

posco

3Q 2006

Operating Performance

Oct 13, 2006



Figures provided in this presentation are based on unaudited non-consolidated financial statements of the Company for the third quarter of 2006.

Certain contents in this presentation are subject to change during the course of auditing process.



Agenda

▶ I. 3Q '06 Operating Performance

II. Key Management Initiatives

III. Steel Industry Environment

IV. 2006 Business Plan

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Production/Sales

- ❑ Production increased due to completion of major rationalizations including Pohang #3BF, #2HR in 1H '06
- ❑ Sales increased due to favorable condition in consuming industries including shipbuilding and automobile

(in thousand tons)

	2005 3Q	2006		Quarter-on-Quarter	
		2Q	3Q		
Crude Steel	7,698	7,310	7,610	300	4.1%
Finished Products (FP)	7,513	6,964	7,391	427	6.1%
FP Sales	7,174	6,951	7,289	338	4.9%
Domestic	5,359	4,888	5,106	218	4.5%
Export (%)	1,815 (25.3)	2,063 (29.7)	2,183 (29.9)	120 (0.2)	5.8% -
FP Inventory	696	617	643	26	4.2%

*** 1H '06 Major Facility Rationalizations**

- Pohang #3 BF refurbishment : Mar.7 ~ May.3 (58days)

- Pohang #2 HR rationalization : Mar.9 ~ May.2 (55days)

- Gwangyang #1 CR rationalization : Feb.20 ~ May.12 (82days)

- Pohang Electrical steel mill upgrade : Apr.1 ~ Jun.30 (91days)

- Pohang #1 Wire Rod rationalization : May.2 ~ Jun.30 (60days)

Sales by Product

- ❑ Completion of HR-CR rationalization & upgrade of Electrical steel mill led to increase in sales
- ❑ Efforts to increase strategic products continues

Strategic Product Ratio

'05.4Q → '06.1Q → '06.2Q → '06.3Q '06Target
 48.4 → 53.7 → 52.5 → 58.6 56.0 (%)

(in thousand tons)

	2005 3Q	2006		Quarter-on-Quarter	
		2Q	3Q		
Hot Rolled	2,419	2,120	2,192	72	3.4%
Plate	863	937	883	△54	△5.8%
Wire Rod	456	420	458	38	9.0%
Cold Rolled	2,578	2,528	2,817	289	11.4%
Electrical Steel	162	126	176	50	39.7%
S T S	428	489	488	△1	△0.2%
Others	268	331	275	△56	△16.9%
Total	7,174	6,951	7,289	338	4.9%

* Pohang # 2Plate major repair : Sept.4 ~ 13 (10days)

Income Summary

- Increase in sales price for major products led to rise in sales and OP

		'05.4Q	'06.1Q	'06.2Q	'06.3Q
Major Product Price Trend	HR	535	473	480	517 (in thousand KRW)
	CR	659	→ 580	→ 575	→ 601
	STS	1,799	1,755	1,986	2,486

- Continuous cost saving efforts alleviated one-time expenses including ESOP
(in billion KRW)

	2005 3Q	2006		Quarter-on-Quarter	
		2Q	3Q		
Sales	5,458	4,672	5,298	626	13.4%
CoGS	3,835	3,473	3,954	481	13.8%
Operating Income	1,319	941	1,064	123	13.1%
OP Margin	24.2%	20.1%	20.1%	-	-
Net Income	1,062	710	880	170	23.9%
Profit Margin	19.5%	15.2%	16.6%	1.4	-

* 3Q Major Expenses : 193.5bn KRW from ESOP, Retroactive expense from wage increase and iron ore unit cost increase

Financial Structure

- ❑ Assets increased due to increase in profits and new investments
- ❑ Overall debt increased (3Q.'06 debt repayment 200tr KRW, borrowing 589.1bn KRW)

(in billion KRW)

	2005 3Q	2006		Quarter-on- Quarter	
		2Q	3Q		
Assets	22,934	24,115	25,194	1,079	4.5%
Current Asset	7,469	6,672	7,548	876	13.1%
Fixed Asset	15,465	17,443	17,646	203	1.2%
Liabilities	4,188	4,216	4,549	333	7.9%
Debt	1,677	2,228	2,570	342	15.4%
S/H Equity	18,746	19,899	20,645	746	3.7%

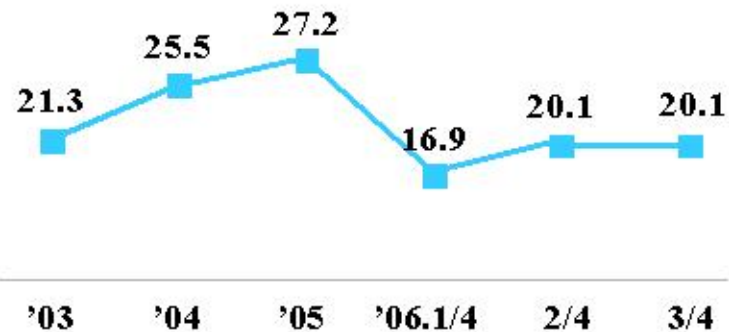
* 3Q Major Financial Activities

- Interim dividend (155.5bn KRW), Treasury share buyback through trust funds (192.3bn KRW)
- Issuance of Debt : Euro Bond U\$300mn (8.10) , Domestic Indenture 200bn KRW (9.29), CP 100bn KRW (8.31)

※ Debt repayment at maturity : Domestic Indenture 200bn KRW (7.5)

Financial Ratios

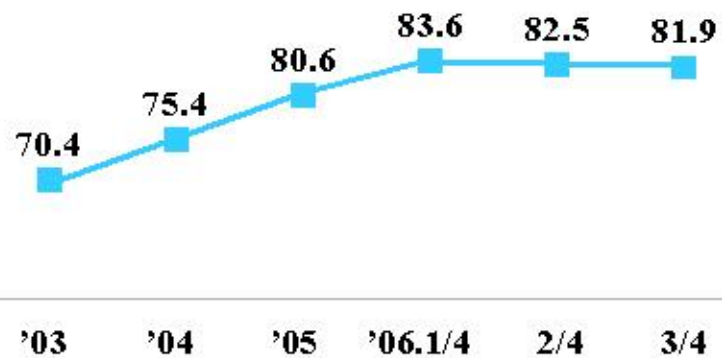
Operating Margin (%)



