



posco

2Q 2009

posco

Operating Performance

July 13, 2009



2Q '09 Operating Performance

 Activity & Accomplishment

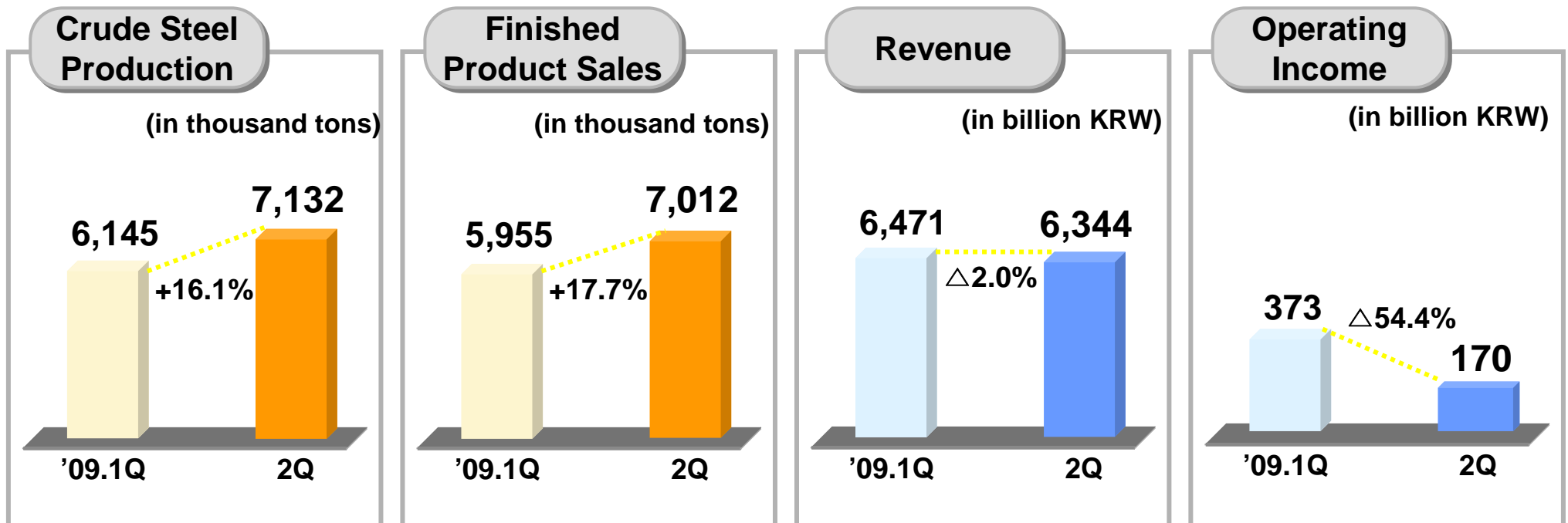
 Steel Industry Environment

 2009 Business Plan

Figures provided in this presentation are based on unaudited financial statements of the Company. Certain contents in this presentation are subject to change during the course of auditing process.

Executive Summary

Despite weak market, sales increased through developing new market
Fierce competition led to sharp drop in price and decline in earnings



Production/Sales

- **Production-sales up and inventory down due to active sales effort**

- Production cut : 25% ('09.1Q) → 15% (2Q) * YoY, crude steel production base

	2008	2009	2009	(in thousand tons)
	2Q	1Q	2Q	QoQ
Crude Steel	8,429	6,145	7,132	16.1%
Blast Furnace	7,575	5,887	6,787	15.3%
High-Mill	417	-	18	-
STS	437	258	327	26.7%
Finished Product	8,114	5,802	6,796	17.1%
F/P Sales	8,019	5,955	7,012	17.7%
Domestic	5,625	4,102	4,274	4.2%
Export	2,394	1,853	2,738	47.8%
(%)	(29.9)	(31.1)	(39.0)	-
F/P Inventory	856	814	443	△45.6%

Sales by Products

- **Sales increased due to developing new customers in emerging market**
 - CR : expanded export by quickly reacting to stimulus measures in key countries
 - STS : demand grew in expectation of nickel & stainless price increase
 - Plate : new orders slowed as shipbuilders work through high inventory level

(in thousand tons)

	2008 2Q	2009 1Q	2009 2Q	QoQ
Hot Rolled	2,069	1,781	1,899	6.6%
Plate	1,160	1,156	1,108	△4.2%
Wire Rod	507	432	506	17.1%
Cold Rolled	3,334	1,921	2,678	39.4%
Elec. Steel	243	175	205	17.1%
S T S	404	241	308	27.8%
Others	302	249	308	23.7%
Total	8,019	5,955	7,012	17.7%

