, utilizing our electrical steel testing labs and processing centers, we set up a system for technology support for clients.
Hot Rolled Steel Technology

In 2007, POSCO enhanced the value of its high-grade rolled steel products centered on Mega-Y activities. In the case of high carbon steel, we enhanced quality by reducing scabs in the continuous casting process, scale of the hot rolling process, and deviation of thickness and hardness. For high strength steel, we reduced the variation in material properties in the width direction.

TMCP Steel

Based on the outlook for increased demand for steel plates, we decided to proceed with facility investment and technology upgrades for the existing three steel plate mills to expand production capacity from 3.8 million tons to 5.5 million tons in JBB. When facility investment is completed in 2009, the figure will rise further to 5.0 million tons. In addition, we decided to build a new steel plate mill with capacity of 0.8 million tons in Gwangyang with completion targeted for July 2010. These measures will enable us to provide a greater supply of high-grade steel plates such as TMCP (Thermo-Mechanical Controlled Processed steel) and heat-treated steel.

Wire Rod

Our focus in 2007 was on developing technology for the production of five wire rods for automotive applications. We developed an extremely fine thread that boasts superior quality to competing products thanks to technology for central lubrication in steel. Application of this technology is being extended to spring steel for engine valves, bearing steel and others. During the year, we also developed five new products, including a high strength, 360 Wgpa wire rod for bolts. The quality of our high-grade products have been verified by prominent global companies such as Bridgestone and Schaeffler, opening the door to overseas sales.

Cold Rolled Steel

Cold rolled steel has numerous uses, from automobiles and home appliances to construction and containers. We are strategically fostering certain cold-rolled products based on projected profitability and our technological capabilities. To better respond to customer needs, we set up a V.I.P. activity center (Home appliances edition) in 2007. In one of the fast growing display industries where devices are getting increasing bigger, we took steps to enhance the formability of EG anti-fingerprint steel used in home appliances and stepped up development of processing technology to support the production of large-size panels.

Commercialization of FINEX Technology

POSCO demonstrated its global technological leadership with the commercialization of FINEX (fine-ore direct-reduction process) in May 2007. Although this was uncharted territory, it took just three months for production to stabilize at the plant, which has an annual capacity of 1.5 million tons. Several processes had been developed as the next-generation steel-making technology. These include the DRI process of Japan, the HIs melt process of Australia, the DRI process of Europe, and the TERNIRSD process of Brazil. However, FINEX was the first technology to be successfully commercialized. POSCO has written a new chapter in the world's steel-making history with FINEX, an environment-friendly and cost-effective technology.

Strip Casting Demonstration Plant and Commercialization

Strip casting is an innovative technology that directly casts coils of 2-3 mm in thickness from molten steel, enabling many of the processes of casting slabs and hot rolling. Not only does this method lower investment and operational costs, but it also dramatically reduces energy consumption and pollutants. After launching FINEX in this technology in 1999, POSCO broke ground for a demonstration plant with 60,000 ton annual capacity in June 2006 and completed the plant in June 2008. Subsequently, we developed technology to continuously cast the 100-ton ladle. We also developed our own technologies such as roll coining and a design for special fire resistance to maintain high quality levels. In 2008, we will concentrate on addressing surface defects in the casting process and problems related to material quality detected during operation of the demo plant while working to lower processing costs. Our aim is to achieve cost and quality levels on par with those of products made using previous stainless steel processes to promote commercialization of strip casting technology.

Environment-Friendly Products

POSCO is doing its best to develop new technologies and processes based on the principles of minimizing pollutants and energy use, decreasing the impact on humans and the environment, and recycling. We developed 15 environment-friendly products in 2008. As of 2007, we have developed truly new products in the fields of environmental preservation, energy savings, and recycling improvement. The share of eco-friendly products developed stood at 73% in 2007. The sales value of such products developed during 2001-2007 was 2.2 trillion won.

Electro-Galvanized (EG) NMC Steel Sheet

Utilizing Pohang Works' EG facilities and Zn-Ni coating technology, we developed the electro-galvanized (EG) NMC steel sheet which boasts greater corrosion resistance than steel sheets with pure Zn coating. The addition of Ni results in a stronger coating layer and improved corrosion resistance compared to pure Zn coating, meaning the same or superior quality with half the coating mass. The product is ideal for home appliances and cooling/heating devices. Demand is growing for the product due to the anticipated benefits of longer component life spans and cost savings for clients.
We have applied for a patent as of 2007, and will continue with research to further enhance the product’s performance.

High Performance Steel for bridges

High performance steel (HPS) refers to steel with optimized properties (e.g., tensile strength, impact toughness, etc.) that is specifically designed for use in critical structures. The rise in demand for HPS in the 2000s was driven by its ability to lower building costs and allow for easier maintenance.

In conjunction with a project to develop new material application technology for next-generation structures led by the Ministry of Construction and Transportation (MOCT), we launched R&D into high-performance steel in 2003. We developed 690MPa grade product in 2006 and in the following year, we provided the steel for the building of the Incheon Grand Bridge, considered one of the world’s top ten construction projects. Compared to comparable grade products, it has enhanced yield strength and impact toughness. It also boosts reduced preheat during welding and improved performance after welding.

We shared the Ministry of Commerce, Industry and Energy’s view that KS standards should be introduced for the developed steel products to ensure the quality of Korea’s bridges. In August 2007, we pursued formulation of the KS S-3686 High-performance Steel for Bridges (HPSF) standard. We are working to have the standard reflected in bridge design standards by MoCT. Going forward, we plan to develop 890MPa grade steel and other products optimized for special applications to promote advances in the construction sector.

New Businesses

As part of our initiative to nurture the energy business as a future growth driver, we acquired 100% ownership of POSCO Power (formerly Korea Independent Energy Corp.) through three acquisitions in 2005 and 2006. We have received government approval to build a 1.5 GW LNG combined cycle power plant. Construction is set to begin in April 2009, with full operation scheduled to begin in 2011.

LNG Terminal

POSCO is the first Korean company to directly import LNG. Through the completion of our Geojang LNG terminal having two 1.5 billion cubic meter storage tanks in 2005, we have secured a stable supply of LNG. In addition to environmental benefits, we realized cost savings of KRW 180 billion in 2007.

To enhance the terminal’s operational efficiency and prepare for growing LNG demand, we are currently building a 1.6 billion cubic meter storage tank. About 27% of the work was completed at the end of 2007. The target completion date is September 2010.

Types of Environment-Friendly Products

<table>
<thead>
<tr>
<th>Category</th>
<th>No. of products in 2000~2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment preservation</td>
<td>22</td>
</tr>
<tr>
<td>Energy saving</td>
<td>141</td>
</tr>
<tr>
<td>Recycling</td>
<td>31</td>
</tr>
</tbody>
</table>

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Overseas Resource Development

Amid the unprecedented hike in oil price and fierce competition for natural resources, POSCO is making various efforts to secure access to stable energy supply and reinforce its global competitiveness. In January 2007, we decided to participate in explorations of Arab gas fields in the Gulf. We signed an agreement with Korea Gas Corp. to acquire an equity stake in the gas field in June. The Arab Sea gas field is estimated to hold reserves of 8 Tcf (trillion cubic feet), 148 million tons, which is equivalent to the amount of gas consumed in Korea over eight years (annual consumption of about 22 billion tons). POSCO's stake in the gas field is equal to roughly 20 years worth of Korea's LNG import volume (350,000 tons/year).

Environmentally-Friendly Fuel

To minimize waste and promote resource recycling, we are pursuing a project to transform sewage sludge and everyday waste into energy. Specifically, waste materials are dried and then processed to turn them into fuel for power generation. This endeavor will enable us to generate income from waste treatment, meet Renewable Energy Portfolio Standards (RPS), and secure carbon credits. Our target is to collect 1.5 million tons of sludge annually, which is 40% of the amount generated in Korea, and supply an annual 300,000 tons of fuel for power generation by 2011. We are also operating a power plant wholly fueled by everyday waste.

We have already obtained the rights to Suwon’s sludge treatment facility. In November 2007, we secured priority rights to bid on a project to turn everyday waste into fuel in Busan. We plan to pursue similar projects in the Incheon metropolitan area, Gwangyang and Pohang by presenting proposals to the local governments of these regions.

Clean Development Mechanism (CDM)

With environmental issues rising to the fore, countries around the world are working to address climate change. In line with these movements, POSCO is striving to reduce carbon emissions during the steel-making process and pursuing CDM projects.

Work is underway to register three projects with the UN which include the combined cycle power generation using FINEX byproduct gas and two small hydroelectric power plants in Gwangyang. We are also seeking ways to link steelmaking and the fuel cell business with CDM.

Overseas Afforestation/Reforestation

Planting trees which absorb greenhouse gases from the atmosphere is one way of securing carbon credits. Afforestation projects involve land that was not farmed for at least 50 years, while reforestation projects involve deforested forest areas. We are studying the feasibility of CDM afforestation/reforestation projects in Southeast Asian and South American nations. We intend to secure 10% of our targeted carbon credits through such overseas endeavors.
Economic Performance

POSCO pursues mutual benefits with stakeholders to fulfill its economic responsibility as a corporate citizen. We create value through our business activities such as purchasing, production and distribution. We also deliver value through taxes, dividends and interest given to the providers of capital, and contributions to our communities.

Business Performance
Commercialization of FINEX and operation of the integrated stainless steel mill in Zhangjiagang gave a boost to crude steel output in 2007. Crude steel production and sales volume amounted to 21.4 million tons and 23.8 million tons respectively. Revenue and operating income each grew 17% year-on-year to reach KRW 22,207 billion and KRW 6,029 billion thanks to growing sales of high value-added products and ongoing cost savings. The operating margin was 7.4% and net income was KRW 1,176.6 billion. Earnings before interest, tax, depreciation and amortization (EBITDA) as a measure of cash generating ability, reached KRW 6,029.3 billion, with the EBITDA margin posting 27.2%. Return on equity (ROE) rose slightly to 15.9%.

Product Sales and Exports
Total sales in 2007 reached 29.58 million tons, of which 66.1% were strategic products. These refer to high value-added products such as automotive steel sheets, high-quality API steel, all-series stainless steel, electrical steel, TMCP steel, high-grade heat-rolled and cold-rolled steel products, and high-grade wire rods.

Exports reached 8.9 million tons and accounted for 30.7% of total sales volume. Our products are shipped to some 60 countries, with 66.4% of shipments bound for the Asian region. Exports to China as a percentage of total exports hit to 22.2%. POSCO is expanding its export business centered on its regular customers. Through our global SCM strategy, we are extending our reach from our main export markets of China, Japan and Southeast Asia to the more distant regions of Europe, Central and South America, and Africa.

Key Financial Indicators

<table>
<thead>
<tr>
<th>Category</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (KRW billion)</td>
<td>14,359</td>
<td>19,792</td>
<td>21,695</td>
<td>20,043</td>
<td>22,207</td>
</tr>
<tr>
<td>Operating income (KRW billion)</td>
<td>3,059</td>
<td>5,054</td>
<td>5,912</td>
<td>3,892</td>
<td>4,308</td>
</tr>
<tr>
<td>Net income (KRW billion)</td>
<td>1,980</td>
<td>3,826</td>
<td>3,995</td>
<td>3,207</td>
<td>3,679</td>
</tr>
<tr>
<td>Operating Margin (%)</td>
<td>21.3</td>
<td>25.5</td>
<td>27.2</td>
<td>19.4</td>
<td>19.4</td>
</tr>
<tr>
<td>ROE (%)</td>
<td>16.2</td>
<td>26.3</td>
<td>22.4</td>
<td>15.5</td>
<td>15.9</td>
</tr>
<tr>
<td>EBITDA (KRW billion)</td>
<td>4,519</td>
<td>6,500</td>
<td>7,393</td>
<td>5,450</td>
<td>6,029</td>
</tr>
<tr>
<td>EBITDA Margin (%)</td>
<td>31.5</td>
<td>32.8</td>
<td>34.1</td>
<td>27.2</td>
<td>27.2</td>
</tr>
<tr>
<td>Shareholders’ Equity (KRW billion)</td>
<td>12,958</td>
<td>16,110</td>
<td>19,510</td>
<td>21,792</td>
<td>24,503</td>
</tr>
<tr>
<td>Debt to Equity Ratio (%)</td>
<td>42.1</td>
<td>32.6</td>
<td>24.1</td>
<td>21.0</td>
<td>24.4</td>
</tr>
</tbody>
</table>

Export Breakdown by Region

<table>
<thead>
<tr>
<th>Region</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Korea</td>
<td>22.2</td>
<td>22.2</td>
<td>19.9</td>
<td>19.9</td>
</tr>
<tr>
<td>Others</td>
<td>22.2</td>
<td>25.4</td>
<td>18.8</td>
<td>18.8</td>
</tr>
</tbody>
</table>

Prices of Major Products

<table>
<thead>
<tr>
<th>Product (Domestic, KRW 1,000)</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hot-rolled coil</td>
<td>448</td>
<td>473</td>
<td>500</td>
<td>502</td>
</tr>
<tr>
<td>Cold-rolled coil</td>
<td>473</td>
<td>499</td>
<td>512</td>
<td>500</td>
</tr>
<tr>
<td>Cold-rolled coil (Exports)</td>
<td>568</td>
<td>616</td>
<td>658</td>
<td>680</td>
</tr>
<tr>
<td>Wire rods</td>
<td>468</td>
<td>468</td>
<td>468</td>
<td>473</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Product (Export, USD)</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hot-rolled coil (USD)</td>
<td>520</td>
<td>569</td>
<td>589</td>
<td>680</td>
</tr>
<tr>
<td>Cold-rolled coil (USD)</td>
<td>330</td>
<td>473</td>
<td>561</td>
<td>658</td>
</tr>
</tbody>
</table>

Production

<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Unit: million tons)</td>
<td>26.2</td>
<td>26.5</td>
<td>28.2</td>
<td>28.9</td>
<td>29.2</td>
</tr>
<tr>
<td>(Unit: million tons)</td>
<td>28.2</td>
<td>28.9</td>
<td>29.2</td>
<td>30.2</td>
<td>28.7</td>
</tr>
</tbody>
</table>

Prices of Major Products

<table>
<thead>
<tr>
<th>Product (Domestic, KRW 1,000)</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
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<td>448</td>
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<td>512</td>
<td>500</td>
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<tr>
<td>Wire rods</td>
<td>468</td>
<td>468</td>
<td>468</td>
<td>473</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Product (Export, USD)</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hot-rolled coil (USD)</td>
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<tr>
<td>Cold-rolled coil (USD)</td>
<td>330</td>
<td>473</td>
<td>561</td>
<td>658</td>
</tr>
</tbody>
</table>
**Credit Rating**

POSCO has the highest credit rating among the world's steel companies. In February 2007, Standard & Poor's (S&P) raised its rating on POSCO to 'A' from 'A-'. In October, Moody's gave an 'A1' rating, the highest among global steel companies. That rating is one notch higher than Korea's sovereign rating (A2). The high credit ratings not only enhance POSCO's status but also make it cheaper to raise funds overseas.

The ratings upgrades are attributable to POSCO's financial stability and strong profitability backed by the growing sales of strategic products and cost reduction. We expect to maintain high credit ratings as long as we encounter no major glitches in our global expansion strategy and the global steel market does not fall into a serious downturn.

**Share Performance**

POSCO shares appreciated 86% in 2007 to close the year at KRW 575,000. POSCO far outperformed the KOSPI, which posted a 32% gain. Market capitalization reached KRW 30.1 trillion at the year's end, representing a major surge over KRW 26.9 trillion in 2006. That was the second highest figure among listed companies in Korea and the second highest among global steelmakers. Earnings per share jumped 49% to KRW 48,444, while the price-earnings ratio rose to 11.9 from 7.6 in 2006.

**Purchasing, Outsourcing and Asset Acquisition**

Raw material costs incurred and the spending on other materials and outsourcing grew by 15% year-on-year to KRW 12,056.8 billion, equivalent to 51.6% of revenue in 2007. Raw material costs stood at KRW 10,837.1 billion, other material costs at KRW 1,288.9 billion and outsourcing costs at KRW 1,378.7 billion. Outlays to acquire tangible assets (e.g., buildings, structures), intangible and intangible assets came to KRW 6,539.9 billion.

**Wages**

POSCO fully abides by the provisions of the Minimum Wage Act. Also, basic salary of men and women is equal. New recruits at POSCO receive a salary that is equivalent to 40% of the legal minimum wage. Economic benefits for employees are classified into wages and welfare benefits. Variable wages increased in 2007 as the growth in operating profit pushed up incentives. Labor costs for the year totaled KRW 1,241.2 billion, of which KRW 764.4 billion was provisions for severance and retirement benefits. Total allowance payment was KRW 11,368.6 billion.

---

**Credit Rating**

<table>
<thead>
<tr>
<th>Year</th>
<th>Moody's</th>
<th>S&amp;P</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>A3</td>
<td>A3</td>
</tr>
<tr>
<td>2004</td>
<td>A2</td>
<td>A2</td>
</tr>
<tr>
<td>2005</td>
<td>A2</td>
<td>A2</td>
</tr>
<tr>
<td>2006</td>
<td>A2</td>
<td>A2</td>
</tr>
<tr>
<td>2007</td>
<td>A1</td>
<td>A1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Moody's</th>
<th>S&amp;P</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>A2</td>
<td>A2</td>
</tr>
<tr>
<td>2004</td>
<td>A2</td>
<td>A2</td>
</tr>
<tr>
<td>2005</td>
<td>A2</td>
<td>A2</td>
</tr>
<tr>
<td>2006</td>
<td>A2</td>
<td>A2</td>
</tr>
<tr>
<td>2007</td>
<td>A1</td>
<td>A1</td>
</tr>
</tbody>
</table>

**Stock Information**

<table>
<thead>
<tr>
<th>Category</th>
<th>KOSPI</th>
<th>KOSDAQ</th>
<th>KOSPI</th>
<th>KOSDAQ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Cap.</td>
<td>KRW trillion</td>
<td>KRW billion</td>
<td>KRW trillion</td>
<td>KRW billion</td>
</tr>
<tr>
<td>2003</td>
<td>14.5</td>
<td>575</td>
<td>18.7</td>
<td>677</td>
</tr>
<tr>
<td>2004</td>
<td>16.3</td>
<td>764.4</td>
<td>20.9</td>
<td>877.2</td>
</tr>
<tr>
<td>2005</td>
<td>17.6</td>
<td>967.5</td>
<td>22.1</td>
<td>1,077</td>
</tr>
<tr>
<td>2006</td>
<td>19.1</td>
<td>1,168</td>
<td>23.4</td>
<td>1,177</td>
</tr>
<tr>
<td>2007</td>
<td>20.1</td>
<td>1,345</td>
<td>24.7</td>
<td>1,241</td>
</tr>
</tbody>
</table>
Pensions

Pension schemes are largely divided into the national pension plan mandated by law and private pensions. National pension premiums are determined by an individual’s wage. Half the amount is deducted from the individual’s monthly salary while the other half is provided by the company. In the case of private pensions, POSCO provides KRW95.38 billion in subsidies for employees who subscribe to plans for upwards of ten years whose monthly premiums are KRW190,000 or more. As of the end of 2007, 12,763 employees, or 74% of the total workforce, received subsidies for private pension plans.

Taxes

POSCO also contributes to society by paying taxes. In 2007, we did not receive any grants from the central or local governments in relation to transactions of products and services. We did not receive any financial assistance such as special tax cuts, except for deductions stipulated in the law. We paid total taxes of KRW 327.8 billion in 2007, broken down into KRW 444.2 billion in national taxes, KRW 159.2 billion in local taxes and KRW 95.5 billion in customs duties. Total tax payment decreased by 49% year-on-year. Sluggish results in 2006 lowered corporate income taxes, while customs duties fell as the Korean government abolished the tariff on coke and lowered the tariff on nickel. Meanwhile, income tax expense as reported in the income statement increased by 22% as KRW 1,112.6 billion due to the improvement in earnings results for fiscal 2007.

Material and Outsourcing Costs

<table>
<thead>
<tr>
<th>Category</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw material costs (KRW billion)</td>
<td>8,174</td>
<td>8,331</td>
<td>8,825</td>
<td>10,348</td>
</tr>
<tr>
<td>Other material costs (KRW billion)</td>
<td>1,945</td>
<td>1,972</td>
<td>1,971</td>
<td>1,982</td>
</tr>
<tr>
<td>Outsourcing costs (KRW billion)</td>
<td>1,045</td>
<td>1,084</td>
<td>1,071</td>
<td>1,087</td>
</tr>
<tr>
<td>Total (KRW billion)</td>
<td>11,164</td>
<td>11,386</td>
<td>11,877</td>
<td>13,417</td>
</tr>
<tr>
<td>As % of revenue (%)</td>
<td>54.2</td>
<td>56.8</td>
<td>58.6</td>
<td>58.4</td>
</tr>
</tbody>
</table>

Asset Acquisitions

<table>
<thead>
<tr>
<th>Category</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction in progress</td>
<td>5,160</td>
<td>5,470</td>
<td>5,267</td>
<td>2,449</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>618</td>
<td>2,386</td>
<td>2,079</td>
<td>1,281</td>
</tr>
<tr>
<td>Buildings, structures, etc.</td>
<td>104</td>
<td>205</td>
<td>107</td>
<td>752</td>
</tr>
<tr>
<td>Total long-term assets</td>
<td>5,884</td>
<td>9,852</td>
<td>7,442</td>
<td>4,492</td>
</tr>
<tr>
<td>Other current assets</td>
<td>623</td>
<td>597</td>
<td>682</td>
<td>82</td>
</tr>
<tr>
<td>Total (KRW billion)</td>
<td>6,507</td>
<td>10,449</td>
<td>8,124</td>
<td>5,574</td>
</tr>
</tbody>
</table>

Dividends

<table>
<thead>
<tr>
<th>Category</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current rate (%)</td>
<td>50.0</td>
<td>60.0</td>
<td>60.0</td>
<td>60.0</td>
<td>60.0</td>
</tr>
<tr>
<td>Dividend per share (KRW)</td>
<td>4.381</td>
<td>4.380</td>
<td>4.380</td>
<td>4.380</td>
<td>10.000</td>
</tr>
<tr>
<td>Dividend per share in (KRW)</td>
<td>4.381</td>
<td>4.380</td>
<td>4.380</td>
<td>4.380</td>
<td>10.000</td>
</tr>
<tr>
<td>Total dividends (KRW billion)</td>
<td>208.200</td>
<td>187.580</td>
<td>187.580</td>
<td>187.580</td>
<td>375.163</td>
</tr>
<tr>
<td>Average per share (KRW)</td>
<td>25.194</td>
<td>23.577</td>
<td>23.577</td>
<td>23.577</td>
<td>25.194</td>
</tr>
</tbody>
</table>
Contributions

Donations are made in accordance with the ‘Regulations on Organization, Responsibilities and Authorities’ and the ‘Operation Rules of the Board of Directors (BOD).’ The BOD decides on contributions exceeding KRW 1 billion. The Finance and Operation Committee decides on amounts in the range of KRW 100 million to KRW 1 billion, and the BOD also deliberates on the granting of donations of over KRW 1 billion. Donations in the range of KRW 10 million to KRW 100 million are subject to the authority of the CEO.