Liability-to-Equity Ratio (%)

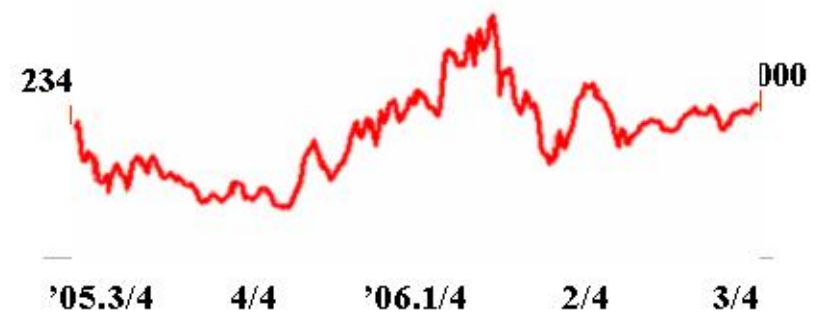


Equity Ratio (%)



Share Price (KRW)

(Quarterly closing price)



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Progress on India Project

- Indian government accorded in principle approval to POSCO-India's specific SEZ
 - **Tariff, corporate tax exemption & administrative procedure simplified**
 - ☛ **Final nod expected to follow the conclusion of contract for production base purchase**

Project Achievement

- Aug '05 Establishment of POSCO-India
- Nov Central govt approval for site purchase
- Jan '06 Central govt approval for right to use railways
- Jun Purchased 1,135 acre of national land
- Sep In principle approval for SEZ

Project Plan

- Nov '06 Prospective right approval (central govt.)
- Mar '07 Completion of land purchase
- Apr Start construction for ground & harbor
- Sep '08 Start construction steel mill
- Dec '10 Completion of Phase1(crude steel 4mn tons)



※ Benefits of Special Economic Zone(SEZ)

- Corporate tax exemption : for 15yrs
- Tariff exemption : imported capital goods & raw materials
- Other tax exemption : on dividend income, sales
- Allowing for loss carry-over and 100% direct investment within SEZ

*SEZ(Special Economic Zone) : Recognition as Foreign Territory in relation to trade & imposition of tax

Progress on FINEX[®]

Technical Development Status

- **FINEX**
 - '04 : Operation stabilized through facility improvement
 - '05 : Operation tech and experience accumulated
 - 1H '06 : Productivity and operation limits verified
 - 2H '06 : Operation optimized, cost-savings maximized
- **#1 FINEX Construction Progress**
 - Delay due to construction labor union strike
 - Expected completion date :Apr '07 (formerly '07.1/E)



FINEX Plant Construction

Demo Plant Status

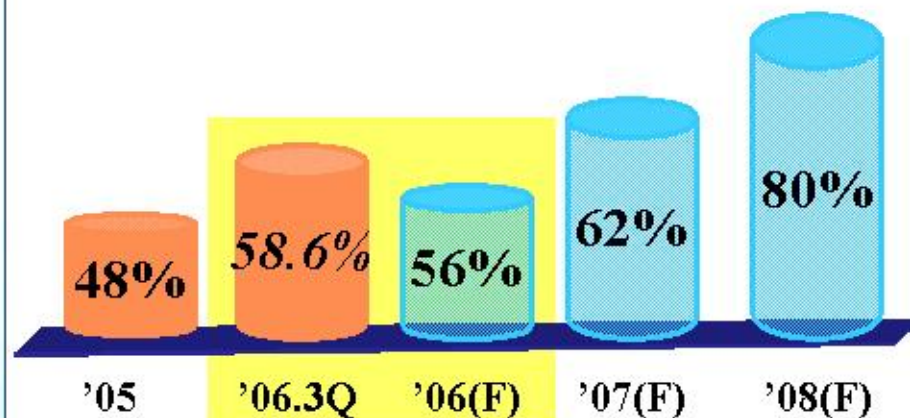
Description		Initial Target	Result	
			Aug '05	Aug '06
Production	Per annum (thou. tons)	600	720	870
	Per day (ton)	1,800	2,150	2,550
Rate of operation	%	95	92	98
Coal rate	kg/tHM	850	820	750
Continuous operating days	days	30	93	93

* Coal rate and continuous operation period at the same level as those of large BF's

Strategic Products & Cost Saving Efforts

Strategic Product Sales Portion

- Increase of automotive steel, premium CR



<Demand from big 5 consuming industries>

(in mn tons)

	'02	'06(F)	Change
Re-rolling	5.5	5.3	△0.2
Automobile	1.9	5.0	3.1
Pipe	3.8	3.5	△0.3
Distribution	5.0	2.5	△2.5
Shipbuilding*	1.5	2.4	0.9

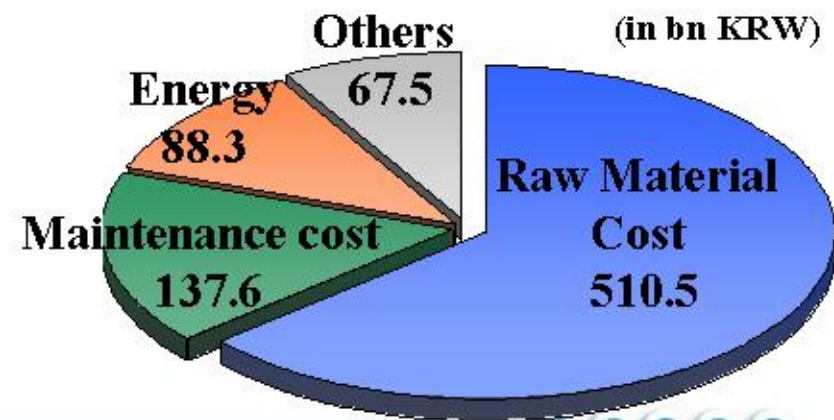
* TMCP for ship 36 → 560 (thousand tons)