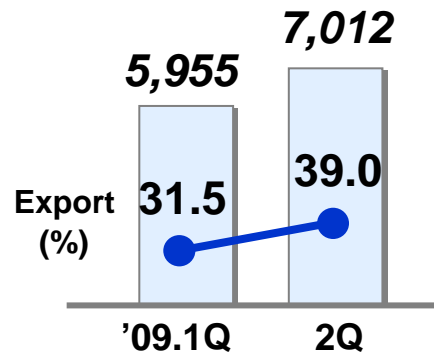
Income Summary

- **Early price cut reflecting weak market & lower raw mat'l cost**
 - HR \triangle 20%, CR \triangle 17%, etc. (from May 15th shipment)
- **Fierce competition led to drop in export price and decline in earnings**
 - Export price (carbon steel) : U\$ 742 ('09.1Q) \rightarrow U\$ 574 (2Q)

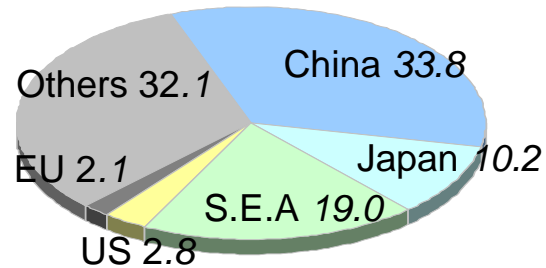
	2008 2Q	2009 1Q	2009 2Q	(in billion KRW) QoQ
Revenue	7,458	6,471	6,344	\triangle 2.0%
CoGS	5,202	5,815	5,893	1.3%
Operating Income	1,885	373	170	\triangle 54.4%
OP Margin	25.3%	5.8%	2.7%	-
Net Income	1,476	325	431	32.6%
* EBITDA	2,363	851	679	\triangle 20.2%

※Key Factors of 2Q Operating Income

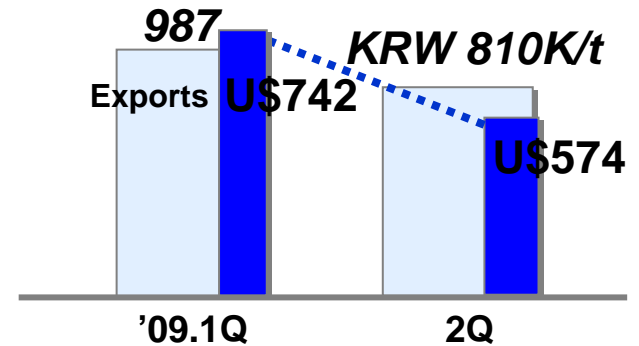
F/P Sales (in thousand tons)



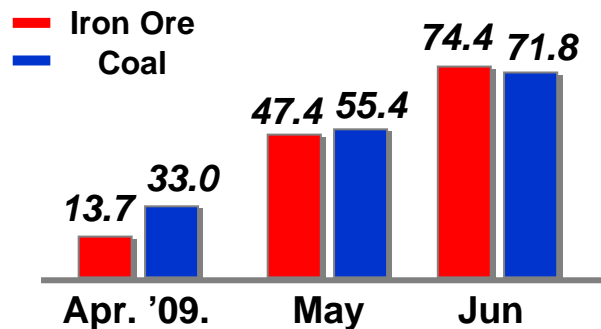
<Export by Region>
('09.2Q, %)



ASP (carbon steel only)



FY09 raw mat'l usage (%)



※ FY09 contract price

[Iron Ore]

. Lump : Δ 44.5%

. Fine : Δ 28% ~ Δ 33%

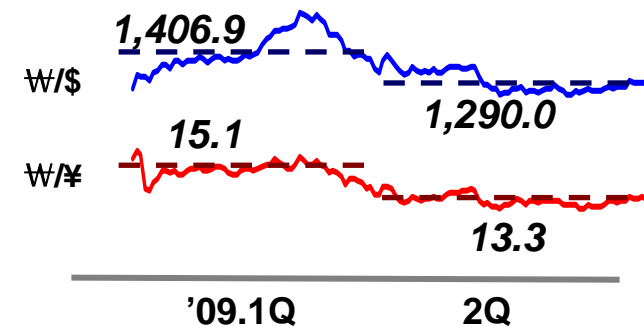
[Coal]

. HCC : Δ 57%

. PCI : Δ 64%

☞ FY09 contract price to be fully realized from 3Q,
lowering total CoGS by KRW 300bn/month

F/X rate (quarterly average)



Summarized Income Statement (POSCO)