Our donations totaled KRW 115.1 billion in 2007, including KRW 47.2 billion to POSCO Education Foundation, KRW 66.6 billion to the labor welfare fund, and KRW 25.0 billion to POSTECH.

Interest Expenses

Interest income

Net interest expenses

Support for Pensions

Private pension subsidies (billion)

Corporation premiums for National Pension Plan (billion)

Taxes

National tax

Local tax

Customs duty

Contributions

POSCO Education Foundation

POSTECH

Labor welfare fund

Others

Total

2003 2004 2005 2006 2007

(Unit: KRW billion)
Sustainability of Steel
Today all of us are challenged to use resources, energy, and materials wisely and appropriately. Steel helps us to meet this challenge easily. It is made in highly efficient processes and it is a completely recyclable—time and time again.

Steel contributes to sustainability on a grand scale. The following demonstrates just some of the ways that steel is being used in our day-to-day lives to foster our development and well-being.

With you from birth
Steel and Health
From sterile surgical instruments to exercise machines, steel is with us in many ways that benefit our health. Around the world, steel is in the hospitals we rely on, the pharmaceutical systems that manufacture our medicines, and in emergency equipment that gets medical assistance to us rapidly when it counts.

Refreshing you
Steel and Water
Steel plays a fundamental role in helping to make freshwater accessible for everyone. From water storage tanks to complex pump and pipe infrastructure, steel is involved in the entire process of water collection, purification and delivery. Steel enables us to manage water, from raindrops to oceans waves.

Cultivating our crops
Steel and Agriculture
Agriculture is vital to our modern civilization. It provides us with our food, clothing, and increasingly, our energy. Agriculture also continues to provide livelihoods, employing 62% of the world’s population. From barns, silos, and greenhouses to modern ploughs, irrigation systems and grain storage silos, steel is there every step of the way, making agriculture easier and more efficient.

Caring for our world
Steel and the Environment
Steel contributes to the health of our planet in many ways. Lightweight steel vehicles keep us safe and minimize the amount of fuel we use. Steel is also used to construct clean and economical sources of alternative energy. However, steel’s most important contribution to our environment is its infinite recyclability.

Nourishing you
Steel and Food
Steel is part of every step of our food supply network. Cultivation, manufacture, preservation, and delivery of food would not be possible without steel. The use of steel also ensures us that the can of food we buy in the market will be as fresh and nutritious on the day it was packed.
Sheltering you
Steel and Housing
Innovative steel solutions are fundamental to meeting humanity’s growing need for shelter. Steel is one of the most sustainable building materials with unique characteristics that foster its use in the construction industry. Steel is long-lasting, versatile, earthquake-resistant, and 100% recyclable.

Powering your world
Steel and Energy
Every time you switch on an electrical appliance, you are using steel. Hi-tech electrical steels are used to create the power you use. Pylons and cables made of steel transport the electricity directly to you. Steel is also used in the creation of renewable energy, including hydrogen fuel cells, wind turbines, and solar panels. Steel powers your world, day and night.

Getting you there
Steel and Transport
Mobility is essential in our modern society. Steel provides transport solutions that move us quickly, efficiently and economically. It also helps to keep us safe, as we move. Innovative advances in steel design ensure steel will continue to contribute to the development of fuel-efficient transport solutions decades into the future.

Protecting you from harm
Steel and Safety
Steel protects you in simple ways, such as steel-toed boots that keep your feet safe, or cans that store your food safely. Steel also protects in complex applications such as buildings designed with steel to resist earthquakes, or steel-bodied vehicles that protect you and your family when travelling. Steel has many ways of keeping you safe.

Keeping you in touch
Steel and Communication
Almost every form of human communication uses steel in some way. Newspapers and books could not be created without steel presses. Computers and pens contain steel and are produced using steel equipment. Postal systems around the world depend on steel sorting equipment and infrastructure to deliver our letters and packages. Steel is there even when we make a telephone call, all along the line.

Enriching your life
Steel and Culture
Steel is an integral part of our culture. It is part of the clothes and jewelry that we wear, and the music, sports and entertainment that we enjoy. Steel inspires artistic sculpture and architectural grandeur, and provides down-to-earth playgrounds for children of all ages. Steel enriches our lives.

Infinite recycling
Steel and Recycling
The recycling of scrap steel is vital to the production of new steel. Recycling makes steelmakers to conserve energy in the production of steel as well as to preserve the earth’s resources. Steel is one of the easiest materials to recover from waste streams. It can be recovered using just a magnet.
## Environmental Performance

<table>
<thead>
<tr>
<th>Index</th>
<th>Unit</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dust</td>
<td>kg/T-S</td>
<td>0.24</td>
<td>0.34</td>
<td>0.22</td>
</tr>
<tr>
<td>NOx</td>
<td>kg/T-S</td>
<td>0.68</td>
<td>0.76</td>
<td>0.70</td>
</tr>
<tr>
<td>SOx</td>
<td>kg/T-S</td>
<td>1.19</td>
<td>1.22</td>
<td>1.20</td>
</tr>
<tr>
<td>Water supply for operation</td>
<td>m³/T-S</td>
<td>2.34</td>
<td>4.30</td>
<td>4.14</td>
</tr>
<tr>
<td>Effluent discharge volume</td>
<td>m³/T-S</td>
<td>1.64</td>
<td>1.64</td>
<td>1.66</td>
</tr>
<tr>
<td>Final effluent COD</td>
<td>mg/L</td>
<td>3.0</td>
<td>5.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Final effluent T-N</td>
<td>mg/L</td>
<td>7.7</td>
<td>11.1</td>
<td>11.1</td>
</tr>
<tr>
<td>Byproduct volume</td>
<td>10,000 tons</td>
<td>1,995</td>
<td>1,952</td>
<td>2,068</td>
</tr>
<tr>
<td>Byproduct recycling rate</td>
<td>%</td>
<td>98.3</td>
<td>98.5</td>
<td>98.7</td>
</tr>
<tr>
<td>CO₂ emissions/ton crude steel</td>
<td>T-CO₂</td>
<td>2.06</td>
<td>2.13</td>
<td>2.19</td>
</tr>
</tbody>
</table>

* 2004 data.

http://www.posco.com/homepage/sustainability/environment
Environmental Management

To realize an environment in which nature coexists with human, POSCO operates a systematic Environmental Management System comprising an environmental objective, organization and related system. Under a policy of striving for environmental preservation, a resource recycling society and harmony with communities, POSCO sets an environmental objective and action plan every year. Environmental considerations affect all of our business activities. POSCO is committed to continuing technology development and investment to fulfill its role as a leader in global environmental management.

Environmental Policy
POSCO established its environmental policy in 1995 and has since persisted with efforts to minimize our impact on the environment. Reflecting the demands of our stakeholders and international trends, POSCO declared its commitment to sustainable development in line with such efforts, the company established its sustainability policy that encompasses its environmental policy on January 26, 2004. Our environmental policy forms an important axis of our sustainable policy.

Every year, POSCO reflects domestic and overseas changes in the business climate as well as the voices of our stakeholders in setting environmental objectives and action plans. Our environmental objective and actions for 2007 were as follows.

Environmental Accounting

Environmental Objectives and Action Plans

<table>
<thead>
<tr>
<th>Objective</th>
<th>Action Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce dioxin emissions by 81% compared with 2001 level by 2010</td>
<td>- Reduce dioxin emissions by 81% compared with 2001 level by 2010 (3rd stage of 5th dioxin reduction project)</td>
</tr>
<tr>
<td>Reduce chemical substance emissions to 50% of 2001 levels by 2009</td>
<td>- Reduce chemical substance emissions to 50% of 2001 levels by 2009</td>
</tr>
<tr>
<td>Operate TF to enhance dust collector efficiency</td>
<td>- Operate TF to enhance dust collector efficiency</td>
</tr>
<tr>
<td>Enforce voluntary agreement on green partnership with SMEs</td>
<td>- Enforce voluntary agreement on green partnership with SMEs</td>
</tr>
<tr>
<td>Make a Clean Taein-dong (Near Gwangyang works)</td>
<td>- Make a Clean Taein-dong (Near Gwangyang works)</td>
</tr>
<tr>
<td>Expand use of slag for marine ecology restoration</td>
<td>- Expand use of slag for marine ecology restoration</td>
</tr>
<tr>
<td>Pursue POSCO CO2 Breakthrough</td>
<td>- Pursue POSCO CO2 Breakthrough</td>
</tr>
<tr>
<td>Join Asia-Pacific Partnership (APP)</td>
<td>- Join Asia-Pacific Partnership (APP)</td>
</tr>
</tbody>
</table>

Achievements

- Reduced dioxin emissions by 72% in 2007 levels
- Reduced chemical substance emissions by 35% in 2007 levels

- Dec. 2007: Held workshop on results of expanding green partnership with SMEs
- May 2007: Signed environmental pact with Gwangyang Works Council for making Clean Taein-dong
- May 2007: Declared Pohang Works Environmental Vision
- Used 16,000 tons for marine forest, off Pyeongsan, Southern Coast
- Participated in establishing 19 initiatives of domestic/overseas policy coordination, incl. APP, IISI
- Achieved energy reductions of 343,000 TOE in 2007
performance. To maintain environmental equipment, a total of KRW 579.7 billion was spent in 2007. When energy recovery costs and related R&D costs are added, total environmental costs came to KRW 644.4 billion.

Environmental Accounting System

POSCO completed designing an environmental activity cost calculation system at the end of 2003 based on an Activity Based Management (ABM) system. The system not only analyses benefits such as those from energy recovery and the recycling of byproducts, but it also contributes to management decisions in rationalizing department operations and facility investments.

Environmental Training

To enhance employees’ awareness levels, POSCO includes environmental topics in its quarterly technology sessions. Employees exchange opinions on recent issues, environmental management activities and technical trends. Additionally, an online training program aims to equip employees’ basic knowledge of the environment. In 2007, 816 workers completed the e-learning program, bringing the total to 9,800 since the program was introduced in 2001.

Environmental Audit

POSCO receives regular internal and external environmental audits on whether its systems meet ISO 14001 standards. Following the inspections, we conducted a review of our environmental impact evaluation system. The reviews were distributed throughout the company in December 2007 and related training was given. Also, company drills are used to encourage information exchange between environment-related personnel to raise efficiency of the environmental management system.

Environmental Costs

<table>
<thead>
<tr>
<th>Category</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity, maintenance, labor costs, etc.</td>
<td>247</td>
<td>205</td>
<td>228</td>
<td>231</td>
<td></td>
</tr>
<tr>
<td>Recycling costs</td>
<td>115</td>
<td>119</td>
<td>117</td>
<td>116</td>
<td></td>
</tr>
<tr>
<td>Environmental facility operating costs</td>
<td>20</td>
<td>21</td>
<td>26</td>
<td>36</td>
<td></td>
</tr>
<tr>
<td>Environmental R&amp;D costs*</td>
<td>20</td>
<td>30</td>
<td>35</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy recovery costs*</td>
<td>-</td>
<td>-</td>
<td>36</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>297</td>
<td>298</td>
<td>314</td>
<td>347</td>
<td></td>
</tr>
</tbody>
</table>

* In 2003, ABM system was newly adopted to measure environmental costs. Environmental R&D does not include energy costs.

Key Environmental Facility Investments in 2007

<table>
<thead>
<tr>
<th>Category</th>
<th>Pohang Works</th>
<th>Gwangyang Works</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audited Depts.</td>
<td>10</td>
<td>8</td>
</tr>
<tr>
<td>Certification</td>
<td></td>
<td></td>
</tr>
<tr>
<td>External review</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal review</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit results</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Need to improve training and environmental awareness following organizational and assignment changes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Need to devise and implement an environmental training program for follow-up</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improvement in company-wide decision-making and information exchange due to mutual review of related departments</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Environmental Costs (Unit: KRW billion)

<table>
<thead>
<tr>
<th>Category</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental facility operating costs</td>
<td>226.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental facility depreciation costs</td>
<td>134</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environment-related department labor costs, water usage dues, etc.</td>
<td>36</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General management costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental R&amp;D costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental facility operating costs</td>
<td>396.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental facility depreciation costs</td>
<td>46.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recycling costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>596</td>
<td>126</td>
<td>21</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Environmental Costs (Unit: KRW billion)

<table>
<thead>
<tr>
<th>Category</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electric, maintenance, labor costs, etc.</td>
<td>225</td>
<td>226</td>
<td>231</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recycling costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental facility operating costs</td>
<td>115</td>
<td>119</td>
<td>117</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental facility depreciation costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental R&amp;D costs*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy recovery costs*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>247</td>
<td>205</td>
<td>228</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* In 2003, ABM system was newly adopted to measure environmental costs. Environmental R&D does not include energy costs.
Environmental Management Performance

Pursue environmental management centering on human and ecology

POSCO has signed voluntary agreements with the government and civic groups to reduce emissions of pollutants. We also save energy and resources by recycling byproducts. Our environmental management is measured by the POSCO Environmental Performance Index (EPI) and disclosed to internal and external sources in a transparent manner. This allows consolidated environmental evaluations and feedback, which are then reflected in establishing the following year’s environmental objectives.

Improving Air Quality

Major air pollutants generated from steel making include dust, sulfur oxides (SOx) and nitrogen oxides (NOx). To reduce the volume of such pollutants, POSCO invested KRW 7.4 billion into building a flue gas cleaning system at Gwangyang Works’ sintering furnaces in December 2007. As a result, we reduced emissions of SOx, NOx and dust by more than 80% compared to 2004. To minimize exhaust and dust from the iron and steel making areas of Pohang Works, flying dust and other pollutants from the raw material yard and roads, POSCO plans to spend about KRW 1.42 billion from second half of 2007 to 2009. All vehicles operating within our steelworks will undergo checks on their tires, tires and vehicle cleanliness, to block the inflow of dust from the source. All road sections in our iron and steel making areas are fitted with water sprinkling systems. To maximize the sprinkling effect, POSCO is installing bank angles to roads in the areas during pavement works.

Reducing Dioxin Emissions

In July 2005, POSCO signed a Voluntary Agreement for Reduction of the Emissions of Persistent Organic Pollutants (POPs). Under the agreement, we have been conducting related R&D, such as adopting sintering flue gas dioxin treatment facilities and developing technology to lower POPs. The first available technology (BAT) - absorption facility for activated carbon - was installed at Pohang Works’ sintering facility units 3 and 4 and began operations in July 2004. In December 2007, all sintering plants at Gwangyang Works were injected with NaHCO3 and outfitted with selective catalytic reduction (SCR) facilities to drastically cut SOx, NOx and dioxins. POSCO expects to reduce dioxin emissions from the two steelworks by more than 90% relative to 2001 by the year 2010 and reached the goal with excessive scores in 2007.

Improving Water Quality

The water used in our steel making processes initially goes through wastewater treatment plants (WWTP) at each plant. More than 90% is then reused. About 9% of the steelworks’ water needs is supplied from nearby dams. In 2007, POSCO received 148,306 and 143,390 tons of water daily from Youngcho and Suos dams. Those were increase over 2006 due to increase of premium steel production plant. Water that is not reused during the steelmaking procedure undergoes advanced treatment at 2nd WWTPs and is then reused for cooling roads and sprinkling at materials yards to reduce dust. The rest is discharged into the nearby sea.

The final wastewater treatment at coke plant of Pohang Works and Gwangyang Works are equipped with high-performance activated carbon absorption facilities (used to clean tap water) to minimize emissions of water pollutants. We also created an additional 3,000 m3 of biological treatment facilities at Pohang Works in 2007 to raise the efficiency of T-N* and COD** reductions, as well as added activated carbon facilities and two fiber filters to lower SS***.

Chemicals

In December 2004, POSCO joined the government and civic groups in signing a Voluntary Agreement to Reduce Chemicals Emissions. The agreement targets the reduction of chemical discharges by 30% within 3 years (2007) and by 50% within 5 years.

Reduction of Dioxin Relative to 2001

![Graph showing reduction of dioxin relative to 2001](image)

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2003</th>
<th>2005</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction</td>
<td>100%</td>
<td>80%</td>
<td>90%</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Reduction of dioxin emissions was calculated with the reference figure of 100 for the year 2001.

<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emissions of Chemical Substances</td>
<td>100</td>
<td>80</td>
<td>60</td>
<td>40</td>
</tr>
</tbody>
</table>

*Emissions of chemical substances, KRW million.

<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction of dioxin emissions relative to 2001</td>
<td>100</td>
<td>80</td>
<td>90</td>
<td>100</td>
</tr>
</tbody>
</table>

*Reduction of dioxin emissions was calculated with the reference figure of 100 for the year 2001.
(2009) and was accordingly dubbed the Chemicals Discharge Reduction 30/50 program. Totally 164 local companies have joined the initiative. We have reached to the target by 30% of TOX in 2007. To reduce emissions of BTX and ammonia from coke plants, POSCO introduced the Leak Detection and Repair (LDAR) system. We also installed covers on our WWTPs to collect and treat chemicals. In addition, we regularly replace exhaust scrubbers and pumps, and have installed pipes to collect and treat Volatile Organic Compound (VOCs) that leak from our coke plant tanks. We are also expanding the use of odor neutralizers in furnaces and a non-steam granulated slag production system to eliminate odors from the blast furnace area.

Byproduct Recycling
A total of 20.68 million tons of byproducts were generated during steel making at Pohang Works and Gwangyang Works. Some 97.7% of byproducts are recycled stably into resources, while the rest is either incinerated or solidified for landfill.

All of the blast furnace slag and steel making slag is reused as resources. To raise the added value from blast furnace slag, 82% of total volume in 2007 was produced as granulated slag, while steel making slag is used to meet diverse needs, such as maintaining marine ecology.

Water supply for Operation

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Water supply</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pohang &amp; Gwangyang</td>
<td>2.3</td>
<td>2.3</td>
<td>2.3</td>
<td>2.3</td>
<td>2.3</td>
</tr>
<tr>
<td>Gwangyang Works</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BTX: Benzene, toluene and xylene compounds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

POSCO Environmental Performance Index (POSEPI)
Adopted in 2001, POSEPI is used to assess the company’s comprehensive environmental management performance and to support rational decision-making. By reviewing the performance of the past three years (2004-2006), POSEPI delegated 40, 30 and 10 points each to operational performance, acting performance and environmental conditions to form a reference base point of 100. POSEPI is currently under revision for more enhanced delicacy of environmental assessment.

Byproduct Recycling by Application

<table>
<thead>
<tr>
<th>Recycling rate (%)</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Byproduct volume (10,000 tons)</td>
<td>1,148</td>
<td>1,839</td>
<td>1,817</td>
<td>1,889</td>
<td>81.3</td>
</tr>
<tr>
<td>Recycled volume (10,000 tons)</td>
<td>1,858</td>
<td>1,963</td>
<td>1,933</td>
<td>2,068</td>
<td>98.898.398.598.7</td>
</tr>
</tbody>
</table>

Final COD Concentration in Effluents

<table>
<thead>
<tr>
<th>Category</th>
<th>2000</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>COD concentration</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pohang &amp; Gwangyang</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>6.6</td>
</tr>
<tr>
<td>Gwangyang Works</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Final T-N Concentration in Effluents

<table>
<thead>
<tr>
<th>Category</th>
<th>2000</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>T-N concentration</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pohang &amp; Gwangyang</td>
<td>11</td>
<td>12</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Gwangyang Works</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*All concentrations have been regulated since 2000
Compliance

POSCO follows more stringent internal standards for pollutants and waste than those mandated by law and conducts regular checks. Of 48 inspections by environment-related authorities in 2007, we received one notice, including the additional planting of trees like a tree belt at steel works.

**POSCO Environmental Performance Index (POSEPI)**

<table>
<thead>
<tr>
<th>Category</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational performance</td>
<td>60</td>
<td>84</td>
<td>83</td>
<td>87</td>
<td>85</td>
</tr>
<tr>
<td>Activity performance</td>
<td>30</td>
<td>38</td>
<td>39</td>
<td>41</td>
<td>44</td>
</tr>
<tr>
<td>Environmental condition</td>
<td>10</td>
<td>8</td>
<td>9</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>130</td>
<td>131</td>
<td>135</td>
<td>142</td>
</tr>
</tbody>
</table>

**POSEPI Factors**

- **Operational Performance**
  - Resource usage
  - Energy, water supply
  - Specific chemical substances
  - Pollution
  - Effluents
- **Activity Performance**
  - Internal & external communication
  - Communication activities conducted internally and externally
- **Environmental Condition**
  - Air quality
  - Water quality
  - Air quality around steelworks
  - Drin water quality near steelworks

**Byproduct Recycling by Application (SBIF)**

- **Blast furnace slag**
  - Unit: %
  - Coke: 77
  - High-quality: 77
  - Other: 100
- **Steelmaking slag**
  - Unit: %
  - Roads/civil works: 70
  - Raw material for steel: 39
  - Other: 100

Compliance

POSCO follows more stringent internal standards for pollutants and waste than those mandated by law and conducts regular checks. Of all inspections by environment-related authorities in 2007, we received one notice, including the additional planting of trees like a tree belt at steel works.
Strengthen Partnership with Environmental Customers

To strengthen our partnership with environmental customers, POSCO discloses its environmental data in a transparent manner. POSCO is also participating in the Green Partnership with SMEs and the environmental improvement program with the Council for Making a Clean Taein-dong. We take part in diverse activities to improve the natural surroundings guided by our environmental vision.

Disclosure of Environmental Data
To measure pollution levels of areas in and around our steelworks and use the data in environmental management, POSCO has automated monitoring facilities. Installed at six sites in Pohang Works and six in Gwangyang Works, they measure gas emissions and air quality in real time. The data is then posted on an electronic bulletin board for local residents, while the environment management center compiles data and provides information to each department and management. POSCO added more sites to the system in 2007 and has operated the system to step up monitoring of air quality.

Green Partnership with SMEs
POSCO has been expanding its green partnership with SME partners to realize a win-win system of environmental management. In cooperation with RIST and POSRI, we evaluated and transferred clean technology, as well as provided guidance on green technology, to 26 business partners.

This is an extension of the Green Partnership program with SMEs carried out from 2003 to 2006 in cooperation with the Ministry of Knowledge Economy and Korea National Cleaner Production Center with six supplier and client firms. POSCO helped spread environmental management to partner firms by evaluating their environmental management during production processes, supporting ISO 14001 certification and environmental mark.