'06 Cost Savings

- Cost savings including use of low cost raw materials

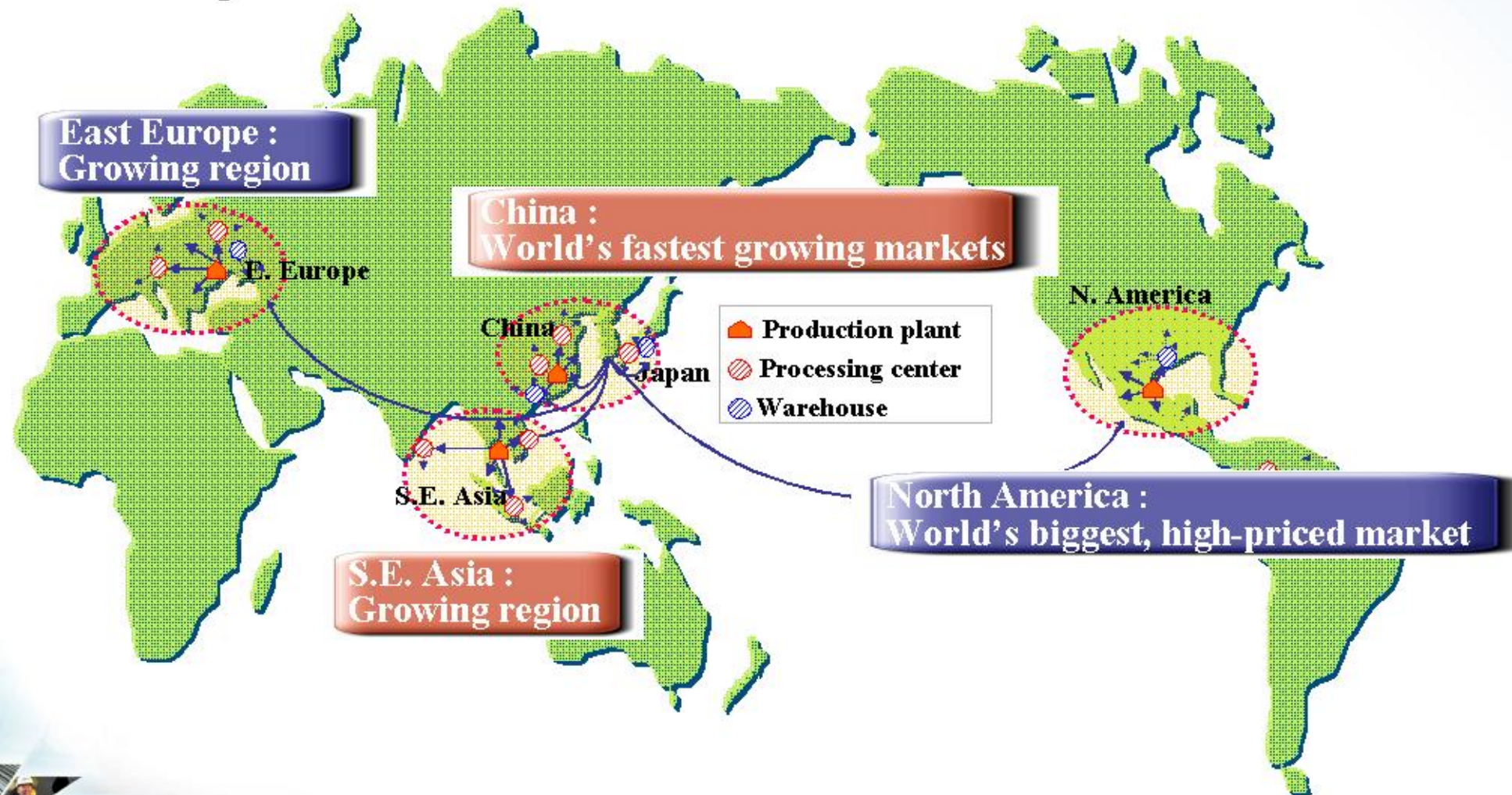
'06 Target	Jan~Sep	Rate of Progress
889bn KRW	803.9bn KRW	90.4%

< Cost Savings Breakdown >



Global Supply Network for Automotive Steel 1

- Establish production base in major automotive markets
 - Expand regional supply through construction of CGL & establishment of Processing Centers



Global Supply Network for Automotive Steel 2

❑ Construction of Automotive steel specializing CGL in Mexico

Investment Background

- Mexico and Southeastern US, dependent on imported Automotive steel
- World's prominent automobile companies' production base concentrated in Mexico
- Near Alabama (US), region with 2.2mn automobiles producing capacity
(Production base for GM, Nissan, Benz, etc).

Business Overview

- Location : Altamira industrial complex (East Mexico)
- Investment : US\$250 mn
(100% sole investment)
- Size : 400 thousand tons/yr (GA, GI)
- Schedule : construction to begin in '08, operation to begin in '09



Automotive Steel Specialization

Completion of TWB facility

- **Investment Benefit**
 - 6.7mn sheets of annual production capacity (completion of phase 3)
 - Phase 1 : 1.7mn, Phase 2 : 3.6mn sheets
- **Expected Benefit**
 - Mass production and sales of products manufactured with new technology
 - Automotive steel/parts Total Solution

• Tailor Welded Blank(TWB) : steel sheets with different thickness, strength, quality, cut/welded using laser → shorter processing & light weight products



TWB plant facility, Gwangyang steel works

Supply of Hot Press Forming

- **Specialty**
 - Lighter auto-body : 30~40% lighter
 - Safety : high-strength secured
 - High formability : precise forming possible
- **Expected Benefit**
 - Korea's first ultra-strength auto-part supply
 - Supporting domestic automotive companies' quality improvement efforts

• Hot Press Forming : steel sheet heated under high temperature (930°C), followed by Press forming and rapid cooling → produces high strength steel sheets



Hot Press Forming Facility

Global Marketing Competitiveness

POSCO-Thailand Established

• POSCO-Thailand Overview

- Integrate sales and Management functions within S.E.Asia

POS-Thai
(Established in '97.1)
CR 240 thousand tons
processed per annum

+

Bangkok Office
Malaysia,
Indonesia,
Dubai

• Benefit from Integration

- Strengthening sales of strategic products including automotive steel within S.E.Asia



POSCO-Thailand automotive steel sheet processing center

New office in Eastern Europe

• Prague Office Overview

- Location : Prague, Czech Republic
- Regions covered : Czech, Slovakia, Poland, Hungary

• Expected Benefit

- Expansion of sales to automotive and home-appliance industries in Eastern Europe with high growth potential
- To be developed as a corporate, with addition of coil center

< FDI for auto in European countries >

(No. case)