	(in billion KRW)			
	2008 2Q	2009 1Q	2009 2Q	QoQ
Revenue	7,458	6,471	6,344	△2.0%
Gross income (Gross Margin)	2,256 (30.2%)	656 (10.1%)	451 (7.1%)	△31.3% -
S G & A	371	283	280	△1.1%
Operating income (OR Margin)	1,885 (25.3%)	373 (5.8%)	170 (2.7%)	△54.4% -
Non-op income	55	36	275	663.9%
Interest income	13	△17	△35	-
Dividend income	14	46	3	△93.5%
Equity method gain	102	121	124	2.5%
FX related gain	△27	△120	197	-
Others	△47	6	△14	-
Net income (Profit Margin)	1,476 (19.8%)	325 (5.0%)	431 (6.8%)	32.6% -

Financial Structure

- **Assets up slightly due to domestic investment and reduced inventory**
 - Electrical steel expansion, G) No.1 HR renovation increased non-current assets
 - Managing lower raw material inventory decreased current assets

(in billion KRW)

	2008 2Q	2009 1Q	2009 2Q	QoQ
Assets	33,096	37,235	37,638	1.1%
Current Assets	10,983	13,267	12,578	△5.2%
Non-current Assets	22,113	23,968	25,060	4.6%
Liabilities	6,817	9,680	9,329	△3.6%
Debt	2,956	6,960	7,132	2.5%
Equity	26,279	27,555	28,309	2.7%

* Changes in debt '09.2Q

- CP issuance (KRW 300 bn)
- Foreign short-term loan (U\$156 mn)

Summarized Statement of Financial Position (POSCO)

(in billion KRW)

	2008 2Q	2009 1Q	2009 2Q	QoQ
Current assets	10,983	13,267	12,578	△5.2%
Cash equivalent assets	3,536	4,717	5,988	26.9%
Notes receivable	2,420	2,879	2,505	△13.0%
Inventory	4,852	5,319	3,590	△32.5%
Non-current assets	22,113	23,968	25,060	4.6%
Investment securities	8,463	8,755	9,325	6.5%
Fixed assets	13,358	14,978	15,507	3.5%
Total assets	33,096	37,235	37,638	1.1%
Liabilities	6,817	9,680	9,329	△3.6%
Current liabilities	3,684	3,253	2,939	△9.7%
Non-current liabilities	3,133	6,427	6,390	△0.6%
Interest bearing debt	2,956	6,960	7,132	2.5%
Equity	26,279	27,555	28,309	2.7%
Total liability & Equity	33,096	37,235	37,638	1.1%

* Cash equivalent assets: cash & cash equivalents, short-term financial instruments, trading securities

Consolidated Financial Summary

■ Steel subsidiaries and E&C contribution to Revenue and OP increased

No. Consolidated Subsidiaries

	<u>'08/E</u>	<u>'09.1Q</u>	<u>'09.2Q</u>
Total	104	111	110
Domestic	34	37	37
Overseas	70	74	73

Consolidated Crude Steel Prod'n (quarter avg.) (in thousand tons)

	<u>'07</u>	<u>'08</u>	<u>'09.1Q</u>	<u>'09.2Q</u>
POSCO	7,766	8,284	6,145	7,132
Zhangjiagang	195	165	128	200
POSCO SS	234	219	172	182

(in billion KRW)

		2008 2Q	2009 1Q	2009 2Q	QoQ
I/S	Revenue	10,579	8,788	8,922	1.5%
	Op income (Margin)	2,142 (20.2%)	586 (6.7%)	350 (3.9%)	△40.3% -
	Net income	1,468	399	427	7.0%
B/S	Assets	41,170	47,934	47,632	△0.6%
	Liabilities	14,116	19,707	18,640	△5.4%
	Equity	27,054	28,227	28,992	2.7%

Consolidated Financial Summary

Income by Sectors

(in billion KRW)

		2008 2Q	2009 1Q	2009 2Q	QoQ
Revenue	Steel	11,460	9,406	9,595	2.0%
	E & C	1,480	1,615	1,966	21.7%
	Energy	148	111	77	△30.6%
	IT & Others	153	144	142	△1.4%
	Total	13,241	11,276	11,780	4.5%
	Consolidated	10,579	8,788	8,922	1.5%
OP Income	Steel	2,117	348	221	△36.5%
	E & C	110	52	95	82.7%
	Energy	13	24	18	△25.0%
	IT & Others	8	14	△2	-
	Total	2,248	438	332	△24.2%
	Consolidated	2,142	586	350	△40.3%

Consolidated Financial Summary

Financial Position by Sector

(in billion KRW)