POSCO plans to expand the program to overseas subsidiaries and gradually shift the focus to supporting sustainability management to promote global Supply Chain Environmental Management (SCEM).

Automatic Monitorization Facilities and Items

<table>
<thead>
<tr>
<th>Category</th>
<th>Stack emissions</th>
<th>Atmospheric concentration</th>
<th>Open-path method</th>
<th>Measuring items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pohang Works</td>
<td>64 sites</td>
<td>9, including dust, SO2, NO2</td>
<td>3 sites</td>
<td>9 sites</td>
</tr>
<tr>
<td>Gwangyang Works</td>
<td>64 sites</td>
<td>9, including dust, SO2, NO2</td>
<td>3 sites</td>
<td>9 sites</td>
</tr>
</tbody>
</table>

POSCO | Overall responsibility
RIST | Evaluation, transfer of clean production technology
Pohang | 15 outsourcing partners
Gwangyang | 11 outsourcing partners
POSRI | Evaluation, guidance on environmental management

- Conduct environmental management training
- Build POSCO environmental management system
- Build basis for managing greenhouse gases
- Create and publish environmental report guidelines
- Provide support for clean technology transfer

Mid to Long Term Roadmap for POSCO Green Partnership

2009
- 2010
- 2011
- 2012
- 2013
- 2014
- 2015

Domestic SME suppliers and outsourcing partners
Focus on solving business site problems (e.g., dust, water treatment, general environmental management)

Customers and subsidiaries
Promote clean technology development and environmental management (e.g., SWOT analysis, strategy planning)

Expansion to overseas subsidiaries
Foster global SCEM for sustainability management (e.g., share sustainability management strategy)
Council for Making a Clean Taein-dong

Gwangyang Works is a member of the Council for Making a Clean Taein-dong launched in October 2006. The council includes 46 companies doing business in a nearby industrial complex and residents working together to create an environmentally-friendly Gwangyang Port, in addition to projects to improve the welfare of local communities.

With an emphasis on environmental projects near Taein-dong, the Council signed an agreement that outlined specific commitments in July 2007, such as work to improve the residential setting, efforts to offshore windparks, and launch projects to serve the interests of local residents. Through ongoing communications between companies and residents, the Council will promote mutual understanding and conduct joint projects to improve the living environment in Taein-dong.

Declaration of Environmental Vision

In December 2007, Pohang Works held a ceremony to declare its environmental vision to improve the surrounding air quality. Under the motto of “Blue Sky, Clean Air / Clean City Pohang”, the steelworks plans to invest roughly KRW 112 billion from the second half of 2007 to 2009 to reduce exhaust and dust from iron and steel making plants, as well as fugitive dust and odor from material yards and roads. To effectively execute these plans, an organization was created in July to focus on reducing PM10 in iron and steel making areas. The organization includes the Task Promotion Teams and five task force teams in steel making, coke, steel making, FINEX and air quality.

Pohang Works Action Plan

- We will strive to maintain clean air quality in the region.
- We will actively engage in efforts to create a cleaner Pohang and green environment.
- We will create a forested surrounding for the steelworks.

Youth Environment Class

POSCO operates the youth environment class program for teenagers. By providing diverse and engaging opportunities as part of the children’s regular curriculums, the aim is to instill awareness of the environment. In 2007, some 200 students from nine elementary and middle schools from the Pohang area visited Pohang Works and had a chance to learn about advanced environmental treatment facilities including our environment center and wastewater treatment plant. We also running teenager’s environment classes for the students in Pohang area to encourage on-site environmental activities.

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36
Voluntarily Participate in Global Environment Protection Activities

POSCO is endeavoring to curb the emission of greenhouse gases during the steel making process through energy conservation and innovative technologies. We also take action to reduce greenhouse gases by pursuing advances in renewable energy and CDM* initiatives. In addition, POSCO made a voluntary energy saving agreement with Korean government and has fully executed the agreement. POSCO is strengthening the cooperation relationship internationally and domestically as POSCO participates in the earth environment protection activities of IISI** and APP***.

POSOCI Recycling Rate (Energy recycling rate 98%, Resource recycling rate 99%, Water reuse rate 98%)

![Diagram of POSOCI Recycling Rate](image-url)

Climate Change and Energy

Climate Change Response Strategy

Reduce GHG emission in the Workplace
- Operate carbon management system
- Install energy recovery & such energy use
- Develop innovative technology to reduce CO2

Reduce social GHG emission
- Reduce energy efficiency of consumed goods through CO2 reduction
- Reduce CO2 through facility improvement

Climate Change policy cooperation
- Participate in IISI Sectoral Approach
- Participate in Asia-Partnership Steel TF
- Participate in TF of KISA for UNFCCC

Reduce social GHG emission
- Pursue renewable energy/CDM projects
- Contribute to enhancing energy efficiency of consumer goods
- Indirectly reduce CO2 through slag, cement replacement

Climate Change policy cooperation
- Participate in IISI Sectoral Approach
- Participate in Asia-Partnership Steel TF
- Voluntary agreement for energy saving (2004~2008 target: 1.04 million TOE)
- TF of KISA for UNFCCC
Greenhouse Gas Reduction
Byproduct Gas Recovery
The majority of our fuel needs for steelmaking are met by byproduct gases (COG, BFG, LDG, FOG) generated during the production process. Surplus byproduct gas is also used within our electronarc on-site power generation systems. In 2007, 76% of all electric energy used at our Head Office, Pohang Works and Gwangyang Works was procured from the on-site power plant, energy recovery facilities such as CDG (Coke Dry Quenching) and TRT (Top Gas Pressure Recovery Turbines), and LNG combined power plants. The remaining 24% was secured from external sources. After installing two CDG facilities at Coke Plants 3 and 6 at Gwangyang Works in 2005, we started operating CDG systems at Coke Plants 2 and 5 at Pohang Works in 2007. Accordingly, we expected additional energy savings of US$180 million. Furthermore, a 15MW combined power generation facility to retrieve surplus gases generated from the FINEX process began operating in May 2007.

Energy Conservation Activities
POSCO uses its comprehensive energy information system to manage mid- to long-term energy conservation plans, performance, and energy per ton of crude steel. The system also enables the sharing of ideas and related activities between departments. By pursuing action plans through energy assessment, department workshops and benchmarking studies, we reduced WHR 4.98 billion in energy cost savings in 2007.

We work with external energy assessment firms to spread the energy conservation methods of the same processes at both steelworks. POSCO is also participating in a program between large and smaller companies in which we provide technological support for energy conservation to SMEs. Ten SMEs are receiving technical assistance such as furnace operating methods and heat efficiency assessment to conserve energy.

Carbon Management System
POSCO launched a companywide greenhouse gas management system called Carbon Management System covering Pohang Works and Gwangyang Works in January 2006. Developed in accordance with the WBCSD/WRI Greenhouse Gas Protocol Guidelines, the Carbon Management System calculates CO2 emissions by taking into account fuel/ raw material consumption, electricity purchase, product output and byproduct generation. The system has enabled more efficient control over CO2 emissions during the steelmaking process and is anticipated to facilitate implementation of the Kyoto Mechanisms.

Greenhouse Gas Emissions
The main greenhouse gas (GHG) produced from integrated steelworks is CO2 from coal, used as a reducing agent. This means CO2 emissions rise in tandem with steel output. POSCO has made continuous efforts to reduce CO2 emissions per ton of crude steel. But the recent increase in production of high grade steel pushed up CO2 due to a greater amount of hot metal. Along with emissions from our business activities, we focus on curbing GHG emissions in the wider society. Such measures include promoting the use of steel slag in cement, expanding the use of marine slag and ISM initiatives. POSCO discloses its GHG emissions through the Sustainability Report and takes assessment of the contents by SAM-DJSI.

<table>
<thead>
<tr>
<th>Installation Rate of Energy Recovery Facilities</th>
<th>CDG</th>
<th>TRT</th>
<th>Hit Recovery Facility</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDG (Onshore Ovens)</td>
<td>95%</td>
<td>5%</td>
<td>100%</td>
</tr>
<tr>
<td>CDG (Offshore Ovens)</td>
<td></td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>Hit Recovery Facility</td>
<td>87%</td>
<td>13%</td>
<td>100%</td>
</tr>
</tbody>
</table>
POSCO is an active participant in international efforts to preserve the environment, including the CO2 Breakthrough Programme that is promoted by the IISI and pursued by major international steel makers. Reducing Greenhouse Gas in Society

- CDM
  - POSCO is pursuing Clean Development Mechanism (CDM) schemes such as acquisition of environmental-friendly small hydroelectric power plants and combined power plants using FINEX byproduct gases. The small hydroelectric power plant schemes using water brought in to Gwangyang Works from the nearby Saebyeol reservoir are under operation of two power plants with 20MW power generation from May 2007 which would generate 4.22 million kWh electricity per year. The small hydroelectric power plants and FINEX combined power plant are currently being registered as a CDM scheme. As for the overseas forestation project, a special team was created in May 2005 which is overseeing the overall project planning. The team is carrying out activities such as analysis of investment environment and selection of site and items to plant.

- Reducing Social CO2 Emissions
  - Calculations based on WBCSD/WRI Greenhouse Gas Protocol Guideline (2004) - Calculation Scope: Pohang Works and Gwangyang Works - Direct emissions: Transportation on site is not included. Indirect emissions: Indirect CO2 emissions via use of purchased electricity (Excluded Seoul office and Pohang headquater) - CO2 emissions may be subject to change in the future according to adjustment in the national emission factor and boundary condition for calculation as well as self-production of carbon.

Expanding Marine Use of Steel Byproducts

POSCO signed an MOU with the Ministry of Land, Transport and Maritime Affairs in November 2007 for cooperation in responding to marine climate change. POSCO plans to spur development of technology to separate CO2 from steel byproduct gases and promote the formation of marine forests using steel slag to reduce the expansion of the algal bloom phenomenon in waters off Pohang.
POSCO is participating in the steel industry taskforce team to encourage voluntary reduction of greenhouse gases and clean technology development. With active discussions on technology transfers and cooperation, we anticipate moral results.

Participation in Domestic & International Cooperative Activities for Climate Change

<table>
<thead>
<tr>
<th>Activities</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy saving through partnership</td>
<td>As a leading steel sector company, we are working with other steel sector companies to set a voluntary 5-year target to save energy and reduce greenhouse gas emissions.</td>
</tr>
<tr>
<td>Steel taskforce of seven Asia-Pacific countries on clean technology development and UNFCCC</td>
<td>Steel taskforce of seven Asia-Pacific countries on clean technology development and UNFCCC.</td>
</tr>
<tr>
<td>Voluntary agreement for energy reduction</td>
<td>Voluntary agreement for energy reduction between government and businesses.</td>
</tr>
<tr>
<td>Energy saving through partnership</td>
<td>Energy saving through partnerships with other steel sector companies.</td>
</tr>
</tbody>
</table>

Efforts to Promote Renewable Energy:

- **Fuel cell**
  - POSCO and Gyeongsangbuk Province sign MOU for fuel cell business (Mar. 2007)
  - POSCO Power currently building a fuel cell power plant (100MW, estimated completion in 2010)

- **Solar power generation**
  - Pohang and Gwangyang Works both currently building 1MW solar power plants (scheduled for completion in 2008)

- **Wind power plant**
  - POSCO E&C currently building a 40MW wind power plant in Heongsong (scheduled to be completed in Dec. 2008)

- **Small hydroelectric power plant**
  - Installation of small hydroelectric power plant at Gwangyang Works using raw water pipelines (600kW, May 2007)

- **Turning sewage sludge and general waste into fuel**
  - POSCO E&C currently building a plant in Suwon City (450 ton/day, scheduled for completion in 2009)
  - POSCO-Busan sign MOU on project to turn general waste into fuel (700 ton/day, estimated completion in 2007)

- **Turning waste plastics into fuel**
  - Participating in demonstration of national development project (under consideration 2008)

Domestic and International Cooperation on Clean Technology and Climate Change

**IISI Global Steel Sectoral Approach**

POSCO has actively engaged in Global Steel Sectoral Approach discussions led by the IISI. The discussions focus on setting goals for greenhouse gas reductions by collecting data from steel makers and examining reduction potential.

**Steel Taskforce of Asia-Pacific Partnership**

POSCO is participating in the steel industry taskforce team to encourage voluntary reduction of greenhouse gases and clean technology development. With active discussions on technology transfers and cooperation, we anticipate moral results.

**Activities Details**

- IISI CO2 Breakthrough Programme: Programme jointly pursued by international steel companies
- IISI Global Steel Sectoral Approach: Sector-specific approach jointly pursued by IISI members
- IISI Global Steel Sectoral Approach: Steel taskforce of seven Asia-Pacific countries on clean technology development and UNFCCC
- Voluntary agreement between government and businesses on a 5-year target to save energy and reduce greenhouse gas emissions
POSCO is carrying out a second voluntary agreement made with the government to reduce energy use by 6.9% of consumption levels in 2003, or 1.04 million TOE, from 2004 to 2008. To meet our target, POSCO plans to step up energy saving activities, develop innovative technologies to curb CO₂, participate in domestic and international cooperative activities on clean technology and climate change, in addition to investing KRW 890 billion in energy facilities.

Participation in Domestic Greenhouse Gas Registry
POSCO is a participant in the GHG Emission Registration Reduction Project led by the Korea Energy Management Corp. and is pursuing eight related projects. In 2007, we received 244,000 tons in CO₂ credit certification for three items, such as the installation of CDQ facilities in Gwangyang Works Plants 3 and 4. Our involvement in the registry should boost our ability to counter climate change and provide opportunities to participate in the carbon-trading market.

<table>
<thead>
<tr>
<th>Period</th>
<th>International to Energy Facilities</th>
<th>Target</th>
<th>Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st agreement</td>
<td>1999~2003</td>
<td>KRW 540 billion</td>
<td>790,000 TOE (5.9% relevant to 1997 energy use)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1.25 million TOE</td>
</tr>
<tr>
<td>2nd agreement</td>
<td>2004~2008</td>
<td>KRW 890 billion</td>
<td>1.04 million TOE (6.9% relevant to 2003 energy use)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1.07 million TOE (7.1% relevant to 2003 energy use)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Status</th>
<th>Expected reduction volume over 5 yrs (1,000t-CO₂eq)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New installation of combined power system using FINEX byproduct gas</td>
<td>Registered</td>
<td>406</td>
</tr>
<tr>
<td>Additional electricity generated through waste energy from blast furnace TRD</td>
<td>Certified</td>
<td>31</td>
</tr>
<tr>
<td>Energy saving through installation of combined regenerative gas boiler</td>
<td>Registered</td>
<td>28</td>
</tr>
<tr>
<td>Reducing generation unit which is burning coal from steel plants</td>
<td>Certified</td>
<td>252</td>
</tr>
<tr>
<td>Energy saving from installation of Best coupling replacement pump at hot coil plant de-scaling system</td>
<td>Registered</td>
<td>25</td>
</tr>
<tr>
<td>New installation of cogeneration power facilities using previously unused byproduct gas at steelworks</td>
<td>Registered</td>
<td>204</td>
</tr>
<tr>
<td>Reducing generation unit which is burning coal from steel plants</td>
<td>Registered</td>
<td>229</td>
</tr>
<tr>
<td>To save energy by using the installation of electricity facility at Pohang Works' power plant</td>
<td>Registered</td>
<td>16</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>2,117</td>
</tr>
</tbody>
</table>

Designated as Best Voluntary Energy Saving Company
In 2007, Gwangyang Works were recognized as one of the best voluntary energy saving companies for its diligent adherence to the voluntary agreement target set by the government to save energy and reduce greenhouse gases. Both Pohang Works and Gwangyang Works implemented and cultivated a culture to always think about energy saving in any process. In 2007, Gwangyang Works managed to save 320,000 TOE, surpassing the initial target of 133,900 TOE.

On the 9th Energy Efficiency Day, POSCO was honored as an ‘Excellent Voluntary Energy Saving Company’ by the ministry. The company has been recognized for its energy-saving achievements for five consecutive years.

Participation in 2007 Carbon Disclosure Project (CDP)
POSCO has been a participant in the CDP since 2003 and has disclosed its CO₂ emissions generated during the steel making processes. The CDP Committee assesses the climate change countermeasures of leading global companies. Based on the Committee’s 2007 evaluation, the assessment for Sustainable Companies in Korea 2007, POSCO was recognized as one of the best companies in terms of CO₂ emissions. POSCO also ranked among the top ten in the 2006 Climate Leadership Index. Earlier in 2003, POSCO was also named a Section Leader in the steel industry.
The need for a new steelmaking process was raised since the 1980s due to the high cost involved in additional facilities to control emissions of environmental pollutants. Not to mention, the drying-up of high-quality iron ore lumps and coking coal used in the blast furnace process.

In 1992, POSCO began developing FINEX in cooperation with KIST and Austrian steel company Voest Alpine. After a decade of R&D, we succeeded in starting operation of a 600,000-ton capacity demo plant in June 2003. In May 2007, we completed the commercial-purpose plant with 1.5 million-ton capacity.

The blast furnace process includes the sintering process which sinters iron ore fines and the coke making process which produces cokes from coking coals. These two processes produce pollutants such as NOx and PM. The FINEX process represents a strip casting iron making technology which eliminates the sintering and coke making steps to radically reduce pollutants. Another major advantage is the ability to use cheap iron ore fines which accounts for 45-49% of world iron ore demands and regular coal. When international price of quality iron ore materials for iron making surged in 2005, the FINEX method attracted the attention of the international iron industry for its use of cheaper iron ore fines and lower quality, non-coking coals.
## SOCIAL Responsibility

![Image of family and children]

<table>
<thead>
<tr>
<th>Index</th>
<th>Unit</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>Persons</td>
<td>19,004</td>
<td>17,523</td>
<td>17,307</td>
</tr>
<tr>
<td>Engagement level</td>
<td>%</td>
<td>68</td>
<td>73</td>
<td>80</td>
</tr>
<tr>
<td>Training (Hours)</td>
<td>Hours</td>
<td>305</td>
<td>307</td>
<td>306</td>
</tr>
<tr>
<td>Injuries (Employees)</td>
<td>Cases</td>
<td>91</td>
<td>4</td>
<td>11</td>
</tr>
<tr>
<td>Injuries (Outsourcing)</td>
<td>Cases</td>
<td>99</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Lost-time injury frequency rate (Employees)</td>
<td></td>
<td>0.24</td>
<td>0.40</td>
<td>0.32</td>
</tr>
<tr>
<td>Lost-time injury frequency rate (Outsourcing)</td>
<td></td>
<td>0.21</td>
<td>0.18</td>
<td>0.14</td>
</tr>
<tr>
<td>Customer satisfaction (Domestic)</td>
<td></td>
<td>82.1</td>
<td>79.0</td>
<td>82.3</td>
</tr>
<tr>
<td>Social contribution spending</td>
<td>KRW billion</td>
<td>80.8</td>
<td>86.3</td>
<td>96.5</td>
</tr>
</tbody>
</table>

Safety & Health

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

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

Safety

Activities to ensure safety start with education. In accordance with the POSCO Safety Program we conduct safety education classes for employees from new recruits to senior managers. We also offer safety lectures through e-learning.

POSCO has introduced various safety programs. The Isolation & Locking System (ILS) ensures safety in the event of human error or equipment malfunction. By shutting off energy source, the system prevents machinery from operating unexpectedly during inspection, replacement or repair work and blocks unauthorized access to hazardous areas. For repair work involving two or more people, the related departments and outside companies gather for a Tool Box Meeting (TBM) to discuss risks and safety measures. The Autonomous Safety Management Licensing System helps each department independently manage safety. Under this scheme, a team comprising health/safety experts and Industrial Safety and Health Committee members certifies a department’s safety management system. To prevent accidents, we strictly enforce the Cardinal Rules (wear hygienic clothing, avoid unauthorized access to operating machinery, inspect electrical machinery prior to working on them, check for oxygen in sealed spaces, and fasten your seat belts before entering work areas where gases are present). In addition, POSCO fully adheres to the Process Safety Management (PSM) in accordance with Korea’s Industrial Safety and Health Act.

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

Safety & Health

Safety Education

Safety Programs

- Safety System
- Emergency Management System
- Environmental & Safety Management System
- Safety Management System
- IS Management System
- E-learning Courses
- Process Safety Management
- Tool Box Meeting (TBM)
- Near Miss Incident Reporting System
- Process Safety Management
- Card World System

Safety Education

Safety Programs

- Safety System
- Emergency Management System
- Environmental & Safety Management System
- Safety Management System
- IS Management System
- E-learning Courses
- Process Safety Management
- Tool Box Meeting (TBM)
- Near Miss Incident Reporting System
- Process Safety Management
- Card World System

Lost-time Injury Frequency Rate (LTIFR)

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>LTIFR</td>
<td>0.23</td>
<td>0.24</td>
<td>0.18</td>
<td>0.40</td>
</tr>
</tbody>
</table>

LTIFR calculation formula: (injuries / yearly working hours) X 1,000,000

Yearly working hours used for calculation of LTIFR of outside service partners is calculated based on standard working hours.

Injuries that cause work suspension of four days or more are counted here. The injuries are based on the enforcement regulations of the workplace zero-accident movement (the regulation of the Ministry of Labor No.2003-16) which excludes injuries caused by third parties.

Number of Injury case

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Injuries</td>
<td>21(1)</td>
<td>9(2)</td>
<td>9(2)</td>
<td>14(1)</td>
</tr>
</tbody>
</table>

Injuries that caused work suspension of four days or more are counted. The injuries are based on the enforcement regulations of the workplace zero-accident movement (the regulation of the Ministry of Labor No.2003-16) which excludes injuries caused by third parties.
For the benefit of outsourcing partners, POSCO offers assistance programs in a wide range of areas such as health & safety education and safety diagnoses. In particular, the Safety Coordinator system facilitates active communication between POSCO and its outsourcing partners on issues related to safety.

In the event of an accident, an immediate examination is carried out and the results are registered in the e-Safety System, which can be accessed by all employees. We also keep an eye on indicators of workplace safety, including the number of Lost-time Injury Frequency Rate (LTFR) and the Injury Rate. The LTFR is the number of injuries per one million work hours. In accordance with the related Korean Laws and regulation, the enforcement regulations of the workplace zero-injury movement, the regulation of the Ministry of Labor No.283-16, injuries occur during operations requiring work suspension of four days or more are recognized as lost time injuries. Safety indicators are reported at monthly management meetings with all executives and managers participating, and strict safety management is enforced in accordance with the readings of the indicators.