	2000	2001	2002	2003	2004	2005
Czech	14	11	19	23	13	20
Slovakia	5	2	2	7	17	18
Poland	5	6	7	4	12	17
UK	10	6	8	6	6	9
France	10	5	9	10	21	7
Rumania	3	4	2	4	10	7
Hungary	7	6	4	10	6	6

(Source : Ernst & Young's, European Investment Report 2006)

Strategic Alliance in STS Division

- ❑ Joint venture with Taihan Electric Wire on STS CR division
 - Equity investment in Taihan Electric Wire's spin-off of STS CR business
 - POSCO to supply materials to new entity's CR processing business

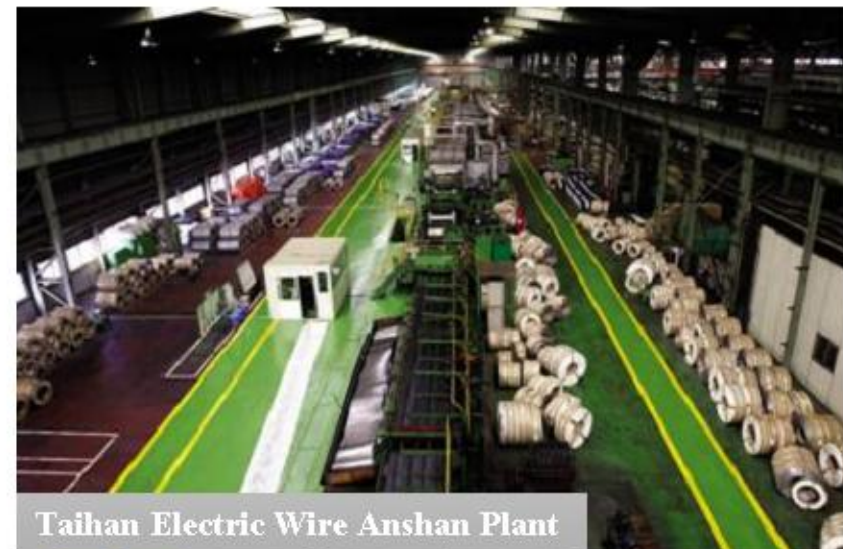
New Corporate Overview

- Business : STS CR processing, manufacturing & sales of CR products for electronics parts
- Capacity : 180 thousand/annum
- Ownership : POSCO 19.9%
- Development Schedule :
Corporate establishment in Jan. '07



Expected Benefit

- Stabilized supply of POSCO STS HR
- STS CR domestic market share expansion & replacement of imports
 - Market share : 26% → 39%
- Export expansion to Japan & market diversification including Middle-East



Uplifting Shareholder's Value

Interim Dividend Payout

- **Policy : Long term, stable dividend**
 - Interim dividend introduced from '00
- **Interim dividend amount**
 - Interim Dividend : 2,000 KRW/share
 - Total Interim Dividend : 155.5 bn KRW

Treasury Stock Buyback

- **4% Share buyback in '06**
 - Direct from market : 2%
(completed on 12th Jun)
 - Through Trust Fund : 450bn KRW
 - * 77% completed as of 9/E
- ※ **Treasury stock holdings : 9,394 thousand shares (10.8%)**

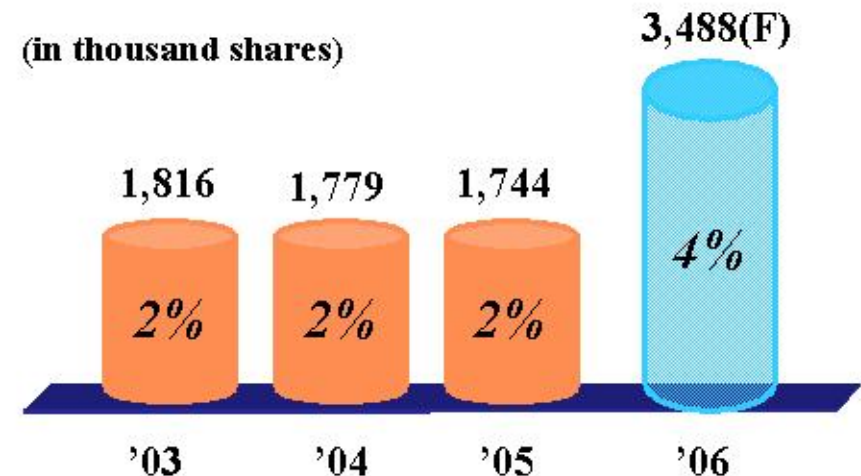
< Dividend Payout History >

(in KRW)

	'03	'04	'05	'06
Total	6,000	8,000	8,000	-
(Interim)	(1,000)	(1,500)	(2,000)	(2,000)

< Share Buyback History >

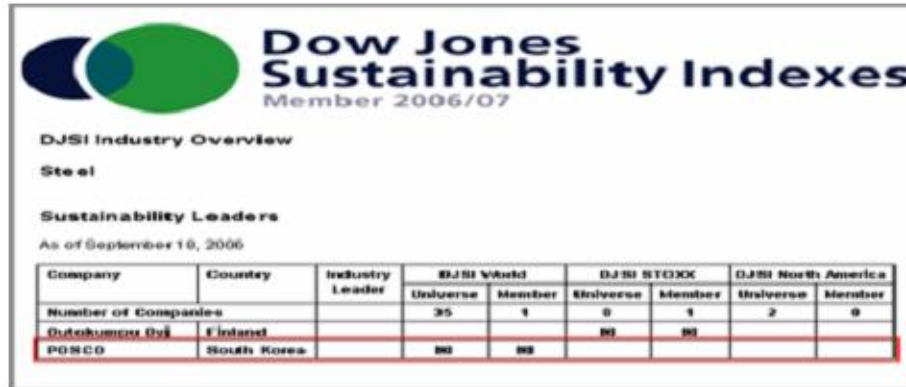
(in thousand shares)



Corporate Citizenship

Sustainability Leadership

- Selected as “Sustainability Leader” in Steel Sector for 2 Consecutive years (SAM Dow Jones, US)



Dow Jones Sustainability Indexes
Member 2006/07

DJSI Industry Overview
Steel

Sustainability Leaders
As of September 10, 2006

Company	Country	Industry Leader	DJSI World		DJSI STOXX		DJSI North America	
			Universe	Member	Universe	Member	Universe	Member
Number of Companies								
Outokumpu Oyj	Finland		35	1	0	1	2	0
POSCO	South Korea		80	80	80	80		