	Assets		Liabilities		Equity	
	2009.1Q	2009.2Q	2009.1Q	2009.2Q	2009.1Q	2009.2Q
Steel	47,501	47,791	15,386	14,868	32,115	32,923
E & C	7,243	6,234	5,170	4,143	2,073	2,091
Energy	1,150	1,302	584	714	566	588
IT & Others	1,392	1,295	775	764	617	531
Total	57,286	56,622	21,915	20,489	35,371	36,133
Consolidated	47,934	47,632	19,707	18,640	28,227	28,992

Financial Ratios

(%)

	2008				2009	
	1Q	2Q	3Q	4Q	1Q	2Q
Sales Growth	3.2	24.8	10.9	△6.7	△19.8	1.5
OP Income	17.7	20.2	18.2	12.8	6.7	3.9
ROE	16.4	19.3	18.7	16.4	5.6	5.8
Liab./Equity	48.6	52.2	62.0	65.7	69.8	64.3



■ 2Q '09 Operating Performance

■ **Activity & Accomplishment**

■ Steel Industry Environment

■ 2009 Business Plan

Strengthen Responsiveness to Crisis

- **Improve business speed by enacting integrated emergency management**
 - Maximized efficiency through synchronization of entire process

Raw mat'l inventory (day)				Utilization Ratio (%)		F/P inventory (in thousand tons)	
Iron Ore		Coal					
1Q	2Q	1Q	2Q	1Q	2Q	1Q	2Q
43	31	45	22	75	85	814	443

- **Minimized losses through tight control of risk**
 - Implement flexible operation in response to changing raw material price
 - Swift adjustment to high HMR operation as scrap prices turn strong
 - HMR (hot metal ratio) : 78.7% (Apr.'09) → 80.8% (May) → 83.9% (Jun)
 - Minimize receivables and delayed payments
 - Notes receivable (in trillion KRW) : 2.9 ('09.3/E) → 2.5 (6/E)
 - Reinforce cost saving to cope with changing operational conditions
 - Cost saving in 1H.'09 (in billion KRW) : 838.4, progress 65% ('09 target: 1,295.5)

Expand Domestic-Overseas Market Base

■ Maintain domestic competitiveness with improved service & technology

- Closed price-gap with domestic peers and imports by cutting domestic price

Domestic HR Price (U\$/ton)			Spot Price (U\$/ton)	
POSCO	Peers	Import (Japan,FOB)	Japan	China
544	560	500	620	482

* 1st week of July, F/X rates : ₩1,250/\$, ¥100/\$, RMB 6.83/\$

- Reduce import dependency with development & sales of substitute products*

*Mostly premium products ex) strict thickness PO, Hyper NO, super light-solid HGI, etc.

- Help customer to reduce cost by optimizing product supply mix
 - Supply low-cost alternative for auto panel, improve property-size for switchbox panel

👉 **Domestic market share : 44% ('08/E) → 48% ('09.6/E)**

■ Expand exports by making full use of global marketing infrastructure

- SCM bases led better customer service by prompt response to shortened delivery
 - 4 new SCMs added in 2Q : China, Japan, Malaysia, Mexico (Total 40 SCM, '09.6/E)
- Incentivizing trading agents to promote development of new customer

👉 **Order from new customer in 1H'09 : 645Kt (239customers)**

Continue Growth Investment

■ Capacity expansion for premium products

- Complete capacity expansion & renovation of electrical steel (Jun.'09)
 - GO capacity : 170 → 250Kt/yr, Premium NO ratio : 25 → 37%
- Complete renovation of High-Mill & development of CEM Process (Apr.'09)
 - Expand premium steel production & enhance productivity · product quality

■ Strengthen market base for STS division

- Signed MOU to acquire Taihan ST (May '09) : equity stake 19.9→ 85.0%
 - Improve STS profitability with focus on high-value-added CR product

■ Investment to secure global growth

- Continue downstream investment to build strong local marketing bases
 - Vietnam CRM (~Sept.'09), Mexico CGL (~Jul.'09), U.S API pipe JV (~Sept.'09)
- Signed MOU w/ KDB for overseas investment & resource development (Jun.'09)