Health
Ever since our inception, the underlying basis of our health policy has been to promote the well-being of employees. We provide physical checkups and medical support for workers at all of our business sites. Pohang Works and Gwangyang Works have added facilities for promoting a clean work environment. Through the company-wide health support system, we maintain health and work environment data for all employees. The system enables efficient operation of our employee health programs and aids in our efforts to promote healthy lifestyles and a clean and pleasant work environment.

Employee Health Program
We provide an annual health checkup for all employees for the early detection of diseases. We have clinics to provide consultation for those with acute or chronic conditions. For those suffering medical problems, we provide regular monitoring to prevent their conditions from worsening. A ‘deliberation committee’ as employees with medical conditions assist employees with serious illnesses.

Promoting Healthy Lifestyles
Our health promotion campaigns are based on a long-term approach. We have paid particular attention to musculoskeletal disorders and managing stress. Another major initiative in our anti-smoking drive was introduced in 1991, our anti-smoking campaign is contributing to the health of our employees as well as the wider community. We introduced various programs to encourage smokers from giving up their unhealthy habit, including those jointly organized with public health centers. Pohang and Gwangyang Works operate physical therapy centers, which have been well received by employees. These centers have advanced equipment such as apparatus for physical therapy to encourage workers with the risk of developing musculoskeletal disorders or those already displaying symptoms to receive treatment. Additionally, professional counselors are available to provide guidance on how to manage stress.

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

Case Study
Hutopia is a counseling center run by the health support team at Pohang Works. In addition to professional counseling services, the center offers lifelong learning courses. It is a PPPOC program, Hutopia helps enhance stress and promotes mental health, which is an enabler for productivity. Those seeking counseling may do so by visiting the center or by phone at email. On the counseling, a new mobile Hutopia also meets: the request for group counseling. It offers a program that promotes understanding among colleagues using Myers-Briggs Type Indicator (MBTI) assessment.

Residents of Pohang Works state that they have learned to better manage stress and understand each other’s strengths and weaknesses after using the center’s services. They strongly recommend Hutopia to their colleagues.

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Employees

Policy on Human Resources and Labor Relations Management
POSCO is constantly exploring ways to enhance its organizational structure and system. We seek to enhance our work processes through such means as clearly delineating individual responsibility and authority, simplifying the decision-making process, and innovating our meeting culture. Our aim is to make all employees at POSCO proud of them throughout all of our subsidiaries.

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

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

Human Resource Status of POSCO

<table>
<thead>
<tr>
<th>Category</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Employees</td>
<td>17,257</td>
<td>17,256</td>
<td>17,255</td>
<td>17,257</td>
</tr>
<tr>
<td>Pohang Works</td>
<td>7,959</td>
<td>7,959</td>
<td>7,958</td>
<td>7,969</td>
</tr>
<tr>
<td>Gwangyang Works</td>
<td>6,774</td>
<td>6,773</td>
<td>6,772</td>
<td>6,771</td>
</tr>
<tr>
<td>Headquarters/Technology Research/Offices/Others</td>
<td>4,034</td>
<td>4,095</td>
<td>4,094</td>
<td>4,094</td>
</tr>
<tr>
<td>Technical service workers</td>
<td>2,210</td>
<td>2,210</td>
<td>2,210</td>
<td>2,210</td>
</tr>
<tr>
<td>Office workers</td>
<td>1,403</td>
<td>1,403</td>
<td>1,403</td>
<td>1,403</td>
</tr>
<tr>
<td>Annual contract-based employees</td>
<td>56</td>
<td>56</td>
<td>55</td>
<td>55</td>
</tr>
<tr>
<td>Monthly-paid part-time employees</td>
<td>12</td>
<td>12</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Female employees</td>
<td>104</td>
<td>104</td>
<td>104</td>
<td>104</td>
</tr>
<tr>
<td>Manager or higher executive employees</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Salary employees</td>
<td>1,434</td>
<td>1,434</td>
<td>1,434</td>
<td>1,434</td>
</tr>
<tr>
<td>Maximum operating age limit</td>
<td>130</td>
<td>130</td>
<td>130</td>
<td>130</td>
</tr>
</tbody>
</table>

Korea’s First Vocational Training Program for Married Women
POSCO is providing greater employment opportunities for married women. In support of the government's employment boosting policy, we opened a vocational training program for married women who demonstrate strong potential to help them find work and promote their participation in society.

Thirty women were chosen after a competitive selection process; the odds of being chosen were 133 to 1. They completed a 19-week program consisting of 3 weeks of class-based skills and knowledge (one week), overview of the steel-making process and products (4 weeks), and on-the-job training (14 weeks).

Women who complete the vocational training program are converted to full-time employee status and deployed to positions according to their aptitude, ability and knowledge. They are also provided with the same working conditions as their male counterparts. Moreover, POSCO plans to expand vocational training centers and offer various facilities to provide a better working environment for female employees.
Communication with Employees

Labor-Management Council

The Labor-Management Council encourages the exchange of ideas and opinions between employees and management. It consists of 20 people (10 employees and 10 managers). In addition to regular quarterly meetings, the Council holds extraordinary sessions to discuss urgent or special matters. The Works Council and the Section Council meet every quarter. The Department Council meets every other month, and the Section and Plant Councils meet monthly. These councils offer employees a forum to express opinions, air complaints and seek solutions. They help to foster harmony by quickly dealing with matters of interest according to conditions at the respective work units of POSCO. In addition, employees may express their views or send inquiries by phone, e-mail or through the corporate website.

Employee members on the Labor-Management Council and coordinators from each department are chosen by the workers through anonymousballoting to serve 3-year terms. The Council is working to build a sense of unity between the workers and the company via communications regarding POSCO's operations and policies.

In 2007, the Labor-Management Council led the campaign to own 'one more share of company stock' as part of 'We love POSCO' activities aimed at strengthening employees' affinity to the company. The Council is working to foster mutual prosperity of labor and management to spur continued growth of POSCO as a global corporation.

value bridge

Value Bridge organized Value Bridge, an online discussion forum, to reinforce employees' commitment to realizing the Global POSCO Way and our core values. Over the period of one week, employees shared views on ways to implement the company’s five core values and actual case stories through the POSCO Way site. About 3,200 people participated in the lively discussions.

Dialogue with the CEO

Innovation Festival 2007 included a session called 'Dialogue with the CEO' where employees representing various levels of the organization held frank conversations with the CEO on the five core values. The session was broadcast live to all POSCO employees via the Intranet.

Young Board

Previously, the Young Board was composed entirely of employees from various departments within POSCO. But from 2007, we also included three employees from affiliated companies while retaining total membership at the same level of 20 seats.

Young Board addressed issues regarding the future direction of POSCO through online and offline gatherings. The outcome of these sessions was reported to the CEO twice in 2007. One hundred people have served on Young Board since its launch in 1999. The group was headed by a female member for the first time in 2007. Another noteworthy development was that Young Board gave an English briefing on one of its panels.

Major Activities of the Labor-Management Council in 2007

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee issues (regular meetings)</td>
<td>- 2007~2008 wage adjustment&lt;br&gt;- Extension of employee stock ownership plan&lt;br&gt;- Campaign to 'own one more share of company stock'</td>
</tr>
<tr>
<td>Activities to strengthen employees' affinity to the company</td>
<td>- 'We love POSCO' activities aimed at strengthening employees' affinity to the company</td>
</tr>
</tbody>
</table>

Jang Jae-pil, Material Testing Dept., Pohang Works, POSCO's first female certified master craftsperson

"I wanted to harness the more than 15 years of experience I've gained in the quality control department, so I applied for a job transfer. Wanting to become the best in my chosen field, I decided to take the exam to become a nationally certified master craftsperson. I was able to pass the test due to my colleagues in the material testing lab who generously taught me effectively. When I first transferred, I received three months of training, learning about materials testing, structural testing, x-ray technology and more. As I acquired more hands-on experience, I find I stay up to the challenge. I sincerely thank my colleagues for their support. I also want to thank my superiors in the department for motivating me to take on the challenge. Because of my workload, the formal schedule during work hours didn't allow me enough time. I had to find time to prepare outside of work hours and to study at home. I spent about 200 hours studying at home, and I had to take time off to prepare for the test. I was very happy to pass the test. I am really happy I can keep up with the pace. I am glad to share with my family my determination and the pride I feel. I am also slightly invited, as the first woman to become a certified master craftsperson, I want to live up to the high expectations from those around me. That's why I plan to work hard and show I can meet the challenge of my responsibilities and set a good example for my junior colleagues."

I'm also slightly worried. As the first women to become a certified master craftsperson, I realize I have to live up to rather high expectations from those around me. That's why I plan to work hard and show I can meet the challenge of my responsibilities and set a good example for my junior colleagues.

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Young Board will continue to include more people from POSCO subsidiaries and contribute to sustaining growth at POSCO by presenting suggestions on the corporate culture and other aspects of operations with a global perspective. POSCO operates the intranet site POS-B as a space where employees can exchange opinions with others. Employees can discuss topics on the company and their anxieties related to work. Departments can monitor the message board, answer questions, and reflect on solutions to problems. POS-B, which also acts as a vital communication channel between employees and management, even allows employees to write to the chief executive officer. In 2007, employees registered and discussed 1,300 messages on POS-B. Of these, 40 messages contained discussion of anxieties related to work. Such messages were answered directly by those in charge of the work and solutions were found to improve the conditions causing anxiety.

Employee Engagement Survey
This survey measures how engaged employees are in the company’s and their individual performances. The survey results are used to find ways to encourage workers to become more involved in their work. POSCO has been conducting the survey annually since 2003 in conjunction with an outside consulting firm. Various measures have been taken to raise employee engagement, giving due consideration to the nature of the different work functions and employee ranks. They include improvements in work process and organizational structure and team empowerment activities. In particular, the emotional networking activities and work study groups at Pohang and Gwangyang Works present a model for enhancing performance by motivating people.

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

Compensation and Welfare
POSCO employs a yearly negotiated salary system for assistant managers or higher where one’s wage can vary depending on performance. We are enhancing human resources management with compensation based on ability and performance, providing opportunities for early promotion to people with excellent work record. To have employees share in management performances, we run a profit-sharing system in which a portion of operating income is distributed to employees.

POSCO has invested a great deal of resources in the welfare of its employees and their families so as to stabilize their lives and meet their welfare needs. We have managed the Labor Welfare Fund since April of 1991, with the aim of promoting employee independence and raising productivity. This fund is used to provide a wide range of assistance including the cabaret’s benefit plan, celebration/incentive payment, condolence payment, scholarship for employees’ children, help with medical expenses, housing loan, living expense loan, and loan for ESOP purchase.

The new Employee Stock Ownership Plan was introduced in 2002 to create a sense of ownership among employees. When an employee acquires treasury stocks, POSCO matches the purchase with an equal number of stocks for free. The annual limit for the purchase of treasury stocks is KRW 4 million per employee.
If an employee wishes, he or she can receive a loan through the Labor Welfare Fund for the purchase.

Leadership Training for Managers and Supervisors
POSCO is expanding its global operations with numerous pursuits such as the integrated steelworks in India and the project in Vietnam. In line with the expansion, we have been offering global leadership training for people in management and supervisory roles. Launched in 2005, the Executive Academy is open to executives and department/senior heads of POSCO as well as the executives of subsidiaries and CEOs of business partners. Academy participants exchange ideas and receive training to cultivate the mindset and capabilities to realize a global POSCO. In 2006, we introduced leadership training designed to reinforce the skills of mid-level managers and develop their ability to lead organizational change.

Education and Career Development
In tune with the mid-term corporate strategy to secure global leadership in steel, spur growth of POSCO Group and enhance synergy, and promote Global POSCO Way, the objectives of training in 2007 were securing global leadership, making innovation a part of everyday routines, and building the foundation for Group growth. In 2007, the average training time per employee was 384 hours and the total attendance in training was 551,769. This included internal offline training, e-learning, external training, lifelong learning programs and training led by departments.

<table>
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### Leadership Training for Managers and Supervisors

#### Secure Global Leadership
- Strengthen leadership skills of managers/supervisors
- Enhance capabilities of people working at overseas subsidiaries

#### Make Innovation a Part of Everyday Routine
- Accelerate change in how we do our work
- Foster knowledgeable workers through a culture of learning

#### Build Foundation for Group Growth
- Expand training to spur Group-wide growth

### Employee Share Ownership Association (ESOP)

#### Equity Stake of Employee Share Ownership Association (Stock %)

<table>
<thead>
<tr>
<th>Year</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>2.5%</td>
<td>3.4%</td>
<td>4.7%</td>
</tr>
<tr>
<td>5.0%</td>
<td>4.3%</td>
<td>4.5%</td>
</tr>
<tr>
<td>7.5%</td>
<td>4.9%</td>
<td>4.3%</td>
</tr>
</tbody>
</table>

### Average Training Time per Employee (hours)

<table>
<thead>
<tr>
<th>Year</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>20,000</td>
<td>20,000</td>
<td>20,000</td>
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<tr>
<td>20,000</td>
<td>20,000</td>
<td>20,000</td>
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</table>
POSCO Group Training Program

We introduced a Group initiation training program for new recruits of POSCO and all subsidiaries in December 2006. The program instills Group-wide core values (Global POSCO Way) and fosters a sense of belonging and unity. It allows participants to obtain basic knowledge and cultivate healthy values as a member of the POSCO Group. The Group program is followed by introductory training organized by the individual companies to help the newest additions gain an understanding of the spirit and culture of the respective entities and acquire basic skills needed to perform their duties. The Group-wide Junior Membership Training is conducted for employees 12–18 months after they join the POSCO Group where the emphasis is on promoting our vision and values and the employees’ roles as future leaders.

Innovation Education

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

Innovation education is broadly classified into Six Sigma, Quick Six Sigma (QSS), and innovative mindset training. Six Sigma stimulates employees to think of new ways to improve their competitiveness. QSS training focuses on executing projects so that employees are equipped to identify problems and pursue the necessary improvements while performing their jobs. In 2007, 148 employees participated in these programs, which ranged from QSS (two-day course) and MBB (Master Black Belt, 3.5 months) to innovative mindset training (Execution Vitamin, etc.).

We believe that we have to overhaul our thought patterns and the way we go about our work to evolve into a world-leading corporation. Our innovation education is nurturing smart and innovative people who embrace challenge and lead change.

Lifelong Learning Program

The Lifelong Learning Program was adopted in April 2005 to help employees to pursue not only a better quality of life but also an enriched life. It allows workers to take part in study programs for self-development or for the improvement of job competence while taking into account the manpower requirements in each department and the needs of individual employees. POSCO’s Lifelong Learning Program is unique as each department takes the lead in developing learning programs to satisfy the needs of employees. Consisting of general, value sharing and job competency studies, the program contributes to improving quality of life, sharing of our core values, and training job competency.

POSCO offers diverse support to foster a culture in which employees can pursue continuous learning. We invite prominent outside lecturers to speak on various subjects and operate a program to nurture in-house instructors to head classes in work functions. For manager and supervisors, we have set up a database of learning materials related to the five core areas of corporate management and distributed the data. We also support Communities of Practice (CoPs) to encourage the generation and sharing of work knowledge, and to enhance the learning effect by linking learning with innovation activities.

Lifelong Learning

<table>
<thead>
<tr>
<th>Knowledge Sharing</th>
<th>Job Competency</th>
<th>Cultural</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goals</td>
<td>Goals</td>
<td>Goals</td>
</tr>
<tr>
<td>Increasing trust between employees and POSCO through the sharing of core values.</td>
<td>Refining job competence by strengthening professional capabilities.</td>
<td>Offering various opportunities to enhance the value of life.</td>
</tr>
<tr>
<td>Contents</td>
<td>Contents</td>
<td>Contents</td>
</tr>
<tr>
<td>Cultivating a good learning environment, recognition of learning, sharing of learning resources, learning for life.</td>
<td>Refining job competence by strengthening professional capabilities.</td>
<td>Sharing of learning resources, learning for life.</td>
</tr>
</tbody>
</table>
registrations of knowledge generated on the job and through CoP activities are made to the system everyday. Around 10,000 cases of quality knowledge registered on KMS are being accessed by workers to assist in their work and innovation activities and as learning material. Ongoing efforts to refine lower quality knowledge have vastly enhanced user satisfaction, and we are seeing greater generation of comprehensive knowledge.

We opened the POSCO Digital Library in July 2006 by integrating five libraries spread out in different regions. The opening expanded the pool of digital information and provided easier access to a wide range of data. We also operate the Knowledge Plaza Cafe, an unmanned 24-hour library, in five regions which is spurring greater interest in reading among our workers.

2007 was a meaningful year in that CoPs took root as a medium for innovation and learning. Six Sigma, QSS and Work-Diet activities were carried out through CoPs, leading to the sharing and utilization of know-how on preventing waste and quality knowledge. It also resulted in the formation of a network of specialists. The link between CoPs, innovation activities, work and learning is producing synergies to build a unique system of knowledge management at POSCO. As of the end of 2007, there were 1,653 CoPs at POSCO with total membership of about 89,000, meaning that on average, each employee participated in 5.1 CoPs.

KM has led to change in how employees gear up their work by giving them easy access to information regarding their job and innovation activities. According to an employee survey, the biggest changes since KMS was set up are as follows: enhanced work productivity (50% of survey respondents), knowledge-sharing through KMS (42%), and creation of new knowledge and techniques (14%).

The benefits from KM include identifying problems through discussion among employees, greater participation in innovation activities, and wider gain in work competencies from knowledge sharing and learning. It has enhanced the organizational culture by facilitating communication through CoP activities. The joint CoP between the operating and maintenance departments of steel mills and other similar unions have broken down the walls between different work functions and resulted in stronger performance. By systematically managing internal and external knowledge assets needed for work and innovation activities, we are accumulating and providing practical, quality information, which in turn is helping to maximize productivity.

POSCO has been a recipient of the knowledge management award jointly presented by Maeil Business Newspaper and the consulting firm Booz Allen Hamilton for three consecutive years, from 2005 to 2008. Last year, POSCO received the grand prize. The awards were introduced in 1999 to recognize companies that contribute to raising Korea’s national competitiveness through knowledge management. Additionally, POSCO was selected as Asian Hана’s Most Admired Knowledge Enterprise by Asia, a knowledge management research agency in UK, in 2005 and 2006.

POSCO’s successful implementation of KM has been widely acknowledged. As of the end of 2007, our KM program has been benchmarked by some 180 companies. Furthermore, we have assisted various overseas steel producers in establishing their KM systems.
Customers and Suppliers

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

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

**Customers**

Our aim is to have annual sales of strategic products reach 25 million tons, or 85% of total domestic production volume, by 2015. Of that volume, 18 million tons will be key strategic products. Given the growing sales contributions of high value-added products, we expect customers to have more exacting demands. POSCO is continuing to raise the quality of its products and services in proactively responding to the changing environment.

In the past, we had to concentrate on volume given our responsibility to provide a stable supply of steel to the domestic market. We, however, recognize that improving quality takes precedence over increasing output. From that standpoint, we focused on quality in 2007. We also revamped our technological support services by directly visiting customers. POSCO provided 216 related services to 227 client firms during 2007.

POSCO carries out steady improvements in related systems to raise customer value and aims to provide rapid and systematic customer assistance. POSCO’s CRM system includes an integrated customer information database to accumulate and analyze customer data to determine their needs. This information acts as a base for deepening our understanding of customers, which enables POSCO to offer tailored services.

POSCO conducts customer care activities, whereby regular visits are made to listen to and address customers’ complaints and comments. We act quickly to solve problems, including those received via and offline via the Voice of Customers (VOC) program, and operate a system that keeps track of complaints while monitoring the response process. In 2007, we handled 1,371 VOC cases via online alone.

POSCO conducts an annual survey to gauge customer satisfaction and reflects the results in related policies. The survey is administered by an outside research organization to secure objectivity and reliability. The research organization surveys customers at home and abroad and holds in-depth interviews with a number of them. The survey is made up of questions on eight items such as sales volume, payment conditions, handling of orders and product quality. Satisfaction levels are measured on a seven-point scale. In the 2007 survey of 135 domestic and 117 overseas firms, we received a mark of 82.9 from domestic respondents (up by 3.3 points year-on-year) and 68.9 from overseas respondents (up by 2.5 points).

**Suppliers and Outsourcing Service Partners**

Our supply chain is directly linked to our overall competitiveness. Through joint efforts with suppliers, POSCO has established fair and transparent purchasing practices and secured a stable and competitive supply chain. We aim further improving our supply chain by analyzing the performance of suppliers, uncovering excellent suppliers, and increasing cooperation with our valued partners.

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

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

To strengthen our link with outsourcing service partners, POSCO is dedicated to upgrading their working environments and providing their employees with incentives and opportunities to raise their quality of life. We seek continuous improvements in our dealings with these firms to enhance their grade as POSCO’s business partner. Additionally, we continue to use the KPI (Key Performance Indicator) system to evaluate the performance of our key partners.

**Customer Satisfaction**

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Performance Indicator system to evaluate outsourcing service partners and share the results. Introduced in 2005 to raise competitiveness of outsourcing firms, the system helps ensure objectivity and encourages fair competition and compensation, so that our leading partners can grow with us.

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

Green Purchasing

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

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

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

The July 2005 legislation of the Act on the Promotion of the Purchase of Environment-friendly Products further highlighted the importance of green purchasing. In September 2005, POSCO signed a voluntary agreement as green purchasing with the Ministry of Environment. We came up with a detailed system and process to categorize goals and made related changes to our ERP system. Thirty of Korea’s leading companies have joined the voluntary agreement and POSCO represents the corporate sector by serving as chair on the promotion committee.

We established a Green Purchasing Team in 2006 to further improve upon related activities. Our green purchases in 2007 totaled KRW 124.4 billion, an increase over KRW 117.1 billion in 2006. Of the total amount, materials including industrial machinery and chemicals accounted for KRW 74.1 billion and office supplies for KRW 50.3 billion.

Green Purchasing Policy

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

- First, in all purchasing activities, POSCO shall comply with laws and regulations and fulfill its social responsibilities to prevent environmental pollution.
- Second, in all purchasing activities, POSCO shall build a cooperative relationship with suppliers to realize our environmental policies.
- Third, POSCO shall attempt to ensure a pool of clients to purchase environmentally friendly products, continually improve quality, and reduce total costs.