- Excellence in
 - ✓ management & corporate governance
 - ✓ Commercialization of eco-friendly technology, FINEX
 - ✓ Strengthened Ethical Management
 - ✓ Practice of Coexistence Management

Climate Leadership

- The only selected corporate in Korea (225 institutional investors around the world)
- Recognized as developer of environment-related technology including carbon dioxide reduction technology

Coexistence with small enterprises

- Technological consulting provided to 37 small businesses in Pohang Partnership
- Benefit Sharing with small suppliers : 12 companies (1.3bn KRW)

* Benefit Sharing : shared benefits with suppliers who participate in cost saving & quality improvement activities

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Global Steel Market 1

- ❑ Consumption forecasts: continued increase in BRICs, stable in other areas

'06 Global Steel Market Trend

- **Uptrend since market recovery in Feb.**
 - Global market favorable due to consumption increase in US/Europe
 - China, stable due to rally in domestic price & export increase
 - Steel mills, offsetting consumption decrease by adjusting operation rate
- **Stable market trend expected to continue**
 - Growth in Middle East/CIS to offset concerns over market slowdown in US

(IISI '06.10)

'07 Global Steel Market Forecast

- **Stable growth in global consumption**
 - Stabilization in developed countries, increase in BRICs to continue
 - 10% demand increase in China
- **Variable : Slowdown in US & over-capacity in China**
 - Structural adjustment policy by Chinese government expected to be activated fully

< Global Steel Supply & Demand Forecast >

	2005	2006	2007
Steel Consumption (mn tons)	1,029	1,121	1,179
Year-on-Year (%)	6.0	8.9	5.2
Crude Steel (mn tons)	1,132	1,226	1,292
Year-on-Year (%)	6.1	8.0	5.6

(Steel consumption: IISI '06.10, Crude Steel Production: WSD '06.7)

Global Steel Market 2

□ Stable in general, high steel prices maintained

Regional HRC Spot Price Trend

(in US\$/T)



Weak/stable trend maintained due to slowdown in consuming industry & inflow of Chinese imports

Midwest : 639(Apr.'06) → 694(May) → 716(Jun) → 716(Jul) → 694(Aug) → 694(Sep)



Strong due to consumption recovery as post-vacation season approached & price increase acceptance by customers

Germany : 557(Apr.'06) → 612(May) → 616(Jun) → 616(Jul) → 625(Aug) → 635(Sep)



Small increase having entered high-demand season & consumers securing materials for national holiday. Low inventory level maintained

Guangzhou : 421(Apr.'06) → 485(May) → 484(Jun) → 434(Jul) → 451(Aug) → 454(Sep)



Tight in domestic HR/Plate, weak trend in import/commercial product market

Seoul-Incheon : 592(Apr.'06) → 602(May) → 594(Jun) → 620(Jul) → 630(Aug) → 630(Sep)



Tight supply maintained due to strong demand, market to stay stable

Tokyo : 480(Apr.'06) → 519(May) → 533(Jun) → 533(Jul) → 530(Aug) → 530(Sep)



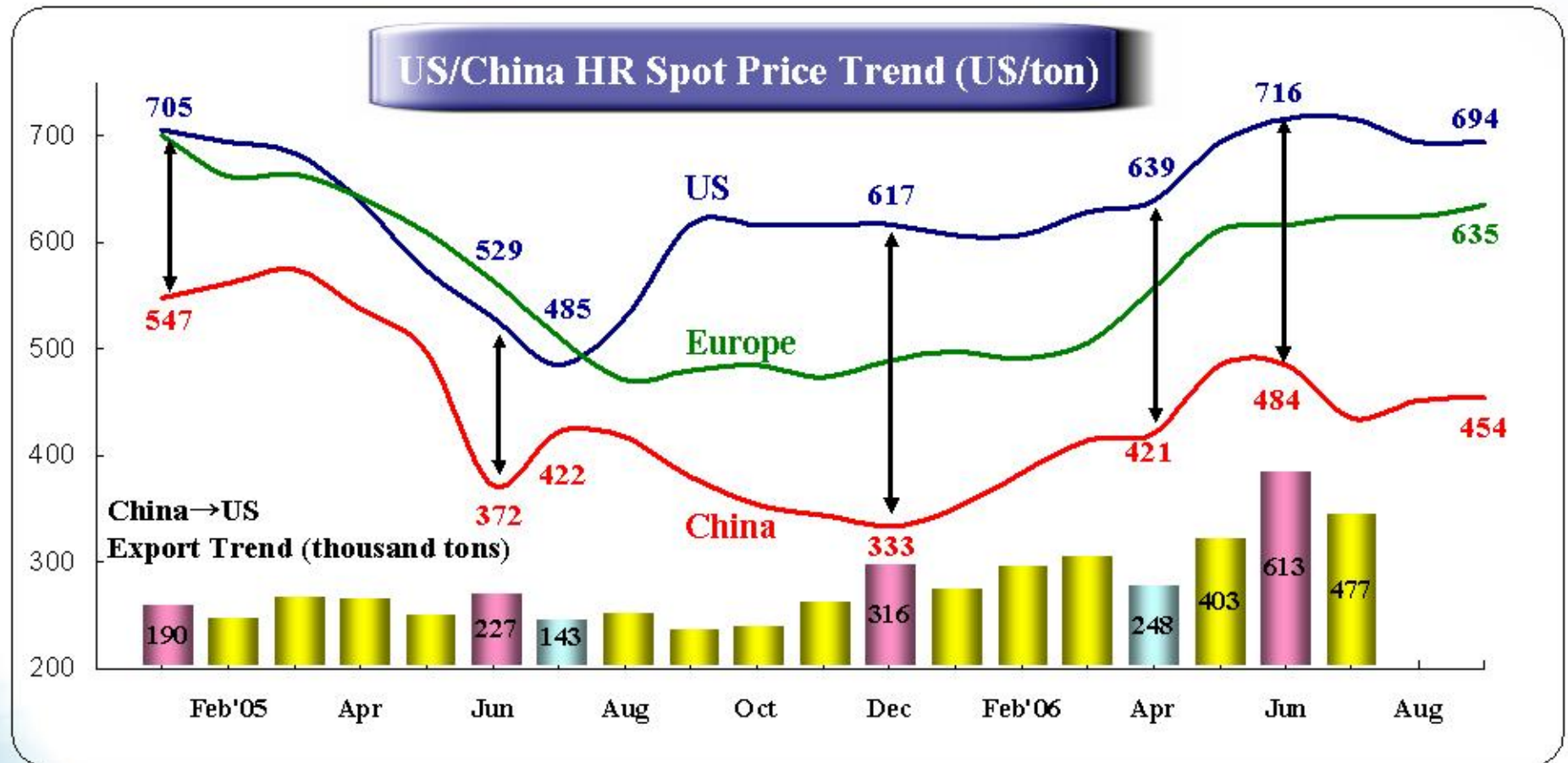
Small price fall due to inflow of Chinese imports & favorable condition in consuming industries