Green Purchasing in 2007

<table>
<thead>
<tr>
<th>Category</th>
<th>Materials</th>
<th>Office Supplies</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment Mark</td>
<td>17</td>
<td>2.8</td>
<td>20</td>
</tr>
<tr>
<td>Energy Saving Mark</td>
<td>3.1</td>
<td>2.2</td>
<td>5.3</td>
</tr>
<tr>
<td>Reduced Harmful Material Mark</td>
<td>2.7</td>
<td>0.3</td>
<td>3.0</td>
</tr>
<tr>
<td>Reduced Waste Material Mark</td>
<td>0.6</td>
<td>0</td>
<td>0.6</td>
</tr>
<tr>
<td>Other</td>
<td>3.1</td>
<td>0</td>
<td>3.1</td>
</tr>
<tr>
<td>Total</td>
<td>20.1</td>
<td>3.5</td>
<td>23.6</td>
</tr>
</tbody>
</table>

Green Purchasing Team Activities

The auto industry is moving towards using more advanced high strength steel in car bodies to make vehicles lighter and safer to curb CO₂ emissions and comply with international environmental regulations. To meet this pressing need for lighter and stronger automotive body structure, POSCO has initiated the EVI (Eco-Driven Vehicle Initiative) initiative to lead development in new innovative technologies from the standpoint of technology strategy. The system provides a win-win opportunity to both POSCO and automakers. By providing technological assistance in material and processing, POSCO can secure a stable market through timely development of new products that essentially reflect automation’s requirements. This will result in not only cutting trial and cut costs by producing cars that satisfy market demands but also eliminating the trial and error process.

http://www.posco.com/homepage/sustainability/partnership
In the past, competition was between individual companies. Now, we are seeing competition between business ecosystems, which also encompasses customers, suppliers, competitors, firms, regulations and other stakeholders. Moreover, there is growing awareness of the importance of win-win cooperation between large companies and small- and mid-size enterprises (SMEs) for sustainable growth. To meet the needs of the changing times, POSCO has adopted a systematic, company-wide approach to pursuing win-win partnerships with SMEs. To strengthen cooperation with SMEs, we set up the Win-Win Cooperation Team in 2005 dedicated to SME support activities. We have been referring to our suppliers and service providers as “outsourcing service partners” from July 2004. The term reflects our commitment to promoting win-win relationships to reflect the new paradigm of the 21st century and to reinforcing mutual trust with our business partners.

We carry out numerous activities to foster mutual growth with SMEs. These include our benefit sharing system with suppliers, making cash payments within three days of purchase, promoting orders to SMEs and optimal price assessment, and enhanced treatment of outsourcing service partners. We continue to provide various support resources to facilitate stable operations of SMEs. We pay particular attention to helping SMEs secure and retain competent workers and offer technical support for SMEs with insufficient research and testing facilities. A Win-Win Cooperation Committee has been set up to strengthen win-win partnership activities of our subsidiaries, while the SME Consulting Center was created on our company homepage to prevent unfair competition practices. POSCO makes every effort to listen to the views of SMEs and understand the hardships they face and to reflect their opinions in our SME policies.

POSCO is building fair and transparent relationships with outstanding SMEs. We also contribute to developing local economies and creating jobs by pursuing diverse forms of collaboration. In 2006, we received the Silver Tower Order of Industrial Service Merit and the Prime Minister’s Award.

As one of the backbone industries of Korea, POSCO will contribute to raising the competitiveness of the demand industries and SMEs and spearhead mutual growth through win-win cooperation.

### Win-Win Cooperation with SMEs

**Win-Win Cooperation with SMEs**

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchasing Support</td>
<td>Benefit sharing activities, improving working conditions of outsourcing service partners, promoting SMEs</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>R&amp;D Support</td>
<td>Technical partnership, joint research, development, joint implementation of R&amp;D projects, operating joint research centers</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Training and Education</td>
<td>Training for SME members in various fields, providing on-site training on new technologies</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Assistance</td>
<td>Full cash settlement, assistance fund for POSCO partners, support financing through net worth loans</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>Operating a lean operation SME support, SME cooperation committee, SME consulting center</td>
</tr>
</tbody>
</table>

**Win-Win Cooperation - Procurement**

**Benefit Sharing**

POSCO adopted a benefit sharing system for suppliers in July 2004. The system promotes joint improvement activities between POSCO and suppliers and allows both sides to share in the ensuing benefits. Suppliers are able to enhance their operations and cut costs, while POSCO realizes quality upgrades and cost savings in the long run. Benefits in the first year of project implementation are wholly returned to SMEs; afterwards, results are divided 50:50 between POSCO and SMEs. This program also offers other incentives such as long-term contracts. As of the end of 2007, a total of 316 SMEs participated in 467 improvement projects to report total financial results of KRW 1,173.6 billion. Of that amount, POSCO distributed KRW 117.1 billion to 116 companies.

**Cooperative Activities with Outsourcing Service Partners**

During 2003-2007, POSCO endeavored to strengthen its partnership with key outsourcing service partners operating within its workstations by improving working conditions and providing motivation to employees. In June 2003, we introduced a 5-day workshops to better the workers’ quality of life and productivity of outsourcing service partners. In addition, we have provided assistance worth KRW 23.9 billion for repairs of convenience facilities and KRW 1.3 billion to boost morale.
Support for SME Orders

To promote stable operations at SMEs, POSCO is continuously searching for items that can be purchased from SMEs and pursuing local production of equipment. Such efforts raised SME orders from KRW 2,954.7 billion in 2006 to KRW 3,714.9 billion in 2007.

As part of efforts to place orders to SMEs, we give construction orders below KRW 5.0 billion to SME builders. POSCO awarded KRW 329.4 billion worth of construction orders (53% of total) to SMEs during 2007. In addition, we provide opportunities for SMEs to expand into overseas markets by introducing both the SMEs and their products to overseas steel mills such as New Nippon Steel, TKS and Shanghai Baosteel. Under POSCO’s recommendation, SMEs with PEP certification have shown a sharp increase in transactions with overseas steel companies. 15 SMEs reported collective export revenues of KRW 129.4 billion in 2007, up from 215 SMEs posting KRW 104.1 billion in the previous year.

Win-Win Corporation – Technology Development

Techno Partnership

In September 2006, POSTECH, RIST and Pohang Techno Park created a ‘Techno Partnership Support Team.’ The team provides technological consulting for SME suppliers and the use of research and testing equipment for free. Thirty-seven SMEs signed up for the techno partnership agreement in Pohang at the time and 34 extended the agreement for another year in October 2007. In April 2007, the techno partnership program was expanded to Gwangyang and now boosts 73 participating members, while the team added Jeonju Techno Park and Sunchan University in its consulting panel. From September 2006 to December 2007, the team grew to 1,214 participants who provided numerous support activities including R&D technology consultations and TFT test analyses. Rather than focusing on SMEs’ shorter-term goals, the Techno Partnership Support Team aims to enhance their long-term competitiveness which would ultimately lead to growth of the local economy.

New Product Development under Conditional Purchase

This is a program under which POSCO guarantees the purchase of products for a certain period to encourage R&D by SMEs provided that they can yield tangible results such as local production of imported materials or development of new products. We signed an agreement with the Small and Medium Business Administration in June 2005 and launched a pilot program in November 2005. Since then, POSCO pursued 13 projects in 2006 and 24 projects in 2007. For SMEs, the program means a chance to boost technology levels and secure a stable revenue stream, while the benefits to POSCO are a secure supply of equipment and enhanced productivity.

Joint Research with SMEs

POSCO conducts joint R&D, from product design to testing, with SMEs to provide commercialization of research. The joint endeavors help SMEs improve technology levels and generate a stable revenue stream from the developed products. This is a win-win strategy for both SMEs and POSCO, given that the SMEs will be awarded rights to supply the developed products to POSCO, while POSCO will obtain improved quality and a stable supply. Areas of joint research include equipment, materials, measurement devices, and processing technology. So far, 134 companies took part in 77 projects for which the R&D expenditure totaled KRW 10.8 billion. Of that amount, POSCO provided KRW 13.3 billion.

Transfer of POSCO’s Patented Technologies

- SME Patent Consulting Center: POSCO opened a SME patent consulting center to enable SMEs to more easily utilize patented technologies held by POSCO and improve their technology levels. In 2007, 42 cases of patent consulting were undertaken by the center.
- Joint Transfer of POSCO’s Patented Technology: POSCO awards fees for patents, utility model rights, and design rights in the case of products that are manufactured and delivered to POSCO. We have signed 174 patented technology transfer contracts with 134 SMEs as of the end of 2007.
- Support for Commercialization: Among patented technologies owned by POSCO, some will require further investment before they can be used by SMEs. If an SME makes a request for commercialization assistance for a transferred technology, we will review it and have the necessary research or testing done for free at internal or external research institutes.
- Full Support of Application Expenses for Joint Patents: POSCO shoulders the entire burden of patent related costs (costs to apply, register and maintain the patent right) for joint patents with SMEs. We applied for nine joint patents with seven SMEs in 2007.
- Other activities include participation in the government-led campaign to activate sleeping patents. We currently provide 128 sleeping patents. In addition, we promote various programs to enhance the technological competitiveness of SMEs such as technology transfers utilizing 11 specialized institutes.
Win-Win Cooperation Activities - Training & Education

SME Vocational Training Consortium

Outsourcing service partners, manned by competitive human resources are essential for the continued development of POSCO. Accordingly, we provide support to enhance the training levels of SMEs, which in turn is helping to advance the local economy.

Win-Pin Cooperation Activities - Financial Assistance

Full Cash Settlement for Purchases from SMEs

To assist SMEs who are facing hardships due to deteriorating sales and profits amid weak economy, we have been making cash payments for purchases made from all domestic suppliers registered as SMEs from the end of 2005, regardless of the purchase amount.

For 1,477 SMEs, we made aggregate cash payments of KRW 3.2 trillion in 2005, KRW 3.4 trillion in 2006, and KRW 4.5 trillion in 2007. The cash settlements helped these business partners lower their financial expenses by KRW 35.3 billion.

The need for funds usually increases running up to the Lunar New Year and Chuseok (Korean Thanksgiving), the two major holidays in Korea. With that in mind, we try to make early payments before those holidays. Cash settlements made before the holidays reached KRW 235.2 billion in 2006 and KRW 289.5 billion in 2007. The frequency of payments has also increased from twice a week to daily.

POSCO is also working to promote the spirit of win-win cooperation to secondary subcontractors even though we do not engage in direct transactions with each firm. We encourage our SME partners to provide the same settlement terms we offer them to their subcontractors. Already, 11 of our 25 P2P suppliers are making settlements in cash or other liquid means. A growing number of our business partners are following in their tracks.

General Education Courses

For the purpose of enhancing the quality of life for SME employees and their families, we organize lectures on various subjects twice a month in Pohang and Gwangyang and once a month in Seoul. The lectures provide information on a wide range of topics such as MBA reading, health, economy and culture. In 2007, a total of 67 lectures were given in the three regions for a collective audience of 1,728 SME workers and their family members.

We plan to offer more diverse courses and services in 2008 to meet the human resource needs of participating companies.

Promoting SME Innovation through Six Sigma Training

POSCO is helping SMEs pursue innovation to lower costs and enhance quality by providing Six Sigma training. Launched in July 2003, this program shows SMEs how to identify weaknesses in their management activities and find solutions. The training program is identical to the Six Sigma program conducted for POSCO employees. Trainers may also take various courses online. In 2007, a total of 360 SME employees completed Six Sigma training. The QSS (Quick Six Sigma) program was completed by 423 workers of SMEs.

Educational Support

<table>
<thead>
<tr>
<th>Year</th>
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<th>No. of trainees</th>
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<tbody>
<tr>
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<td>215</td>
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<td>215</td>
<td>242</td>
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<td>2007</td>
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In June 2007, we opened a job listing section on the SME Vocational Training Consortium website. The job listings are helping trainees find jobs and connecting SMEs to qualified personnel.

In a survey of companies in the SME Vocational Training Consortium, POSCO received an ‘A’ rating, the highest rating, in 2006 for the second straight year. In addition, the POSCO Human Resources Development Center was recognized by the Labor Ministry as the most outstanding educational organization. We plan to offer more diverse courses and services in 2008 to meet the human resource needs of participating companies.

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<td>242</td>
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</table>
POSCO has set up a fund that provides loans carrying interest rates that are 1~2% lower than market rates to help resolve financial problems facing our outsourcing service partners, customer firms and suppliers.

We opened a time deposit account worth KRW 100 billion in September 2005. That seed money was used to back loans extended by the bank to SMEs. In 2006, loans worth KRW 25.9 billion were given to 57 SMEs. The rise to KRW 123.9 billion in loans to 207 companies in 2007. The loans allowed the borrowers to save KRW 1.32 billion in interest expenses.

Another form of financial assistance available is the network loan. Network loans worth KRW 15.2 billion were extended to 115 SMEs in 2006 and KRW 64.6 billion to 120 SMEs in 2007. The borrowers enjoyed interest expense savings of KRW 1.84 billion.

**Win-Win Cooperation Activities - Other**

POSCO has in place a win-win cooperation team to provide ongoing support to SMEs. The team draws up plans for company-wide activities relating to win-win cooperation and monitors implementation of such activities.

The team constantly pays attention to the views of SMEs and maintains open communication channels to ensure effective and practical SME support.

**Win-Win Cooperation Committee & SME Consulting Center**

The Win-Win Cooperation Committee was created to spread win-win cooperation activities to our subsidiaries. The committee is composed of representatives from major POSCO subsidiaries and holds regular meetings once every quarter. Its roles include identifying areas for cooperation, devising action plans, finding best practices and sharing information.

The SME Consulting Center was established in July 2005 to prevent unfair competitive practices. Through this center, POSCO is contributing to securing stable operations at SMEs and promoting fair competition. The center can be accessed via the POSCO website as well as by telephone and fax.

The center can help open the doors for SMEs wishing to do business with POSCO. From POSCO’s standpoint, access to outstanding SME suppliers means a greater competitive edge in terms of purchasing. The center has also assisted secondary subcontractors troubled by overdue payments. Details of consultations and reports made to the center are kept strictly confidential. In all, the SME Consulting Center is playing a valuable role in promoting win-win cooperation with SMEs.
POSCO is committed to not only fulfilling its role of contributing to the national economy through the steel industry, but is taking an extra step forward to realize its philosophy of respecting mankind and pursuing social cooperation. We are actively involved in a wide range of social contribution activities to grow and develop alongside our local communities.

In particular, active volunteer efforts by our employees and executives have enabled POSCO’s sharing management to take root as a new corporate culture. POSCO carries out a wide range of initiatives in the four broad categories of human resource development, contributing to our local communities, volunteer activities, and promoting culture and sports.

### Human Resources Development

#### Asia Network

The POSCO TJ Park Foundation was created in September 2005 through the expansion and reorganization of the POSCO Scholarship Foundation. A major program run by the foundation is the POSCO Asia Fellowships, which promote closer ties among Asian nations through academic and cultural exchanges. Scholarships to nurture next-generation leaders and the POSCO Caregiving program are two other major programs offered by the foundation.

- **POSCO Asia Fellowships**: People who graduate from prestigious universities in Asia are given a chance to pursue graduate studies at one of the top schools in Korea. Additionally, scholarships are awarded to students in various universities across Asia, and research funding is provided in the areas of liberalism and social sciences.

- **Fellowships for Asian Students Studying in Korea**: Fellowships for Asian students studying in Korea: People who have earned bachelor’s degrees at prestigious universities in Asia are invited to undertake two years of graduate studies at one of Korea’s top research universities, such as Seoul National University, Korea University, Yonsei University and POSCO. In 2007, the program awarded 94 million to 59 students from 11 countries. The selected students included graduates of University of Delhi in India, Peking University in China, and Keimyung National University in Korea. While in Korea, they also learned about the Korean language, culture and history, which helped them gain a greater understanding of their host country.

### Social Contribution Strategy

- Develop social contribution programs that tie in with corporate strategies.
- Expand social role as a corporate citizen by engaging with these programs.
- Establish POSCO-wide framework for social contribution activities.
- Engage in various social programs and expanded common volunteer activities with the focus on strategy goals and market.

### POSCO’s Social Contribution

[Table showing spending on social contribution activities]

### Human Resource Development

#### Local Communities

- Basic facilities for local communities
- Promoting regional economies

#### Sisterhood-Ties

### Spending on Social Contribution Activities by Sector in 2007

<table>
<thead>
<tr>
<th>Sector</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
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<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.0</td>
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<tr>
<td>Sports</td>
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<td>Social Welfare</td>
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<td>0.5</td>
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<tr>
<td>Environmental</td>
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<td>0.5</td>
<td>0.5</td>
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<tr>
<td>Total</td>
<td>4.5</td>
<td>4.5</td>
<td>4.5</td>
<td>4.5</td>
<td>4.5</td>
</tr>
</tbody>
</table>
students in 27 universities spread across 12 countries. This program is encouraging more Asian students to pursue their studies in Korea, helping to forge experts on Asia, and promoting other fellowships offered by the Foundation.

- The POSCO New Star Scholarships. POSCO Vision Scholarships: The POSCO New Star Scholarship awards scholarships to 108 high school students every year. The POSCO Vision Scholarship provides full tuition assistance for 108 university students who spent their youth in welfare facilities.

The POSCO New Star Scholarship awards scholarships to 100 high school students every year. The POSCO Vision Scholarship provides full tuition assistance for 100 university students who spent their youth in welfare facilities.

- POSCO Educational Foundation: The POSCO Educational Foundation was established in 1971 and currently operates 12 institutions in the Pohang and Gyeongbuk regions, ranging from kindergartens to high schools. Since its establishment, the Foundation has been spearheading efforts to maximize the effects of education by recruiting the best teachers, implementing diverse specialty education models and providing quality educational guidance.

Five elementary and middle schools under the POSCO Educational Foundation were awarded at the 14th National English/Mathematics Competition organized by the Sungkyunkwan University and sponsored by the Dong-a Ilbo. In particular, the Pohang Jecheol Technical High School took home its 149 consecutive award. Meanwhile, Gyeonggung Jecheol Elementary School has won the best elementary group award for three straight years at the 2006 International Youth Mathematics Competition in Tianjin, China.

At Pohang Jecheol Technical High School, all 210 graduates in the year 2008 obtained licenses. On average, each person acquired licenses in six fields. One of the graduates, Yu Byeong-yeon, who specialized in materials technology, received widespread attention for obtaining 23 licenses, the most for a vocational school student in Korea.

Fostering Next Generation Leaders

POSTECH is Korea’s first research-oriented university dating back more than 20 years. It has the only PLS (Pohang Light Source) or ‘light factory’ in Korea and runs 40 affiliated R&D institutes, including the largest BT R&D facility among Korean universities and the National Center for Nanomaterials & Technology. Over the years, POSTECH has produced highly qualified manpower in basic sciences and engineering (1,019 bachelor’s degrees, 515 master’s degrees, and 1,321 doctoral degrees awarded since founding).

- 2007 Joongang Ilbo: Overall rank (1st), Educational environment & finance (2nd), Faculty research (1st)
- Ranked 11th in Citation/Faculty in THES-QS World University Rankings 2007 published in The Times (highest rank among Asian universities)

Volunteer Activities

POSCO Volunteer Group: Volunteer activities by employees have played a vital role in spreading the spirit of giving and sharing. The launch of POSCO Volunteer Group in 2003 opened a new era of more organized and systematic volunteer activities at POSCO.

More than 88% of the workforce takes part in volunteer work. Under the supervision of the POSCO Volunteer Group headquarter, our employees are regularly helping out at various social welfare facilities in their respective regions.

Infrastructure to Support Volunteer Service Activities

Under the Volunteer Service Mileage System introduced in October 2004, employees who clock in 100 hours or more receive certificates and badges, and their volunteer group receives funding for activity fees. As of the end of 2007, a total of 3,560 employees and their families acquired certificates for over 100,000 volunteer hours.

Programs Run by POSCO TJ Park Foundation

- POSTECH 40th Prize: Prizes are given to individuals or organizations that have contributed to advancing science, education and philanthropy
- POSCO Best Fellowships: Creating a network of Asian nations in academic research cooperation and exchange
- POSCO New Star Scholarships: Helping outstanding high school students gain admission to universities
- POSCO Science Scholarships: Providing financial support for university students who grew up in child-welfare facilities
- POSCO Campuses: Providing care and assistance for elderly people living alone
- POSCO NPO Excellence: One-year seminars training program for NGO workers
- POSCO Science Award: Competition of artworks made with steel

POSCO TJ Park Prize

Prizes are given to individuals or organizations that have contributed to advancing science, education and philanthropy. The POSCO TJ Park Prize is Korea’s first research-oriented university dating back more than 28 years. It has the only PLS (Pohang Light Source) or ‘light factory’ in Korea and runs 40 affiliated R&D institutes, including the largest BT R&D facility among Korean universities and the National Center for Nanomaterials & Technology. Over the years, POSTECH has produced highly qualified manpower in basic sciences and engineering (1,019 bachelor’s degrees, 515 master’s degrees, and 1,321 doctoral degrees awarded since founding).

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100 hours of volunteer service, while 47 people were certified for 1,000 hours. POSCO also provides necessary goods, vehicles and lunches to aid in the volunteer efforts. Employees can register and search for volunteer groups, manage their volunteer records, and access information on places needing volunteers through the "e-volunteer" system.

A totally of 9,578 employees have taken our volunteer service e-learning courses since they were launched in September 2005. The courses can be accessed by all on the homepage of Korea Council of Volunteering. We also produced educational CDs and distributed 286 copies.

POSCO Caregiving
Caring for the elderly has surfaced as a major issue due to the aging society. POSCO Caregiving is a key program under the POSCO-TJ Park Foundation. Under the program, caregivers visit the homes of elderly people who live alone to provide basic nursing care and help with household chores. They also provide the service to people with disabilities.

This program is doubly effective in that it also creates jobs by hiring caregivers. In view of growing demand for free caregiving services and our success in Pohang and Gwangyang in 2006, we extended our service reach to Goseong in 2007. As a result, the total number of caregivers increased from 25 in 2006 (18 in Pohang, 7 in Gwangyang) to 55 in 2007. The number of service recipients went up from 600 to 1,100.

<table>
<thead>
<tr>
<th>Joint Activities with Subsidiaries and Business Partners</th>
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</thead>
<tbody>
<tr>
<td>Together with our subsidiaries and partner firms, POSCO donated KRW 10 billion to the Community Chest of Korea as part of our CSR program for various social groups. We also carried out volunteer activities. Our outsourcing service partners and suppliers have also joined in our POSCO Day event.</td>
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</table>

Social Contribution with NGOs
As a means of providing more organized and effective volunteer services, POSCO works together with various NGOs.

Korea Food for Hungry International (KFHI)
POSCO assembled 3,000 emergency relief kits in conjunction with Korea Food for Hungry International. Containing medicines, blankets, underwear, soap and toothbrushes, these kits are distributed to victims of natural disasters such as earthquakes and flooding. We sent 2,000 kits to North Korean residents who suffered huge damage from the torrential rains in August 2007. In September, 400 kits were sent to residents of Ephraim in the wake of Typhoon Nuri.
Habitat for Humanity

POSCO organized a college student volunteer group jointly with Habitat for Humanity that has brought together 100 students from 40 universities across Korea. These students are given the opportunity to gain valuable experience while volunteering in Korea and abroad. A 157 day cycling trip to promote Habitat for Humanity, international cultural exchange, presentations, and bazaars are just a few of the activities we have supported to spread the spirit of sharing.