Thailand : 515(Apr.'06) → 542(May) → 547(Jun) → 547(Jul) → 561(Aug) → 550(Sep)

Global Steel Market 3

□ Price gap maintained between US-Europe and China

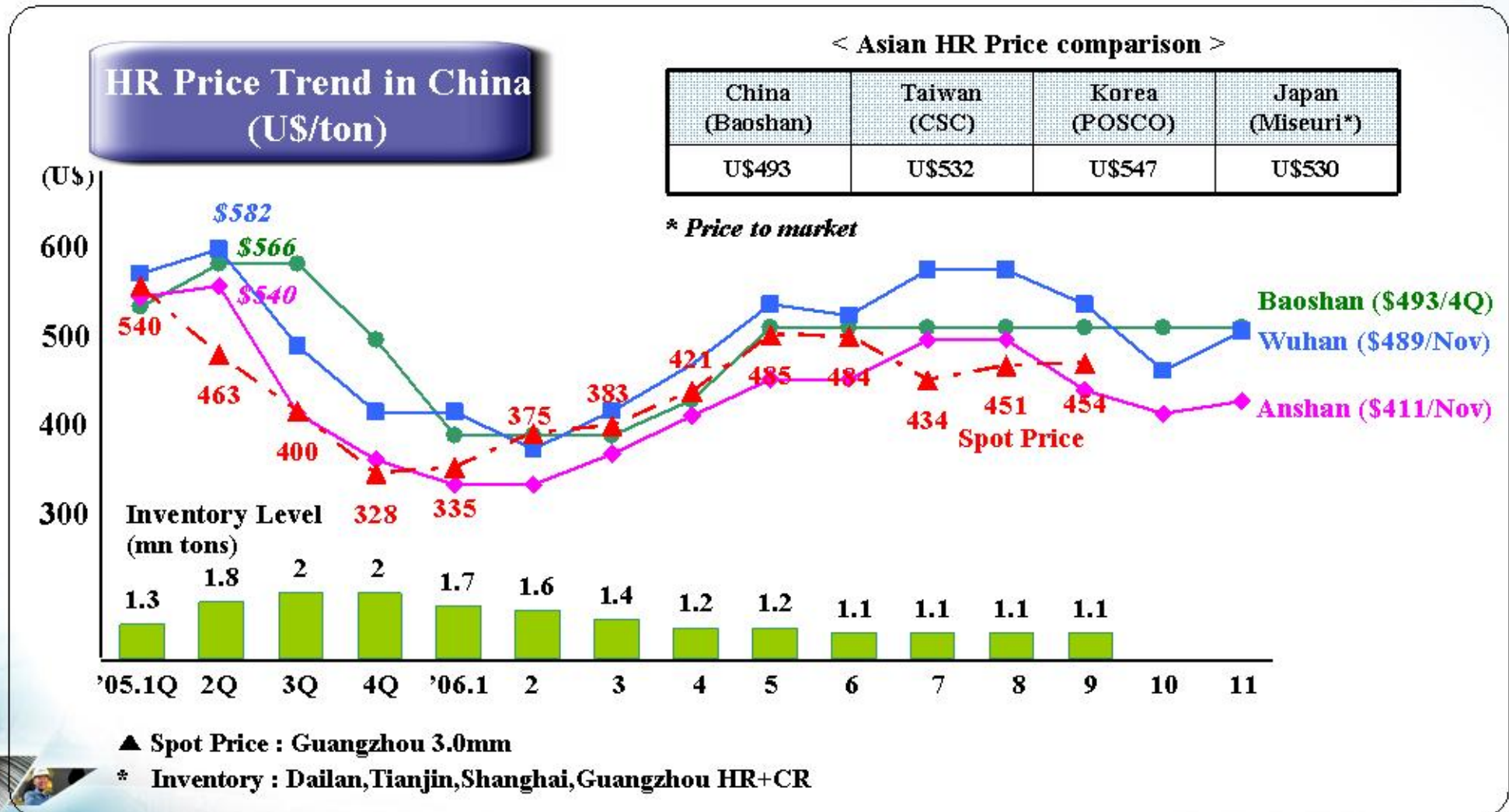
- High price maintained despite increase in imports, supported by efforts to cut production within region & strong consumption



► Fall in steel consumption due to slowdown in US market remains as a possible risk

China Steel Industry Trend

- Similar-stable domestic prices among Asian countries
 - Steady spot price as Baosteel maintains steady price in 4Q & recent price increase by other mills including Wuhan



China Steel Industry Forecast

Supply

Conditions to rise/fall coexist :
Facility addition and concentration of maintenance

- **Addition of new facilities continue**

- **Crude Steel Production (mn tons)**

<u>2H.'05</u>	<u>1H.'06</u>	<u>2H.'06</u>	(QoQ/YoY)
181	199	221	(+11%/+22%)

- **Maintenance concentrated in 2H**

- **Expected production cut by major mills**
(thousand tons)

- (Anshan) HR 20, (Taiyuan) HR 6
(Benxi) HR 5, (Baoshan) Dec HR Repair

Demand

Growth to continue despite “Tight-money policy”

- **Investment slowdown due to tight-money policy including raised interest rate**

- Slower growth of fixed asset investment
- +34.4%(Jun'06)→+27.4%(Jul)→+21.5%(Aug)
- Export competitiveness weakened due to appreciation of Yuan
- Currency(RMB/US\$) : 7.99(6.E)→7.90(9.E)

- **Development in consuming industries together with GDP growth**

- Production	<u>'05</u>	<u>'06(YoY)</u>
Automobile(mn)	571	640(+12%)
Shipbuilding(mn DWT)	10.2	11 (+8%)
Home Appliance(mn)	135	155(+15%)

- High demand season begins after National holiday (Oct)

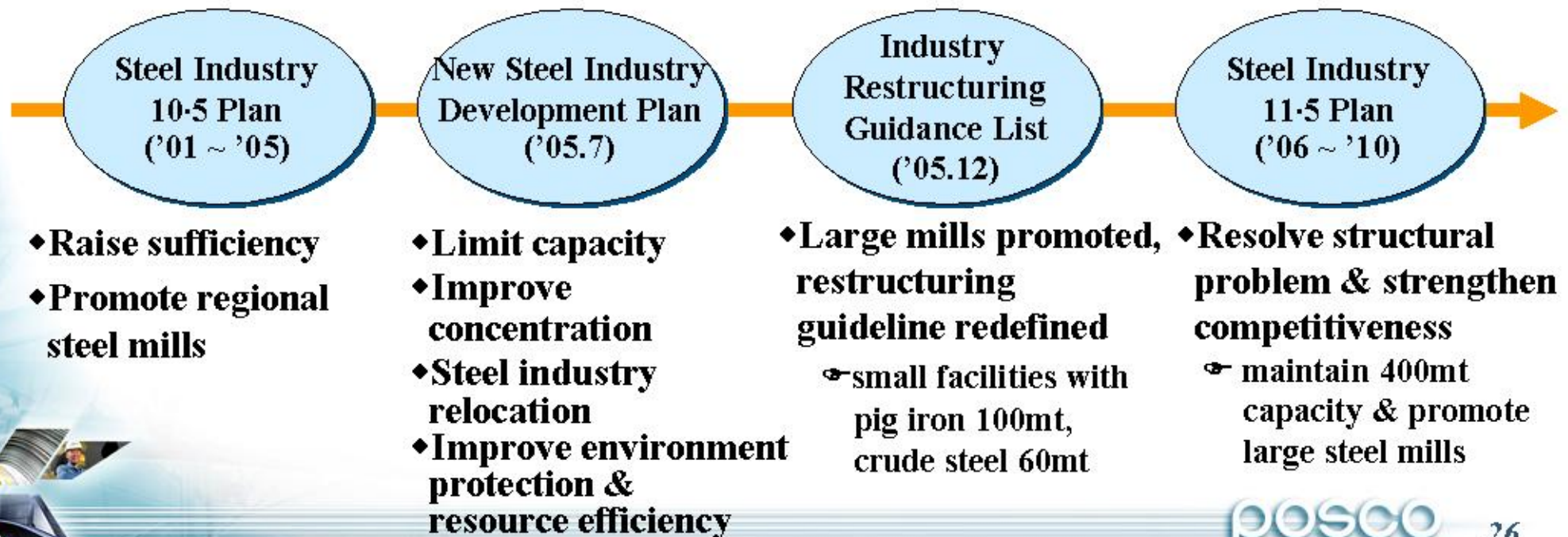
▶ Possibility for temporary upturn in steel price exists, but likely to stay steady

Restructuring China Steel Industry 1

❑ Issues in Chinese Steel Industry

Discord between Production & Consumption	Dispersed Production Structure	Problem with Resources/ Environment	Change in Competitive Environment
<ul style="list-style-type: none"> ◆ Structured around low value-added, construction products - Flat prodn. rate: 39% ('05) 	<ul style="list-style-type: none"> ◆ Increased no. of small mills, causing inefficiency - Portion of Top10 mills: 46('01) → 35%('05) 	<ul style="list-style-type: none"> ◆ Increased iron ore imports & rapid growth in coke prodn. - Iron ore sufficiency level: 70('01) → 60%('05) 	<ul style="list-style-type: none"> ◆ Competition grows & government control weakens - Tariff on steel: 43% → 9.9%

❑ Chinese Government's enforcement of Restructuring policy



Restructuring China Steel Industry 2

□ Increased M&A, through government support and voluntary actions

◆ Acquisitions within region, centered around large mills

Wuhan(1,040) > Echeng(246)
Anshan(1,190) > Benxi(651)
Tahngshan Guofeng(133) > Fushun(168)
Tagshan(1,007) > Xuanhua(359), Chengde(242)
Hefei(734) > Shijiazhuang(216), Xingtai(238)

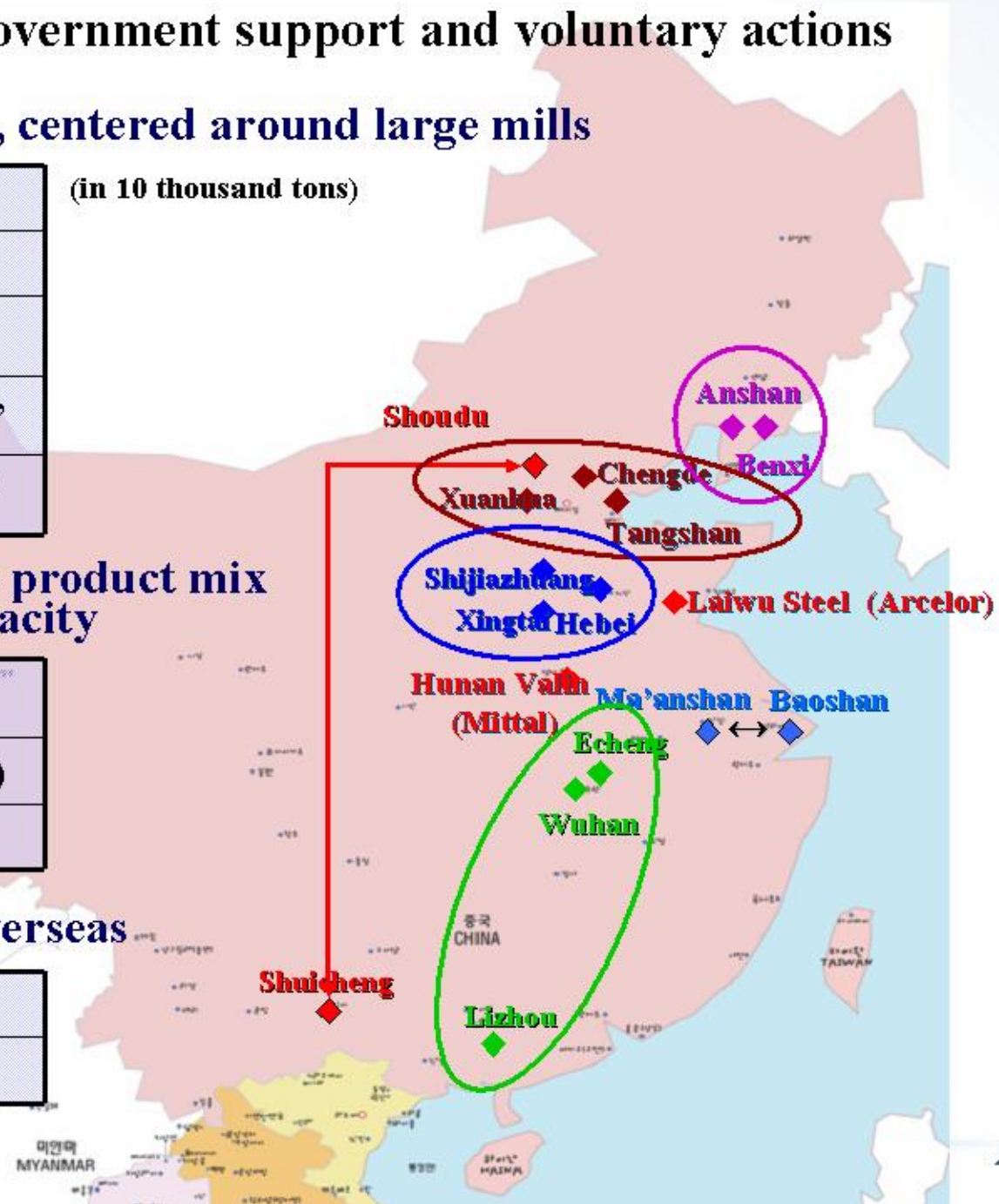
(in 10 thousand tons)