Beautiful Store

We hold ‘POSCO Day’ on a regular basis with the Beautiful Store during which used items are sold to raise funds for worthy causes. In 2007, employees of subsidiaries and business partners joined in our efforts and we were able to collect some 125,000 recycled goods. We raised KRW 230 million from selling these items and donated the money to help our neighbors in need.

Korean University Council for Social Service

We support volunteer activities by nationwide university students focusing on their majors, to encourage them to use their academic skills to help society and further the practice of volunteering. Working together with the Korean University Council for Social Service and the Ministry of Education & Human Resources Development, POSCO extended support for 10,000 students and professors from 114 universities in 174 programs.

The Republic of Korea National Red Cross

We continued the blood donation drive with the Korean Red Cross in 2007 to help secure a stable supply of blood. During the year, 2,363 employees from POSCO, subsidiaries and outsourcing service partners took part in the drive. In particular, the blood donation campaign held with Microsoft every April since 2002 at POSCO Center in Tekseon Street, the IT mecca of Seoul, has been a huge success, gaining the support of workers from nearby offices and residents of the area.

Global Volunteer Activities

POSCO also implements social contributions on a global scale to extend support to our international neighbors. We have been leaving a particularly strong impression in India, China and Vietnam, countries that have a key role in our global expansion plans.

In India, we dispatched a medical team and provided surgery to 23 children with cleft lip and/or palate in the state of Orissa, where we are pursuing the construction of a steel mill. The team also passed on their know-how to their local counterparts during their stay. In January, about 100 college students sponsored by POSCO volunteered their time to build homes for Habitat for Humanity.

In addition, we signed the POSCO India Fellowship agreement with universities in Orissa to give scholarships to high-achieving students.

Meanwhile, POSCO-China has formed sister ties with a local elementary school and is providing school supplies. It also organized a campaign to send clothes to victims of natural disaster.

In Vietnam, POSCO lent a helping hand by providing surgery to correct cleft lip and/or palate and building an elementary school.

In Bangladesh, we supported the drive to nurture IT experts by setting up a computer center. Our spirit of sharing also reached out to children with cleft lip/palate in the Philippines and Cambodia, as well as to victims of natural disaster in Indonesia and Pakistan.

Starting this year, we are supporting employees at POS-IFC in the city of Pune in India who are volunteering regularly at a shelter for children with AIDS.

Culture & Sports

POSCO is contributing to enhancing the quality of life through arts and culture in Pohang, Gwangyang and Seoul, the sites of our domestic steel plants and offices.

POSCO Center Concert: Once a month, the atrium of the POSCO Center in Seoul turns into a venue for a dazzling musical concert. The free monthly concerts featuring performances by classical musicians, musical stars and popular artists are drawing a warm response. The list of well-known performers in 2007 included the popular vocalist Rottink (Eung-jak) Shin. A total of 94 concerts have been staged at the POSCO Center atrium since 1999.

POSCO Campus Symphony Festival: Since May 2004, POSCO has been visiting university campuses to host symphony concerts and help popularize classical music. We staged ten festival performances in 2007, including concerts at KAIST and POSCOCH.

By going beyond cultural events on a corporate scale, we have initiated exchanges between industry, academia and local residents, and in the process, promoted university campuses as venues for the cultural arts.

http://www.posco.com/homepage/socialcontribution
Local Communities

Along with the objective of contributing to economic development through the steel-making business, POSCO is committed to carrying out its role as a partner to the local communities based on its underlying principle of respect for people. We engage in a wide range of social contribution activities to grow together with the communities in which we operate.

Mutual Growth

We aim to grow together with our local communities. When POSCO was founded in 1968, the city of Pohang had a population of just 7,000 and a budget of KRW 2.5 million. Now the city boasts a population of 250,000 and a budget of KRW 365.6 billion. The city of Gwangyang had a population of 76,000 and a budget of KRW 5.5 billion in 1982 before the construction of Gwangyang Works. Now, these figures have swelled to 380,000 and KRW 380.7 billion.

The self-sufficiency rate for local resources for Pohang is 53.3%, the highest in Gyeongsangbuk-do. The rate was 48.1% for Gwangyang, the highest in Jeollanam-do. (Based on 2008 budget, Source: Joseilbo)

We are supporting Pohang’s drive to turn itself into a city of science by building world-class educational and R&D infrastructure including POSTECH, RIST, BT R&D Center, and the National Center for Nanomaterials & Technology. We are also helping to advance the regional economy in Gwangyang. Our investments in that city include a magnesium sheet plant (July 2007), plate factory and ferronickel plant (2007-2010).

POSCO employees and their family members regularly volunteer at around 70 welfare facilities in Pohang, Gwangyang and Seoul. The concept of designating a monthly theme was introduced in 2006, resulting in greater satisfaction for the volunteers and the beneficiaries alike.

Community Engagement

Employee Volunteering Program

‘Sharing Saturday’ is a monthly volunteering program run by POSCO. About 43,000 people took part in the program in 2007, which translates to an average of 3,583 per month.

POSCO employees and their family members regularly volunteer at around 70 welfare facilities in Pohang, Gwangyang and Seoul. The concept of designating a monthly theme was introduced in 2006, resulting in greater satisfaction for the volunteers and the beneficiaries alike.

Monthly Participants of ‘Sharing Saturday’ Program

<table>
<thead>
<tr>
<th>Year</th>
<th>Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>1,900</td>
</tr>
<tr>
<td>2005</td>
<td>2,765</td>
</tr>
<tr>
<td>2006</td>
<td>3,955</td>
</tr>
<tr>
<td>2007</td>
<td>5,279</td>
</tr>
</tbody>
</table>

Support for Multi-Cultural Families

In April, POSCO signed an agreement with the local governments of Gyeongsangbuk-do and Gyeongju-do and Korea Digital University to carry out an e-learning campaign for multi-cultural families. Recently, we joint launched a program with Seoul National University to support foreign workers with Korean husbands living in Pohang, Gyeongju and Gwangyang. A multi-cultural family support center opened in the university dormitory on October 11, 2008.

POSCO also signed an agreement with Korea Digital University to carry out a multi-cultural family support program by providing educational and family counseling to bring multi-cultural families closer together through educational outreach and family counseling. The program addresses the unique needs of children growing up in multi-cultural families.

POSCO and Seoul National University also hope to raise awareness of cultural diversity in Pohang, Gyeongju and Gwangyang and contribute to creating a safe environment for all residents, ethnic people from different cultures.

<table>
<thead>
<tr>
<th>Year</th>
<th>Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>3,000</td>
</tr>
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</tr>
<tr>
<td>2007</td>
<td>5,279</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>City</th>
<th>Population (thousand persons)</th>
<th>City Budget (KRW billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pohang</td>
<td>76</td>
<td>5.9</td>
</tr>
<tr>
<td>Gwangyang</td>
<td>76</td>
<td>5.9</td>
</tr>
</tbody>
</table>

*As of end-2007

POSCO employees and their family members regularly volunteer at around 70 welfare facilities in Pohang, Gwangyang and Seoul. The concept of designating a monthly theme was introduced in 2006, resulting in greater satisfaction for the volunteers and the beneficiaries alike.

Monthly Participants of ‘Sharing Saturday’ Program

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</tr>
<tr>
<td>2007</td>
<td>5,279</td>
</tr>
</tbody>
</table>
POSCO operates three Sharing Houses in Pohang and Gwangyang. These facilities provide free meals to the elderly, handicapped and low-income residents in the regions. They are manned by 584 volunteers of POSCO employees and local residents who volunteer their time to prepare and serve the meals. The kitchens served an average of 539 people a day in 2007. Since their opening, the centers have provided more than 450,000 meals.

In addition, employees donate lecture and manuscript fees received from external organizations towards a charity fund. In 2007, we were able to donate about KRW 59 million to the Beautiful Foundation and other charitable groups.

Support for Low-Income Families

POSCO operates five extracurricular study rooms in low-income neighborhoods in Pohang where elementary and middle school students can get help with their studies. These study rooms also offer counseling and cultural programs. From November 2006, we started running a home repairs program for low income families. We select two families each month to provide services such as wallpapering, flooring replacement, sink repairs, and work to repair leaks and roofs.

Our activities for isolated neighbors in Gwangyang include sponsoring lift cars for the disabled, walkers for the elderly and upgrading welfare facility functions.

Sisterhood-Ties

POSCO has maintained sisterhood ties to engage with the local communities since 1991. As of the end of 2007, the various departments of POSCO have forged ties with 752 towns, schools and groups and are carrying out a wide range of volunteering services. We open doors to communication with these communities and are striving to realize long-desired projects.

To ensure that our services meet actual needs, the results of our activities are surveyed every year and reflected upon future community initiatives.

Volunteer Medical Services and Blood Donation Drives

For residents of regions where medical services are not readily available, POSCO’s medical staff visits at least once a month to provide simple treatment and write prescriptions for free. In addition, the company holds blood donation drives at least twice a year. Donation certificates are given to employees and their family members who need transfusions.

Nurture Future Leaders

POSCO organized cultural tours to Seoul for 517 children from five elementary schools located near Pohang Works. These outings are designed to give the children an opportunity to broaden their views and to encourage them to nurture hope and dreams for the future.

Gwangyang Traditional Music Fest

Gwangyang: Traditional Music Fest blends the charms of tradition with the flair of the modern. The event was held on March 31, 2007, at Gwangyang Culture & Art Center and the Jeonnam Dragons stadium. Sponsored by POSCO and organized by Gwangyang City, the first ever music festival drew some 20,000 visitors. It included a multimedia show of traditional music, Pansori (traditional Korean narrative song) and more. Based on the theme of ‘the beauty of unity,’ the multimedia show was held at Jeonnam Dragons stadium and brought together traditional and contemporary artists. Performers included the Gyeonggi Provincial Traditional Music Orchestra and the traditional strings from a regional elementary school. Two popular pop groups, such as Jeong-hoon Sun, Jung Hye Jung, SB Wannabe and B-Boy dancers.

At the Gwangyang Culture & Art Center, the audience was treated to captivating performances by Pansori masters like Park Su Seok, Oh Soo Young, and Bongsan Mask Dance and other fun-filled events.
Field Trips to POSCO
A total of 8,250 youngsters took advantage of the field trips in 2007. This program is aimed at raising children’s understanding of steel and how steel touches our lives.

Junior Engineering Class
This program taught 1,888 regional elementary school students the fundamentals of science and provided practical, hands-on lessons. POSCO researchers and engineers serve as teachers of these classes.

Children’s Steel Camp
Introduced in 1993, the free camp is held annually during summer break for students of elementary, middle and high schools in Pohang and Gwangyang. The objectives of the camp are to teach students about the value of steel and to instill in them the importance of community and protecting the environment. The 15th annual camp in 2007 attracted 6,486 sixth graders (470 from Pohang and 391 from Gwangyang).

POSCO is also playing an active role in promoting regional sports. We launched professional football clubs, Pohang Steelers (1983) and Jeonnam Dragons (1994) and built a stadium for the exclusive use of football matches and a pitch for youth football.

Local Festivals
The Pohang Fireworks and Lights Festival have been held annually since 2004. The annual festival has gained fame as a national festival, attracting at least 2.5 million visitors through 2007. The Government Tower and dressing-lights-on display at the Hyeongsan power generator have also become popular tourist destinations, as did the steel lighting on a walking path along Hyeongsan River. In Gwangyang, a multimedia show highlighting traditional Korean music attracted some 26,000 visitors in 2007.

Pohang Mayor Park Seung-ho came to the site of the fireworks display along Hyeongsan River on August 4 to join the festivities. He said the festival brought together the natural light of Young-il Bay and the light of POSCO and fireworks, and thanked POSCO and all those involved for their efforts.

http://www.posco.com/homepage/sustainability/social_contribution
Achievements of Subsidiaries

- POSCO-China
- Zhangjiagang POSCO Stainless Steel
- Qingdao Pohang Stainless Steel
- POSCO-Vietnam
- POSCO-India
- POSCO Specialty Steel
- POSCO-EUC
- POSCO Power
POSCO operates subsidiaries that are involved in the entire life cycle of steel making from steel mill facilities and product processing to distribution and specialty product manufacturing. We also have strong businesses aligned to grow with the market trends of today and tomorrow such as construction, energy and IT. POSCO Power, dedicated to the next-generation energy business, is proactively revolving international standards on climate change and energy. We are widening the foundation for stable operations with 19 domestic subsidiaries and 27 overseas subsidiaries in China, Vietnam and India as of December 2007.

POSCO believes subsidiary management is an integral part of our social responsibility. As such, we are strengthening our subsidiaries through training and other awareness programs to practice within boundaries of ethics, compliance and integrity to protect environmental quality and meet local communities’ needs in a responsible manner.

Our overseas subsidiaries respect local laws and culture and operate various programs to hire and nurture regional talent. Also, they have in place a range of citizenship programs to protect the local environment, develop human resources and improve welfare.

**Sustainability Performances of Key Subsidiaries**

**Zhangjiagang POSCO Stainless Steel Designated as Green Factory**

Zhangjiagang POSCO Stainless Steel conducts environmental audits, applying the same high-level benchmarks as POSCO headquarters. The company is investing 15% of its total investment in environment-related facilities, and turning more than 30% of its site into green zones. Moreover, the company is rated as the most eco-friendly company in China. It has been designated as a Green Factory, recognized for its efforts to bring down pollutant levels below legal standards and recycling and reusing various byproducts.

**Qingdao Pohang STS**

Two years after Qingdao Pohang STS employees declared their pledge to follow the Code of Ethics, the company obtained commitments from 31 local material suppliers to comply with these standards in 2007. The company is working hard to build on POSCO’s global management issues to deliver results.

**POSCO-Vietnam**

POSCO-Vietnam is fully committed to mutual growth with the local communities. Its philanthropic efforts are particularly focused on education. The company is supporting outstanding students in Hanoi City and Hanoí through the POSCO Asia Fellowship and working with the Korean consulate to offer IT training to Hoa Quy Multi-University students majoring in Korean language. In October 2006, the company donated USD10,850 in cash and other relief supplies to victims of Typhoon Durian in the Kung Tua region.

**POSCO-India**

POSCO India is pursuing various community projects prior to construction of an integrated steel mill. To help local residents gain economic independence, the company launched a social training program. A total of 82 people were selected and have completed a six-month course in three separate batches. POSCO-India plans to expand job training opportunities for residents living around the plant site.

Under the POSCO India Fellowship program with Udaipur University, Biju Patnaik University and Kalinga Institute of Industrial Technology, the company awarded scholarships to 132 mushroom students (including 29 from the plant site). Thirty students also received grants under a separate agreement signed with Delhi and Naini universities.

**POSCO Specialty Steel Named ‘Changwon City Company of the Year’**

POSCO Specialty Steel is striving to make a positive impact toward the development of stronger communities. Its activities included cleaning up the Tannor spill, collecting goods for charitable organization Beautiful Stars and going broad. In April 2007, the company received the ‘Changwon City Company of the Year’ award for its operational excellence and community contributions.

**POSCO Power Launches Construction of Fuel Cell Plant**

POSCO Power is in the process of building the world’s largest fuel cell plant powered by hydrogen. Its plan is to invest KRW 1.2 trillion to build a 100 megawatt (MW) per year fuel cell power plant by 2010. The fuel cell plant includes a 50 MW plant and testing facility kicked off on October 16, 2007 with the completion slated for August 2010.

**Achievements of Subsidiaries**

**Domestic Subsidiaries**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Company Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steel</td>
<td>POSCO Specialty Steel, POSMEC, POSCOTEL, POSMET, POSCOP, POSCOTELE.COM, POSCO Power, POSCOP, POSCOTELE.COM, POSCO Power</td>
</tr>
</tbody>
</table>
Overseas Network

Asia, Australia
- POSCO China
- POSCO-Japan
- POSCO-Australia
- POSCO-Vietnam, POSVINA, POSCO-VHPC
- QINGDAO POHANG STAINLESS STEEL CO., LTD
- ZHANGJIAGANG POHANG STAINLESS STEEL CO., LTD
- DALIAN POSCO-CFM COATED STEEL CO., LTD
- POSCO-CFPC, POSCO(GUANGDONG) COATED STEEL CO., LTD
- POSCO-MKPC, POSCO-Malaysia
- POSCO-CSPC
- POSCO-CWPC
- POSCO ASIA, POSCO INVESTMENT
- POSCO-CCPC
- MPSC
- VPS
- POSCO-TBPC
- POSCO-India
- POSCO-IDPC
- POSCO-IPPC
- POSCO America
- POSCO-Mexico, Human-Tech
- POSCO Canada
- KOBRASCO
- POSCO-PWPC
- POSCO-ESDC
- Europe, Africa
- POSCO-MAPC
- POSCO-PESC
- America
- POSCO America
- POSCO-Mexico, Human-Tech
- POSCO Canada
- KOBRASCO
- POSCO-PWPC
- POSCO-ESDC
POSCO-China

Established in 2003, POSCO-China is a holding company that oversees POSCO invested companies across China. It manages POSCO’s interests in the four local subsidiaries of POSCO China. These companies are POSCO Stainless Steel, Guangzhou Pohang Stainless Steel, Chaozhou POSCO CFM Coated Steel, and Shanghai Pohang Coated Steel. It also offers financial, personnel, training, marketing and other services to the subsidiaries.

Employees

POSCO-China invests in a multitude of resources to encourage the development of its workforce. In 2006, the company introduced the new recall promotion system and launched such activities as presentations to promote employee assimilation and enhance work competencies. In addition, comprehensive and systematic training opportunities are offered to dispatched employees to develop their leadership talent. The company also holds council and workshops for executives and employees on a regular basis to share views on the company’s personnel policies.

Social Contribution

Our comprehensive localization policy, launched since our first entry into the Chinese market, led to the hiring of local talents for managerial positions. We are also renovating our local settings in social initiatives such as scholarships and partnership programs. Since 2001, we have formed a sister school relationship with Zhongyuying Elementary School near Beijing, and supplied school facilities and school board. An overview of programs and fiscal trips for seniors and granted scholarships. Since 2003, we took part in POSCO Student Foundation’s POSCO Asia Fellowship program and awarded scholarships to 517 top students in five universities (Beijing Univ., Beijing Jiaotong Univ., Beijing Science and Technology Univ., Donghai Univ., and Social Science Academy of China).

http://www.posco-china.com
Zhangjiagang POSCO Stainless Steel

Set up in 1997, Zhangjiagang POSCO Stainless Steel is the outpost for production and sales of hot rolled and cold rolled stainless steel plates in East China. In 2006, the company which has been producing cold rolled coil with hot rolled coil supplied by POSCO, opened the aptly named first green facility with annual capacity to churn out 400,000 metric tons of hot rolled coil. The facility is a part of POSCO’s first green facility line outside Korea and the first plant to be built in China by a foreign investor. The opening of the new facility drove the company’s growth into the third largest stainless steel maker in China.

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

Employees

Zhangjiagang POSCO Stainless Steel’s 1,193-strong workforce includes 1,164 locally hired employees and 29 dispatched from POSCO. The company places high priority on two-way communication between the upper management and rank-and-file employees through various meetings and seminars on a diverse range of topics including wages, promotions, training and welfare. To ensure professional growth of our people, we offer various leadership training and development initiatives while promoting their health and safety through regular safety training, physical check-ups and in-house medical services.

Social Contribution

Since inception, Zhangjiagang POSCO Stainless Steel has always valued its relationship with the local community. Citizenship efforts have included the ZPSS scholarship program for local schools, regular donations of educational and health prevention materials, blood donation drives, local event sponsorships and partnerships with charitable agencies. In recognition, we received the highest honors for complying with social laws, paying taxes, protecting the environment and working tirelessly to make a difference through social contribution activities. In 2007, we donated USD 10 million to build an international school in Zhangjiagang to groom local talent.

Environment

Zhangjiagang POSCO Stainless Steel conducts environmental audits, applying the same demanding benchmarks as POSCO headquarters. We have also laid down a solid framework for environmental protection by allocating 15% of total investment for related facilities and designating over 40% of waste sites as green areas. Our stringent control of possible pollutants and recycling efforts for byproducts allowed us to gain a reputation as the most environmentally responsible steel manufacturer in China and win the title of Green Factory.

Tax

As a responsible corporate citizen, the company has been a diligent tax payer since its inception. It has faithfully paid all national and provincial taxes.
Qingdao Pohang Stainless Steel

Qingdao Pohang Stainless Steel Co., Ltd. is a producer of cold-rolled stainless steel, set up as an 80:20 joint venture between POSCO and Qingdao Steel of China in December 2002. The plant went into operation in April 2003 and has an annual production capacity of 180,000 tons. At present, it supplies less than 3mm thick cold-rolled stainless steel to Chinese customers.

In 2003, the first year of operation, the plant produced 130,000 tons of cold-rolled stainless steel. By the following year, its capacity was up to 170,000 tons and products were being shipped all over China including Shanghai, Jiangsu, Guangdong and the northeast of China. Despite the company's short history, its 430 series stainless steel products gained a competitive edge in China.

As a result, the company rolled out 90,000 tons of 300 series products from a total output of 100,000 tons in 2007, attaining a 57% production rate for the 300 series. Moreover, demand led to strong sales, contributing greatly to the company's stable performance. In February 2006, a stainless steel processing center was created near the company to expand its business scope to include sophisticated surface finishing such as grinding of stainless steel products and mirror polishing. At the same time, the base is used as a logistics center for goods manufactured at POSCO and local subsidiaries in China. Currently, the three Korean companies and two Chinese companies are housed in the base.

Employees

Qingdao Pohang Stainless Steel employs a total of 425 workers, among whom 413 are hired locally. As part of this personnel localization drive, we run diverse training programs that focus on providing tools to build competences and leadership. Outstanding employees are granted incentive that include onsite training or opportunities to visit POSCO and steel mills in Korea. To facilitate communication between management and labor, regular meetings and seminars are held on diverse topics such as corporate management and vision, safety and quality, welfare and employee training. In December 2006, the company set up a public assembly to further promote labor-management cooperation.

Social Contributions

Our aim at Qingdao Pohang Stainless Steel is to grow with our neighbors. To that end, we have set up policies to make an impact on local communities through watershed trees and other community initiatives. In August 2006, we disbursed development funds to the water village to support improvement works. In 2007, local senior citizens were invited to a special party held in their honor.

Environment, Health & Safety

Qingdao Pohang Stainless Steel's guidelines for environmental accountability call for pollutant emission control and environmental management in line with the local regulation. The company rigorously abides by environmental laws and regulations and has set up an internal process to address any related civic complaints. Other EHS initiatives include safety training, work environment evaluation and employee medical checkup.