◆ Strategic M&A to improve product mix
Secure mine & expand capacity

Baoshan ↔ Ma'anshan strategic cooperation
Shoudu(1,044) > Shuicheng(216)
Wuhan(1,040) > Lizhou(455)

◆ Equity investment from overseas

Mittal → Hunan Valin Group
Arcelor → Laiwu Steel



Domestic Steel Industry

- Favorable condition to continue due to steady growth in consuming industries

Domestic steel supply & demand forecast

* POSRI (Jul '06)

(in thousand tons)

	1H. '06	3Q		2H. '06	2Q		1H. '07
		3Q	4Q		1Q	2Q	
Consumption	24,115	11,786	12,546	24,332	11,340	13,474	24,814
Export	8,837	4,261	4,677	8,938	4,561	4,649	9,211
Production	27,726	14,086	15,226	29,312	13,609	15,570	29,179
Import	5,226	1,961	1,996	3,957	2,292	2,554	4,846

Forecast on steel consuming industries



Domestic to slow in 2H. '06,
Export expected to recover

- Prodn. forecast (in thousand)
1,962(1H. '06) → 1,942(2H)
→ 2,040(1H. '07)



Despite 3% growth in domestic market,
Export to slow due to FX rate

- Prodn forecast (bn KRW)
17,393(1H. '06) → 17,005(2H)
→ 17,492(1H.'07)



High backlog remains.
Favorable condition to
continue

- Ship-building forecast (thou GT)
9,241(1H. '06) → 8,916(2H)
→ 9,426(1H. '07)



Gradual recovery expected
From 2H. '06

- CAPEX forecast (bn KRW)
54,191(1H. '06) → 64,965(2H)
→ 55,632(1H. '07)

Raw Material Price Trends

Nickel & Zinc Price Trend

- **Nickel**
 - Low level of LME inventory & continued price fluctuations
 - **Zinc**
 - Strong to steady price due to tight supply
- < Global zinc supply & demand forecast > (in thou tons)

	'05	'06	'07
Production	10,133	10,737	11,492
Consumption	10,420	11,095	11,575
Difference	△287	△358	△83

< '06 Nickel/Zinc price trend >



(Source: Macquarie, '06.10 / LME)

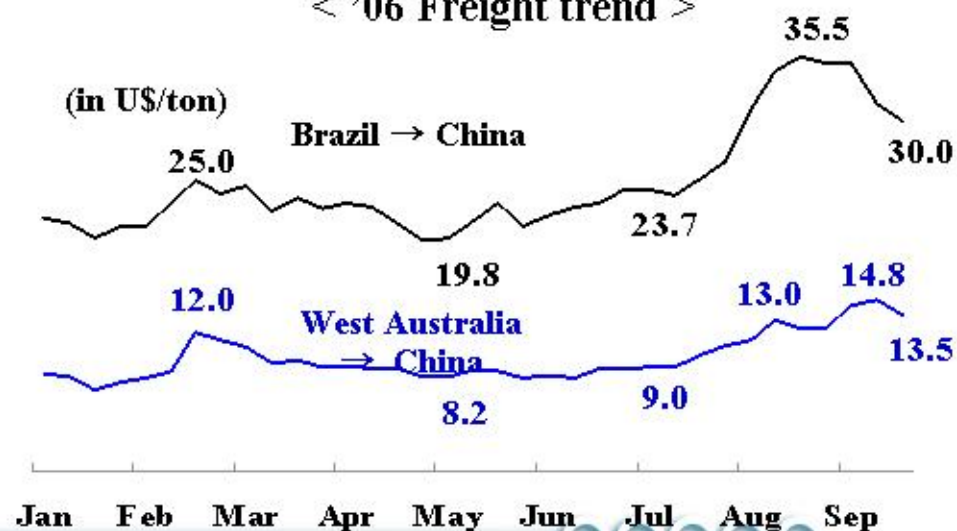
Freight Trend

- **High level maintained**
 - Increased iron ore imports to China
 - Shipping cost raised due to high oil price

< Iron ore imports to China > (mn tons)

	Jan~Aug '05	Jan~Aug '06	YoY
Total	176	219	24.5%
From Brazil	33	48	45.9%

< '06 Freight trend >



(Source: Clarkson, '06.10)

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2006 Business Plan

2005

2006 (F)

(in mn tons, tr KRW)

• Crude Steel Production	30.5	30.1
- Consolidated Production	31.4	31.2
• Sales Volume	28.7	28.6
• Revenue	21.7	19.8
- Consolidated Revenue	26.3	25.2
• CAPEX	3.7	3.9

The data above represents the Company's internal objectives, and should not be used as a basis for investment decisions

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