Business Ethics

Two years after the Qingdao Pohang Stainless Steel Code of Conduct was proclaimed in 2005, the company obtained commitments from 21 local material suppliers to comply with these standards. The company is working hard to build in POSCO's global management vision to deliver results.

<table>
<thead>
<tr>
<th>Key Indicators</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output (Total) (1,000 tons)</td>
<td>120.6</td>
<td>137.3</td>
<td>190.4</td>
</tr>
<tr>
<td>Sales (1,000 tons)</td>
<td>159.8</td>
<td>176.0</td>
<td>210.7</td>
</tr>
<tr>
<td>Revenue (USD million)</td>
<td>528.4</td>
<td>438.2</td>
<td>425.1</td>
</tr>
<tr>
<td>No. of employees</td>
<td>425</td>
<td>426</td>
<td>425</td>
</tr>
<tr>
<td>No. of locally hired</td>
<td>413</td>
<td>423</td>
<td>413</td>
</tr>
<tr>
<td>No. of female employees</td>
<td>22</td>
<td>25</td>
<td>26</td>
</tr>
<tr>
<td>No. of accidents</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Lost-time injury frequency</td>
<td>0.08</td>
<td>0.08</td>
<td>0.15</td>
</tr>
<tr>
<td>Water usage (m3)</td>
<td>276.50</td>
<td>273.50</td>
<td>275.70</td>
</tr>
<tr>
<td>Water discharge (m3)</td>
<td>283.21</td>
<td>286.14</td>
<td>273.26</td>
</tr>
<tr>
<td>Total discharge (m3)</td>
<td>560.81</td>
<td>560.64</td>
<td>549.06</td>
</tr>
<tr>
<td>Steel waste generated (1,000 tons)</td>
<td>2.22</td>
<td>1.94</td>
<td>2.00</td>
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<tr>
<td>No. of non-compliance (1000 pieces)</td>
<td>4.43 x 10^3</td>
<td>5.00 x 10^3</td>
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<tr>
<td>Social contribution spending (USD 1,000)</td>
<td>1.8</td>
<td>1.73</td>
<td>1.62</td>
</tr>
<tr>
<td>Tax paid (Yuan 10,000)</td>
<td>296,926</td>
<td>240,659</td>
<td>252,738</td>
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<tr>
<td>Energy consumption (fuel NG) (1 mil.cal)</td>
<td>20.6</td>
<td>28.3</td>
<td>15.1</td>
</tr>
</tbody>
</table>

70
POSCO-Vietnam is strategically located in Phu My 2nd industrial complex in Vung Tau Province, about 80 km from Ho Chi Minh City. It has a vital role in POSCO’s blueprint to create an Asian production network. Following China and India, Vietnam has emerged as Asia’s strong growth market through policies promoting sponsoring and foreign direct investment. The country has been recording annual growth of over 8% in the past three years and is seeing growing demand for steel products. Recognizing this as an opportunity to gain a foothold in an emerging market, POSCO is building steel mills that will supply steel for the automobile, shipbuilding, industrial electronics and construction sectors.

Project Progress

Investment Permit and Plan

In November 2006, POSCO decided on a USD 1.128 billion investment project in Ba Ria-Vung Tau Province, Vietnam. After the groundbreaking ceremony in August 2007, the first phase construction, slated to be completed by late September 2011, began for a cold rolling plant with annual capacity of 190,000 tons of CR (cold rolled) and 180,000 tons of HR (hot rolled). In the second phase of the plan, the company will build a 3 million-ton capacity hot rolling plant by 2012.

To facilitate material purchase and product export, the company is also in the process of building an exclusive harbor. The construction will be carried out in two phases; two 10,000 ton berths by March 2009 and one 50,000 ton berth by 2012.

Laying the Groundwork

POSCO-Vietnam signed a 58-year lease for the plant site. Of the 130 hectares of land approved for the project, we have acquired a total of 48 hectares as of now, for a 75% progress rate. EDCO, a Vietnamese industrial complex developer, is in charge of land acquisition. The total foundation for successful construction of a cold rolling plant has been laid, with groundwork completed for all 48 hectares of land. In addition, 46% of groundwork for the exclusive harbor has been finished and ground improvement, construction and pile driving work are underway. The Vietnamese government authorized the exclusive use of the harbor site to POSCO and we are in the process of signing a lease contract.

Construction Progress

After finishing the groundwork for our cold rolling plant, we kicked off full-scale pile driving work and concrete structure formation. As of February 2008, pile driving has been completed for 1,588 holes out of a total 1,806 holes, showing a 93.8% rate of completion. The overall progress rate is reported at 31.1%, having completed construction of 25,184m² out of 110,000m² concrete structures and installing 2,099 tons out of 8,776 tons of steel framework. Although we faced difficulties due to concrete displacement piles during excavation, we remedied the situation by raising the ground by one meter.

Employees

As of 2007, POSCO-Vietnam employs 56 people, of which 40 are local hires and 16 dispatched from Korea headquarters. We are especially proud in our local hires. We are also working to bring out the best in our employees and become a true friend of Vietnam.

Social Contribution

POSCO-Vietnam has been active in philanthropic initiatives long before the start of plant construction in order to get full backing from the local community. In October 2006, the company donated USD10,000 in cash and relief supplies to citizens of Typhoon Durian in the Vung Tau region. We are also supporting outstanding students in Ho Chi Minh City and Hanoi through the POSCO Asia Fellowship and working with the Korean consulate to offer IT training to Ho Chi Minh University students majoring in Korean language. In addition, the company is forming a close partnership with the provincial government by inviting local government officials to visit POSCO headquarters, presenting POSCO-Vietnam’s future visions, supporting various local events and organizing monthly meetings with the government.

Tax

POSCO-Vietnam paid USD14,805 in income tax on employee wages in 2007. The company has yet to incur corporate taxes because it is still under construction.
POSCO-India was established in Paradip, Orissa, in August 2005 to build a 12 million ton integrated steel mill. The USD12 billion project includes construction of an integrated steel mill, development of a 4 million ton iron ore mine and related infrastructure.

India is an enormous market with huge growth potential, among developing nations. In particular, the country’s steel consumption per capita stands at a mere 29kg, well below the level of China’s 48kg and the United States’ 429kg. Thus, India’s steel market is expected to grow dramatically. POSCO tapped into the vast opportunities in India early on with the aim to secure a foundation for sustainable growth by building the world’s most competitive steel mill.

Project Progress

Steelworks Construction

POSCO-India obtained the green light from the government of Orissa to purchase a 4,004 acre ground to construct the steelworks in November 2005. The company is currently seeking the final go-ahead from the Supreme Court. It has already obtained approval recommendation from the Ministry of Environment and Forest for forest division clearance of state-owned land.

Meanwhile, the central government authorized the company’s plan to build the harbor after reviewing the environmental impact evaluation and lifting the coastal protection area designation. The company also secured the central government’s final approval on the environmental impact evaluation for the construction of the steelworks.

Development of Iron Ore Mine

POSCO applied for exclusive prospecting licenses (PL) to develop one ore mine in three regions to the Orissa State Government in September 2005. The following April and June, the company made an application for PL (Mining Lease) for two locations. In December 2006, the Orissa government recommended the central government to grant PL for one region and is in the process of going through additional paperwork. The company expects the Orissa government to recommend PL in the first half of this year. With the central government’s PL approval expected soon, POSCO-India is gearing up for full-scale exploration, partnering with an Australian mining exploration consulting firm.

Building Infrastructure

In January 2006, the central government granted POSCO-India the rights to use railways, crucial in transporting major raw materials such as iron ore. In October of the same year, we acquired a 33% stake in Dwarlapalli-Paradip Rail Co. Ltd., which connects inland to the prospective steelworks site in Paradip.

The provincial government authorized the use of water and power for steelworks construction. The plant site was also designated as a Special Economic Zone, which makes it eligible for various tax benefits for a maximum 15 years. They include a 32% to 100% reduction on corporate tax and full exemption from tariffs and consumption tax levied on raw materials. Also, the company is building an access road to the steelworks construction side.
Resident Resettlement (Steelworks Construction Area)
In May 2006, the Orissa government mapped out the ‘2006 Orissa Resettlement and Rehabilitation Policy.’ In a separate move, POSCO devised the Resettlement and Rehabilitation Package (draft) based on the results of an extensive social-economic survey. Negotiations are currently underway with resident representatives, town mayor and related provincial government ministers. The resettlement of residents will start when the Package (draft) is finalized by the Resettlement Committee comprised of POSCO officials, resident representatives, local NGO members, politicians and government officials (town mayor, etc.).

For timely resettlement, the company is pursuing an additional construction once the firstphase construction of the transit camp is completed. It also plans to build a vocational training center for residents and employees and have completed the purchasing of the site and design of the building.

To ensure better livelihood for the local residents, POSCO-India is working closely with NGOs and other experts on ways to increase income levels through more efficient farming and livestock rearing.

Employees
As of February 2008, POSCO-India has a total of 64 employees, of which 53 are locally hired. We encourage employees to take an active part in issues that directly affect them through regular employee seminars where they discuss topics that range from progress of key projects and company vision to welfare and job training. The company also offers the Skills-up Program designed to boost job competencies of local employees and other classes aimed at enhancing their understanding of the POSCO corporate culture as well as Korean culture. At the same time, we hold regular classes on local culture for employees dispatched from Korea.

Social Contribution
From early on, POSCO-India has been firmly committed to mutual growth with local communities and take action in the areas of healthcare, education and welfare of residents. In the past two years, the company provided free surgeries to 566 patients. In early 2007, it supported a polio medical camp and helped 66 patients receive surgery. Moreover, some 5,000 local residents benefited from the company’s mobile medical service.

The company’s other community initiatives include installing streetlights around town communal facilities, donating goods to flood victims and providing medical equipment to local hospitals. In November 2008, POSCO-India gave US$200,000 to the Habitat for Humanity sponsored ‘Jimmy Carter Work Project 2008’ to build 108 houses for India’s homeless. POSCO Volunteer Corps and POSCO-India employees donated their time to also partake in the project.

To help local residents gain economic independence, we launched a vocational training program. A total of 87 people were selected and have completed a six-month course in three separate batches. POSCO-India plans to expand job training opportunities for residents living around the plant site.

Under the POSCO-India Fellowship agreement with Utkal University, Biju Patnaik University and Kalinga Institute of Industrial Technology, the company awarded scholarships to 102 meritorious students (excluding 29 from the plant site). Thirty students also received grants under the separate agreement signed with Delhi and Netaji universities.

Business Ethics
In 2004, POSCO-India introduced the Code of Conduct and pledged to adhere to global ethical practices. In an effort to encourage all employees to perform with dignity and ensure its systems are applied properly and consistently, the company organized a total of four seminars on related subjects since August 2007 and invited outside experts for special lectures.

http://www.posco-india.com
POSCO Specialty Steel was established in 1997 by taking over the steel bar & seamless pipe segment of Sammi Steel. The plant, located in Changwon City, has an annual production capacity of 980,000 tons of crude steel. It manufactures stainless steel for cutting edge industries such as automobile, aerospace, nuclear plant and shipbuilding as well as heat exchangers. In 2004, POSCO Specialty Steel won the first in Korea to commercialize a TID 10-grade steel coil. In 2008 when the first power facility reving investment was completed, POSCO Specialty Steel will have the capacity to produce 420,000 tons of forged products for industrial use and annually.

Despite challenging global conditions stemming from the sharp rise in oil prices and exchange rate volatility, POSCO Specialty Steel enjoyed its most successful year yet, recording KRW 1.5 trillion in sales in 2007. That was the result of diverse efforts to maximize scale efficiency, enhancing brand power through 12 key challenges and increasing productivity and the implementation of drastic cost-cutting measures. It was the fourth year in a row that a revenue exceeded KRW 1 trillion.

Management Policy

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

Key Environmental Activities

<table>
<thead>
<tr>
<th>Key Environmental Risk</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy conservation programs</td>
<td>Introduce AOD facility, Curb energy use by eliminating the LF process in stainless steel processing</td>
</tr>
<tr>
<td>Air pollutants (SOx, NOx, dust)</td>
<td>Improve its technology to lower emission levels of SOx and NOx by introducing new purification systems</td>
</tr>
<tr>
<td>Water pollutants (COD, T-N)</td>
<td>Review investing in discharge water recycling equipment at waste water treatment facilities</td>
</tr>
<tr>
<td>Solid waste (such as dust, slag, waste refractories)</td>
<td>Implement recycling of dust and slag by signing an agreement with Changwon City</td>
</tr>
</tbody>
</table>

Employees

POSCO SS is enjoying solid labor-management relations based on mutual trust. The company’s commitment to better communicate with employees, invest in their welfare and conduct transparent disclosure of management information has resulted in 11 consecutive years of no labor disputes. We have also created the labor-management council to reflect the opinions of employees and nurture employee relations. The council is made up of 27 sub-council members and a companywide representative. The four-term elected members have been serving since April 2006. To bring out the best in our workforce, the company introduced performance-based payment for all employees above the position of assistant manager as well as competitive compensation packages in 2007. Other programs to help create a sound work environment included publishing a monthly CEO letter, offering mentoring for new recruits, building shower rooms in factories, and renovating the cafeteria.

Safety & Health

POSCO SS is taking proactive actions to create a safe and healthy work environment led by the CEO’s firm determination. In 2006, the company attained ISO 14001 from the Korea Occupational Safety and Health Agency and completed the recertification inspection in July 2008. In an effort to enhance the focus on health and safety activities, POSCO SS sponsors a 10-member industrial safety and health committee, comprised of representatives from both labor and management. Moreover, a comprehensive evaluation is conducted every quarter and a biennial safety inspection is held for partner firms.
Social Contribution

POSCO SS employees are making a positive impact on the local communities through various volunteer works and other contributions. Every third Saturday is designated as ‘Volunteer Day’ and the company’s volunteer group dedicates its time on a wide range of initiatives. These include working with various social welfare centers, fostering watermelon seedling, protecting the environment, supporting local cultural activities, and making donations to Beautiful Store and other nonprofit agencies.

In 2007, volunteering efforts concentrated on cleaning up Taean oil spill, collecting goods for charitable organization Beautiful Store and giving blood. In April 2007, the company received the Chongwon City Company of the Year’ award for its operational excellence and community contributions.

Environment

POSCO SS sets environmental goals every three years and action plans annually. A stringent internal index has been devised for compliance with environmental targets. The index complex scores the internal compliance rate, which is based on stricter standards than current laws, real-time data from the Tele-Metering System (TMS), and results from evaluations by outside agencies. For information on the latest technology in environment and energy, we turn to the POSCO technology workshop held in conjunction with POSCO Technical Research Laboratories and Research Institute of Industrial Science & Technology. Efforts to develop and commercialize green production technologies are made through various research programs and technology exchanges. In 2006, we entered into a voluntary agreement to cut emissions of persistent organic pollutants (POP) with the Ministry of Environment. In 2007, we signed a greenhouse gas reduction agreement with Chongwon City. After obtaining ISO14001 certification in 2000, POSCO SS converted to the newly revised ISO14001 certification in 2006 and completed the ISO 14001 Periodic Audit in November 2007.

Business Ethics

Our commitment to perform with integrity is instilled in every employee as non-negotiable expectation of behavior. This expectation is guided by our mission-integrity policy and Code of Conduct. In 2006, the company introduced the ‘Business Ethics voluntary implementation program’. Under the program, team leaders assume responsibility for promoting ethical management by engaging in self-evaluation and ethical risk discovery. To fulfill our compliance obligations, we have devised an extensive system including production of a quarterly self-monitoring checklist, operation of the whip blow system, publishing of Ethics News and taking disciplinary action against ethics violators.

Key Indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output (1,000 ton)</td>
<td>827</td>
<td>873</td>
<td>841</td>
</tr>
<tr>
<td>Sales (1,000 ton)</td>
<td>870</td>
<td>900</td>
<td>841</td>
</tr>
<tr>
<td>Revenue (KRW billion)</td>
<td>1,194.4</td>
<td>1,193.6</td>
<td>1,192.4</td>
</tr>
<tr>
<td>No. of employees (person)</td>
<td>1,020</td>
<td>1,025</td>
<td>1,026</td>
</tr>
<tr>
<td>No. of female employees</td>
<td>26</td>
<td>26</td>
<td>22</td>
</tr>
<tr>
<td>Average working hours per person/year</td>
<td>115.2</td>
<td>118.6</td>
<td>114.2</td>
</tr>
<tr>
<td>Employee satisfaction (%)</td>
<td>87.3</td>
<td>88.7</td>
<td>88.8</td>
</tr>
<tr>
<td>No. of workforce related deaths/per 100 workforce deaths</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Lost-time injury frequency (person-hour)</td>
<td>1.50</td>
<td>1.46</td>
<td>0.87</td>
</tr>
<tr>
<td>Lost time (person-hour)</td>
<td>21</td>
<td>27</td>
<td>13</td>
</tr>
<tr>
<td>Diving (person-hour)</td>
<td>6</td>
<td>12</td>
<td>26</td>
</tr>
<tr>
<td>Water usage (1,000 m³)</td>
<td>348,871.9</td>
<td>347,324.9</td>
<td>324,957.9</td>
</tr>
<tr>
<td>Final discharge COD (ppm)</td>
<td>11.79</td>
<td>11.14</td>
<td>11.00</td>
</tr>
<tr>
<td>Final discharge T-N (ppm)</td>
<td>617,855</td>
<td>616,072</td>
<td>617,855</td>
</tr>
<tr>
<td>Solid waste generated (1,000 ton)</td>
<td>169.2</td>
<td>172.4</td>
<td>218.7</td>
</tr>
<tr>
<td>Total amount recycled (1,000 ton)</td>
<td>168.9</td>
<td>168.3</td>
<td>168.9</td>
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<tr>
<td>Dust (ton)</td>
<td>377.0</td>
<td>377.0</td>
<td>377.0</td>
</tr>
<tr>
<td>SOx (ton)</td>
<td>0.12</td>
<td>0.20</td>
<td>0.15</td>
</tr>
<tr>
<td>Energy consumption (1 mil. Cal)</td>
<td>2,264,308</td>
<td>2,274,218</td>
<td>2,211,540</td>
</tr>
<tr>
<td>CO₂ emission (ton)</td>
<td>148.7</td>
<td>151.3</td>
<td>168.9</td>
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<tr>
<td>Customer satisfaction (%)</td>
<td>80.5</td>
<td>81.9</td>
<td>80.4</td>
</tr>
<tr>
<td>Employee satisfaction (%)</td>
<td>83.6</td>
<td>81.4</td>
<td>80.4</td>
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<tr>
<td>Lost-time injury frequency (person-hour)</td>
<td>5.94</td>
<td>5.10</td>
<td>5.10</td>
</tr>
<tr>
<td>No. of workplace deaths/per 100 workforce deaths</td>
<td>0.32</td>
<td>0.30</td>
<td>0.30</td>
</tr>
<tr>
<td>No. of workplace related deaths/per 100 workforce deaths</td>
<td>0.15</td>
<td>0.14</td>
<td>0.14</td>
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<td>0.15</td>
<td>0.14</td>
<td>0.14</td>
</tr>
</tbody>
</table>

Note: Data presented have been increased by departmental members in reporting relevant departments.

http://www.poscoss.co.kr
POSCO C&C

Set up in 1988 as a coated steel manufacturer, POSCO Coated & Color Steel Co., Ltd (POSCO C&C) changed its corporate name to current POSCO C&C in April 2008. Key products include galvanized steel sheets, aluminized steel sheets, aluminum-zinc alloy coated steel sheets and color coated steel sheets. The company was listed on the Korean stock market in 2002.

Management Policy
POSCO C&C is committed to realizing its vision of becoming the ‘world’s best coated steel sheet manufacturer’. 2007 was a very difficult year clouded by internal and external uncertainties such as soaring raw material prices, fiercer competition, and declining export profitability caused by a strong Korean currency. Nevertheless, we successfully bounced back from the deficit recorded in 2006 and built a sturdier foundation for future earnings.

POSCO C&C is pursuing innovation in management and corporate culture and working to speed up new product development for stable profit generation. In addition, we are better positioned to grow with the trends of the color coated steel sheet market after rationalizing the No.1 CCL. We are also in the process of building a new Seoul Office building.

R&D
To ensure sustained growth, POSCO C&C is concentrating on development of high value-added products. Our key innovations include ‘new edge’ products such as POS/ZVZG color coated steel, which are enjoying huge sales. Increased exports to Europe reached a 4.7% rise in overall exports of color coated steel sheets last year. ALAKSTA, which began full-scale production last year, is POSCO C&C’s proprietary product with four times greater durability than conventional galvanized steel sheets. It won material approval from Samsung Electronics and LG Electronics, boosting the company’s sales. We are also pursuing development of other new-generation products such as CVI replacement steel sheets and anti-fingerprint STS coating steel sheets.

Sales Strategy
We have adopted a strategic product operation plan and are in the process of pursuing a profit-oriented sales strategy to achieve sustainable growth. As a result, we obtained the highest level of sales in ACCOSTA, a highly profitable aluminized steel sheet, and non-continuous color coated steel sheets. The company also pursues a different sales strategy for each region, which led to a more than 25% increase in exports to a new high. In 2007, the company saw over 19% growth in sales and recorded operating profit of KRW117.4 billion.

Innovation Activities
POSCO C&C is enhancing work efficiency and corporate value through innovation initiatives and cutting-edge digital management system. Six Sigma is at the heart of our innovation, with all employees actively partaking in Quick Six Sigma activities to identify and improve problems.

Social Contribution
Volunteer Service
Under the slogan of ‘Let’s come together’ all POSCO C&C employees devote their time in the volunteer corps to serve the communities they work and live in. They also give a portion of their wage to selected charities. The volunteers meet every third Saturday of each month to address various social issues facing their communities.

Rugby Team
POSCO C&C and its rugby team are making a positive impact by promoting public health and amateur sports clubs. The winner of the 5th National Rugby Competition in 1993 and the 41st Presidential Championship in 2002, our S.Rugby Club is one of Korea’s premier teams which produced several key players who were instrumental in Korea’s winning the gold medal at the 2006
Asian Games held in Bangkok in 1998. The team also won the Presidential National Rugby Championship in September 2007.

To achieve our goals, we are raising work efficiency, building optimized processes, and monitoring internal control activities to ensure greater integrity and transparency. The company has introduced a compliance program and ethical management leadership program to underscore the importance of fulfilling compliance obligations. Furthermore, we have completed the creation of a transparent accounting system in line with POSCO Group’s adoption of IFRS (International Financial Reporting Standards) designed to meet global capital market requirements.

**Business Ethics**

POSCO C&C aims to earn the respect of the business world by maintaining a strong culture of integrity and compliance. Through innovation and other initiatives to strengthen our growth potential, we will enhance our corporate value and uphold high ethical standards among all employees. This will help us grow with our stakeholders by making POSCO C&C a company that customers want to do business with, shareholders want to invest in and employees want to work for.

http://www.poscocnc.com

<table>
<thead>
<tr>
<th>Key Indicators</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of employees</td>
<td>1285</td>
<td>1289</td>
<td>1311</td>
</tr>
<tr>
<td>No. of employees terminated</td>
<td>22</td>
<td>24</td>
<td>26</td>
</tr>
<tr>
<td>No. of employees promoted</td>
<td>10</td>
<td>11</td>
<td>13</td>
</tr>
<tr>
<td>Average age of employees</td>
<td>32</td>
<td>34</td>
<td>35</td>
</tr>
<tr>
<td>Average age of employees (years)</td>
<td>32</td>
<td>34</td>
<td>35</td>
</tr>
<tr>
<td>No. of workplace accidents</td>
<td>2</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>No. of workplace accidents (person)</td>
<td>2</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>No. of workplace accidents reported</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>No. of workplace accidents (reported)</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Average training hours per person (hour)</td>
<td>3.3</td>
<td>3.2</td>
<td>3.1</td>
</tr>
</tbody>
</table>

http://www.poscocnc.com
In March 2006, POSCO Power (previously Korea Independent Energy Corp. or KIECO) had a significant ownership change. POSCO became the full owner by acquiring the remaining 50% stake held by Korea Power Investment Corp. (KPI). POSCO and KPI had each acquired 50% of the energy company, a joint venture between Hanwha Group and El Paso Corp. of the US, on July 11, 2005.

The need for a private power plant emerged in the late 1960s as Korea saw a surge in power consumption amid rapid economic growth and Korean Electric Power Corp. (KEPCO) alone could not serve the nation's growing power needs. On February 21, 1972, a 324,800㎾ power plant (at the time accounting for 25% of nationwide power plants) went into operation, which recorded a 99% operating reliability. Located in the Seoul metropolitan area (Incheon), the power plant was instrumental in leading Korea's economic development by providing a stable supply of power.

When demand for power surged again in the mid-1990s, the government requested Korea's only private power producer, POSCO Power, to expand its capacity. At the request, the company carried out expansion in phases from 1995 to grow into Korea's largest independent power producer with a total capacity of 1.8 million kW.

In May 2007, the company launched massive research into development of the next generation fuel cell, SOFC (solid oxide fuel cell), investing a total of KRW 67.6 billion until 2012. POSCO Power plans to develop a 150 kW SOFC stack and system. It is also working to create synergies with POSCO subsidiaries by leading efforts such as signing of an MOU for a POSCO auto fuel cell project with RIST, POSCON, POSCO E&C and POSMEME.

### POSCO Power

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### Major EHS Activities

<table>
<thead>
<tr>
<th>Type</th>
<th>Key Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air pollutant control</td>
<td>-  Set up strict NOx control standards that are tougher than current law -  Install automatically measurement devices at all power plant outlets</td>
</tr>
<tr>
<td>Workplace safety</td>
<td>- System to prevent workplace accidents -  Prevent industrial accidents through workplace permit system -  Eliminate hazardous incidents -  Mitigate work environment with safe storage facilities -  Expand training of workplace safety sheet -  Prevent major accidents through operation of lock-out tag-out system -  Provide education of personal health knowledge through on-harves broadcasting (on-site announcements)</td>
</tr>
<tr>
<td>Employee health</td>
<td>- Health program for employees -  Employee health consultation twice a month (on-site visit by doctors) -  Medical check-up and follow-up treatment (once every two years, invite outside experts) -  Health assessment of employees (once every five years, to be carried out) -  Promote safe and healthy lifestyle through employee education</td>
</tr>
</tbody>
</table>

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78
POSCO Power is always in search of environmental excellence and pursues the most eco-friendly way in everyday operations. It uses LNG to generate power, operates pollution prevention facilities to minimize emission of air pollutants and greenhouse gases and has in place stricter standards than current laws. As a part of green management, POSCO Power entered into an EPCO agreement with Hano Electric Power Corp., to enhance the efficiency of LNG combined cycle plant #1 and #2. This should lead to a decrease of approximately 1.341 million t/year in carbon emission by 2029. As a result, POSCO Power received its highest grade in the regular evaluation for process safety management conducted by the Ministry of Labor and Knowledge, obtaining the right to conduct in-house voluntary inspections for three years. The entire amount of generated power is sold to KEPCO under a Power Purchase Agreement (PPA), securing a stable profit structure.

Under the vision of ‘Rebirth,’ the company aims to construct a new LNG power plant with a total capacity of 2 million kW. Two of the 399 MW facilities will be constructed during the Phase 1 period, started for 2011, and the remaining two are to be completed during Phase 2, slated for 2016. The company concluded purchasing of a site near an existing power plant in June 2007 and is now awaiting necessary approvals and buying main equipment. When construction of these facilities is completed, POSCO Power will reinvent itself as a world-class power company with a large-scale combined cycle power plant to lead POSCO’s energy business.

Management Policy
Under POSCO’s management philosophy of ‘creating another success story,’ POSCO Power aims to seize new business in the power industry by the principle of respect for human dignity. The company is striving to maximize its competitive edge by promoting global excellence and putting ongoing emphasis on management innovation. POSCO Power is dedicated to building the most efficient power plants and fostering a spirit of creativity and challenge to become a truly great company.
Employees
We believe that harmony between labor and management is the foundation for a company’s health and competitiveness. This belief led to the creation of the labor-management council which represents employee interests. Every year, CEO talks directly to employees on company performance and future directions. Also, seminars are held every six months for the corporation, business environment, goals and current issues. To further strengthen two-way communication between labor and management, the company holds regular meetings and gatherings. In particular, a two-day workshop held twice a year offers an opportunity for employees to seek ways to further promote stronger partnership with the management and engage in constructive dialogue on overall workplace issues such as difficulties facing employees.

Environment, Health & Safety
Under the management policy of ‘taking on creative challenges towards becoming a great company,’ all our employees are striving to build a pleasant and healthy working environment by building core competency in EHS. In order to establish clear environmental accountability, we introduced the EMS (Environmental Management System) in 2001. Rigorous attention to safety is embedded deeply in the corporate culture. In line with receiving ISO 14001: 2001 certification in 2006 and the highest rating (95%) in process safety management in 2003, we continue to focus on tamping our employees safe through promotion of workplace injury and illness and encouraging our suppliers to improve their safety standards. We will continue to place the highest value on EHS as we believe it is profoundly important for our success.

Social Contribution
POSCO Power is dedicated to improving people’s lives and making communities stronger. Our philanthropic efforts center on supporting senior citizens living alone and various disabilities groups in the western Incheon area near the power plant. Employees donate a portion of their wages with the company matching that amount and adding 15 times to spend in charitable causes. Our employees are involved in various volunteering initiatives aimed at enriching lives of the less fortunate. These include helping out at nursing home canteens, delivering lunches to the elderly living alone, organizing silver weddings, and helping with home repairs and other activities.

Active involvement by our employees has earned us various CSR recognitions such as the Prime Minister Commendation in 2003, Incheon City Mayor’s Award in 2005, Incheon Chamber of Commerce Prize in 2006 and Presidential Award in 2007.

Business Ethics
In 2007, POSCO Power adopted POSCO’s Code of Conduct as the framework for its ethical management. In an effort to instill high ethical standards among employees, the company set up a team that is dedicated to ensuring high-integrity business practices. To promote integrity as a vital part of the corporate culture, the company introduced the Employee-Oriented Compliance Program in 2009. In addition to company-driven systems and policies such as the Code of Conduct, Governance Principles and Code of Ethics, POSCO Power encourages its employees to perform with integrity. Through our commitment to full compliance and transparency, we hope to gain the respect of our community.

http://www.poscopower.co.kr/
Appendix
### GRI Content Index

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Page</th>
<th>Reason</th>
</tr>
</thead>
</table>

#### Strategy and Planning

- **1.1 Statement from the most senior decision maker of the organization**<br>Page 4-5

#### Organizational Profile

- **2.1 Name of the organization**<br>Page 8
- **2.2 Primary brands, products, and/or services**<br>Page 8-9
- **2.3 Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures**<br>Page 13-14
- **2.4 Location of organization’s headquarters**<br>Page 8
- **2.5 Number of countries where the organization operates, and names of countries with major operations or that are specifically relevant to the sustainability issues covered in the report**<br>Page 66-67
- **2.6 Nature of ownership and legal form**<br>Page 12-13
- **2.7 Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)**<br>Page 8-9, 25-26, 66-67
- **2.8 Scale of the reporting organization**<br>Page 46
- **2.9 Significant changes during the reporting period regarding size, structure, or ownership**<br>Page 12-13

#### Report Parameters

- **3.1 Reporting period (e.g., fiscal/calendar year) for information provided**<br>Front page
- **3.2 Date of most recent previous report (if any)**<br>Front page
- **3.3 Reporting cycle (annual, biennial, etc.)**<br>Full
- **3.4 Contact point for questions regarding the report or its contents**<br>Back page
- **3.5 Process for defining report content**<br>Front page
- **3.6 Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance**<br>Front page
- **3.7 State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope)**<br>I Front page
- **3.8 Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations**<br>Front page
- **3.9 Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report**<br>Details per indicator
- **3.10 Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of measurement methods)**<br>Details per indicator
- **3.11 Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report**<br>Front page
- **3.12 Table identifying the location of the Standard Disclosures in the report**<br>82-85
- **3.13 Policy and current practice with regard to seeking external assurance for the report**<br>87

#### Governance, Commitments, and Engagement

- **4.1 Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight**<br>12
- **4.2 Indicate whether the Chair of the highest governance body is also an executive officer**<br>13
- **4.3 For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members**<br>13
- **4.4 Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body**<br>13
- **4.5 Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization’s performance (including social and environmental performance)**<br>13
- **4.6 Processes in place for the highest governance body to ensure conflicts of interest are avoided**<br>12
- **4.7 Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization’s strategy on economic, environmental, and social topics**<br>12
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**STANDARD DISCLOSURES PART II: Disclosures on Management Approach (DMAs)**

- **EC** Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donated resources, and payments to capital providers.
- **EN** Materials used by weight or volume.
- **PR** Procedures for local hiring and proportion of senior management hired from the local community.
- **SO** Understanding and describing significant indirect economic impacts, including the extent of impacts.
- **EC2** Percentage of materials used that are recycled input materials.
- **EC6** Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operations.
- **EC7** Development and impact of all infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.
- **EC8** Development and impact of all infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.
- **EC9** Understanding and describing significant indirect economic impacts, including the extent of impacts.
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POSCO observes ILO international standards of labor and diversity provisions regarding labor practices.
We have performed evidence-gathering procedures to provide assurance on the following aspects of the Sustainability Report 2007 of POSCO, all for the year ended December 31, 2007 (hereafter jointly referred to as the subject matter):

- The economic performance data reconciled with POSCO's non-consolidated audited financial statements as disclosed in the tables on pages 25 to 28;
- The environmental performance management data in the tables on pages 32 to 42;
- The safety & health data in the tables on pages 44 to 45;
- The business ethics information on page 14;
- The social contribution and regional communities data in the tables on pages 58 to 64; and
- The management and reporting processes with respect to the preparation of economic performance data reconciled with POSCO's non-consolidated audited financial statements, the environmental performance management, safety & health, business ethics, social contribution and regional communities data.

We have evaluated the subject matter against the following criteria:

- Internal sustainability reporting guidelines and definitions applied;
- The defined procedures by which the reconciliation of economic performance data with POSCO's non-consolidated audited financial statements and the environmental performance management, safety & health, business ethics, social contribution and regional communities data are prepared, collated and aggregated internally as part of the data management of POSCO; and
- The principles summarized in the section ‘2007 Sustainability Report’ on page C3 of the Sustainability Report which define the scope of the reporting.

The accuracy and completeness of environmental performance management, safety & health, business ethics, social contribution and regional communities data are subject to inherent limitations given their nature and methods for determining, calculating or estimating such data. Our Assurance should therefore, be read in connection with POSCO's internal guidelines, definitions and procedures established to prepare and report on its sustainability performance.

The Executive Committee of POSCO is responsible for both the subject matter and the evaluation criteria.

Our responsibility is to provide a conclusion on the subject matter based on our evidence-gathering procedures in accordance with the International Standard on Assurance Engagements (ISAE) 3000: Assurance Engagements other than Audits or ‘Review of Historical Financial Information’, approved December 2003 by the International Auditing and Assurance Standards Board (IAASB).

We planned and performed our evidence-gathering procedures to obtain a basis for our conclusions in accordance with an ISAE 3000 assurance engagement. We have not performed an audit according to International Standards on Auditing. Accordingly, we do not express such an audit opinion.

Our evidence-gathering procedures included the following work:

- Assess how POSCO staff apply the internal sustainability reporting guidelines and definitions;
- Visiting the works of POSCO in Pohang and Gwangyang, the head office in Pohang and the Seoul office;
- Interviewing personnel responsible for the internal sustainability reporting and reconciliation of economic performance data with POSCO's non-consolidated audited financial statements and the environmental performance management, safety & health, business ethics, social contribution and regional communities data collection at the site we visited as well as on corporate level.

To the Executive Committee of POSCO, Seoul, Republic of Korea.

Assurance Report
Performing tests on a sample basis of evidence supporting selected economic performance, environmental performance management, safety & health, business ethics, social contribution and regional communities data (economic performance data reconciled with POSCO’s Annual Report, code of conduct, employee education and communication, enhancing supplier code of conduct, spending on social contribution activities, volunteer activities, POSEPI, CO2 emissions, LTIFR) with regard to the reported data aggregation from the selected site to the corporate level;

Reading and performing tests of the relevant documentation on a sample basis, including sustainability reporting policies, management and reporting structures, documentation and systems used to collect, analyse and aggregate reported economic performance data reconciled with POSCO’s non-consolidated audited financial statements, the environmental performance management, safety & health, business ethics, social contribution and regional communities data; and

Assessing the data consolidation process for the reconciliation of economic performance data with POSCO’s non-consolidated audited financial statements and the environmental performance management, safety & health, business ethics, social contribution and regional communities data at the corporate level.

In our opinion:

- The internal sustainability reporting guidelines are applied properly on the sampling;
- The internal management and reporting processes to collect and aggregate the economic performance data reconciled with POSCO’s non-consolidated audited financial statements, the environmental performance management, safety & health, business ethics, social contribution and regional communities data is functioning as designed, and
- The reporting system provides an appropriate basis for the disclosure of economic performance data reconciled with POSCO’s non-consolidated audited financial statements, the environmental performance management, safety & health, business ethics, social contribution and regional communities data, in all material respects, based on the evaluation criteria.

Based on our work described and the criteria detailed in this Assurance Report, nothing has come to our attention that causes us to believe that management assertions on the subject matter defined above are materially misstated, in all material respects.

From our work, we have provided the following recommendations to the management, which have been agreed:

- Ensure that the sustainability reporting organization and structure will be strengthened in 2008, in particular with respect to control activities and accounting systems and processes.
- Further develop the sustainability reporting guidelines and definitions in 2008 ensuring consistency, accuracy and completeness of all data.
- Furthermore we support POSCO’s decision to revise POSEPI and strengthen the accounting documentation.

In our opinion:

- The internal sustainability reporting guidelines are applied properly on the sampling;
- The internal management and reporting processes to collect and aggregate the economic performance data reconciled with POSCO’s non-consolidated audited financial statements, the environmental performance management, safety & health, business ethics, social contribution and regional communities data is functioning as designed, and
- The reporting system provides an appropriate basis for the disclosure of economic performance data reconciled with POSCO’s non-consolidated audited financial statements, the environmental performance management, safety & health, business ethics, social contribution and regional communities data, in all material respects, based on the evaluation criteria.

Based on our work described and the criteria detailed in this Assurance Report, nothing has come to our attention that causes us to believe that management assertions on the subject matter defined above are materially misstated, in all material respects.

From our work, we have provided the following recommendations to the management, which have been agreed:

- Ensure that the sustainability reporting organization and structure will be strengthened in 2008, in particular with respect to control activities and accounting systems and processes.
- Further develop the sustainability reporting guidelines and definitions in 2008 ensuring consistency, accuracy and completeness of all data.
- Furthermore we support POSCO’s decision to revise POSEPI and strengthen the accounting documentation.

Samil PricewaterhouseCoopers

Joon-Ki Min
Partner, Audit & Assurance

Thomas Scheinwiller
PwC Global Sustainability Leader
Glossary

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

BAT (best available technology)  
The application of most advanced methods, systems and techniques in calculating social expenses stemming from environmental pollution or natural disasters. BAT is a major component of environmental impact assessments, and is referenced in all environmental regulations.

CDM (clean development mechanism)  
CDM is an arrangement allowing industrialized countries with a greenhouse gas reduction commitment to invest in emission reducing projects in developing countries. It enables industrialized countries to fulfill their greenhouse gas reduction goals while supporting developing countries’ sustainable development. Eligible projects under the CDM are public and private sector projects that lead to greenhouse gas emissions reductions.

CDQ (coke dry quenching)  
CDQ facility cools the red-hot coke from coke ovens using nitrogen gas. The facility recovers the heat from the coke and makes steam, which is used by generators.

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

GRI (Global Reporting Initiative)  
GRI develops and disseminates globally applicable Sustainability Reporting Guidelines. It comprises representatives from various sectors including business, research, civic groups and investors. The GRI is a collaborating center of the United Nations Environment Programme and works in cooperation with the United Nations Global Compact. The first edition of the GRI guidelines, referred to as G1, was released in October 2001.

LCA (Life cycle assessment)  
LCA assesses the environmental impact of a product throughout its life cycle from raw material purchase and production to use and disposal, among those included in the evaluation are energy and raw material input and pollution.

LCI (life cycle inventory)  
An early stage in the life cycle assessment involving the compilation and quantification of inputs and outputs for a product throughout its life cycle.

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

MSDS (material safety data sheet)  
MSDS contains information on the hazards and safety measures of chemical materials. Its purpose is to satisfy workers’ rights to be informed and to prevent industrial accidents. The MSDS policy states that MSDS be distributed to all chemical materials throughout their distribution.

PFR (persistent organic pollutants)  
Organic chemical compounds that do not break down in nature and accumulate in plants and animals through the food web. They pose a risk to human health (including disruption of the immune system and damage to the central nervous system). POPs are usually generated during industrial production and waste incineration. The major POPs include pesticides such as DDT and dieldrin, industrial chemicals such as polychlorinated biphenyls (PCBs), hexachlorocyclohexane (HCB), dioxin and furan. The Stockholm Convention on Persistent Organic Pollutants (POPs), which regulates 12 POPs and entered into force in May 2008, has been ratified by more than 60 countries.

QSS (Quick Six Sigma)  
Activities intended to uncover hidden value by identifying and removing waste factors at work sites.

SS (suspended solids)  
Materials with particle size of less than 2mm that do not dissolve in water.

TLC (total cost of ownership)  
A method of selecting suppliers based on the total direct and indirect costs of products throughout their lives.

TRT (top-gas pressure recovery turbine)  
Gas pressure from blast furnaces is used to turn turbines and generate power.
POSCO's Previous Reports

Reports on Activities and Performances of POSCO's Sustainability Management

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

Environmental Report 1994 ~ 2003

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


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

Sustainability Report 2004 ~ 2007

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

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

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Please visit our website at www.posco.com for more information and to view or download PDF editions of this or previous sustainability reports, environmental reports and annual reports.

E-MAIL ADDRESSES FOR OTHER INQUIRIES

Corporation/PR: webmaster@posco.com
Business ethics: ethics@posco.com
IR: info@posco.com
Employment: hrteam@posco.com
Sales: marketing@posco.com
MRO procurement: procurement@posco.com
Reader Feedback Survey

We look forward to receiving your feedback on POSCO’s 2007 Sustainability Report. Your views and suggestions will be incorporated in future editions and sustainability management at POSCO.

1. What is your overall satisfaction level with this report?
   □ Very High  □ High  □ Neutral  □ Low  □ Very Low

2. How would you rate this report? (Multiple answers possible)
   Report provides sufficient and relevant information
      □ Highly agree  □ Agree  □ Neutral  □ Disagree  □ Highly disagree  □ Not sure
   The contents are credible
      □ Highly agree  □ Agree  □ Neutral  □ Disagree  □ Highly disagree  □ Not sure
   The report is easy to understand
      □ Highly agree  □ Agree  □ Neutral  □ Disagree  □ Highly disagree  □ Not sure
   Report offers good accessibility
      □ Highly agree  □ Agree  □ Neutral  □ Disagree  □ Highly disagree  □ Not sure

3. What are your areas of interest or information you seek? (Multiple answers possible)
   □ POSCO overview  □ Stakeholder engagement  □ Performance data
   □ Corporate governance  □ Business ethics
   □ Fair competition  □ Risk management  □ Sustainability management
   □ Management strategy  □ Economic performance
   □ Environmental management  □ Environmental performance
   □ Environmental partnership  □ Energy and climate change
   □ Safety and health
   □ Employees  □ Customer service  □ Social contribution
   □ Local communities
   □ Achievements of subsidiaries
   □ Win-win cooperation with SMEs
   □ Subsidiary employees
   □ Research institutes
   □ Civic groups
   □ Media
   □ Government agencies
   □ Local residents
   □ Students
   □ Other

4. If you have any comments or suggestions regarding this report or sustainability management at POSCO, please write them below.

5. Which of the following applies to you?
   □ Customer  □ Shareholder  □ POSCO employee  □ Subsidiary employee
   □ Research institutes  □ Civic groups  □ Media
   □ Government agencies  □ Local residents  □ Students
   □ Other

Please return the survey by post or fax to:
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Tel. +82-2-3457-0377  Fax. +82-2-3457-6261
email: sustainability@posco.com
FORWARD-LOOKING STATEMENTS
The POSCO Sustainability Report 2007 contains forward-looking statements to provide a value-added account of our sustainability activities. These forward-looking statements reflect our current views with respect to future events and performances, and are generally identified by the use of forward-looking terminology such as 'anticipate,' 'believe,' 'assume,' 'will,' 'plan,' and other similar expressions. Such statements are included in the discussion of our business strategies and operations, performance goals and targets, and business plans, including research & development and investments, among other things. In addition to the foregoing factors, detailed descriptions of certain risks and uncertainties, which may cause actual results to differ materially from those forecasted, can be found in the section captioned 'Risk Factors' in our annual Form 20-F deposited with the U.S. Securities and Exchange Commission. You are cautioned not to place undue reliance on these forward-looking statements, which reflect management's current analysis of future events. We undertake no obligation to publicly update or review any forward-looking statements to reflect subsequent events after the publication of this report.

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