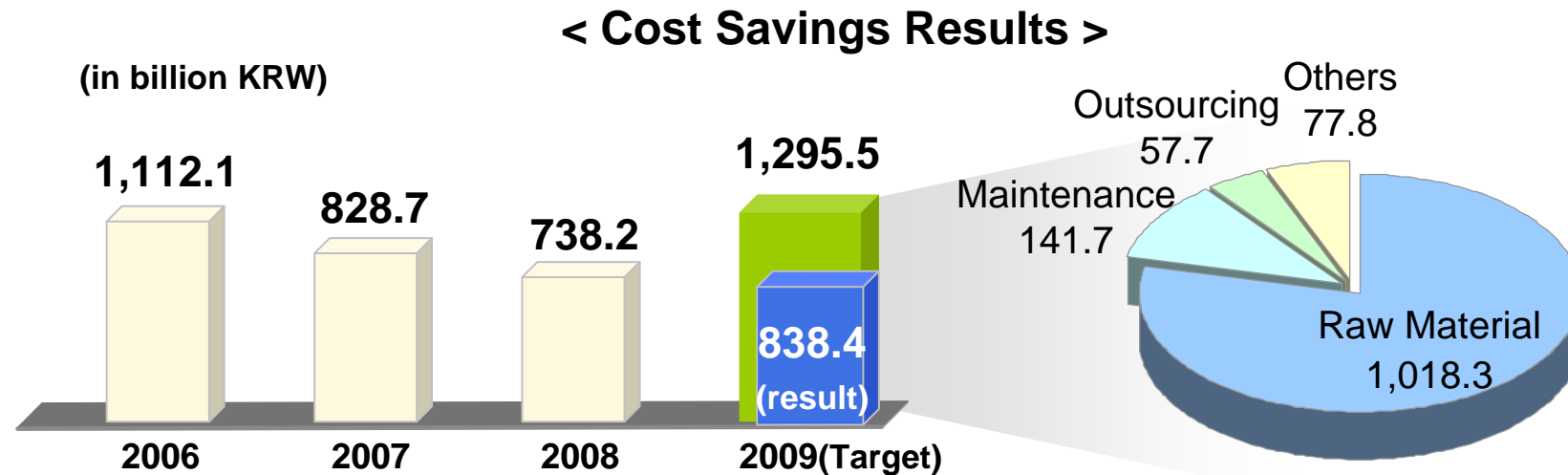
■ Continued investment for raw material development

- To construct Fe-Mn Plant to improve self-sufficiency for essential raw mat'l
 - 75Kt/yr plant in Gwangyang Works (Apr.'10~ Sept.'11)
- Acquire 16.7% equity of Jupiter Mines (Australian iron-ore development company)

Strengthen cost & technology competitiveness

■ Strengthen continuing cost saving activity

- '09.1H result : KRW 838.4bn, progress 65% ('09 target : 1,295.5bn)
 - Expand use of cheaper raw mat'l : low cost sintered-ore, PCI, etc.



■ R&D to secure technology leadership

- Expand strategic product through World Best & World First* product development
 - WB&WF sales & op. margin : 599Kt, 21.4% ('09.1Q) → 709Kt, 17.2% (2Q)

* Hyper NO, pre-primed steel sheet for high end home appliances, API 2W-60 for offshore structure, etc.

- Develop low-cost-high-quality breakthrough tech. : 22('09.6/E) → 122('09/E target)

* On-line maintenance tech. of lower shaft in BF, technology to increase scrap input in the converter.

Subsidiaries' Business Activities

Steel

- **Posco SS : Sign MOU to build long-product plant in Vietnam (May '09)**
 - 1Mt/yr (includes upstream facility), JV with VN Steel, largest steel company in Vietnam
- **Posrec : Begin refractory recycle business**
 - Plant construction : 20Kt/yr (Apr.'09.~Aug.), recycle ratio : 28%(1H '09) → 70%('10 target)

E & C

(Posco E&C)

- **Receive Sin-gal national housing reconstruction business (Apr.'09)**
 - Amount : KRW 115 bn, (612 units: 6th floor, 8 buildings)
- **Construct 'IFEX Arts Center' in Song-Do (May '09)**
 - Amount : KRW 101.3 bn (Main theater, opera house, etc. (14.5 acre))

Energy


(Posco Power)

- **Accelerate Fuel-cell business**
 - Complete 2.4MW fuel-cell power plant, Nowon(May), Signed MOU with Seoul City (May)
 - ☞ Establish foundation to expand development & use of metropolitan fuel-cell energy
- **Power plant business expansion (1st stage : 1,200MW)**
 - Dec.'08 ~ Jun.'11, progress 20% (total 2,400MW by 2014 planned)

IT

(Posdata)

- **Receive new orders for U-city business**
 - 'Gyeongju Cultural Space', Pyung-taek Sosabul U-city
- **Discontinue Wibro business (Jul.'09)**
 - Difficult to sustain earnings due to market growth delay (KRW 78.7bn in '08)

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- 2Q '09 Operating Performance
 - Activity & Accomplishment
 - **Steel Industry Environment**
 - 2009 Business Plan

Global Steel Market

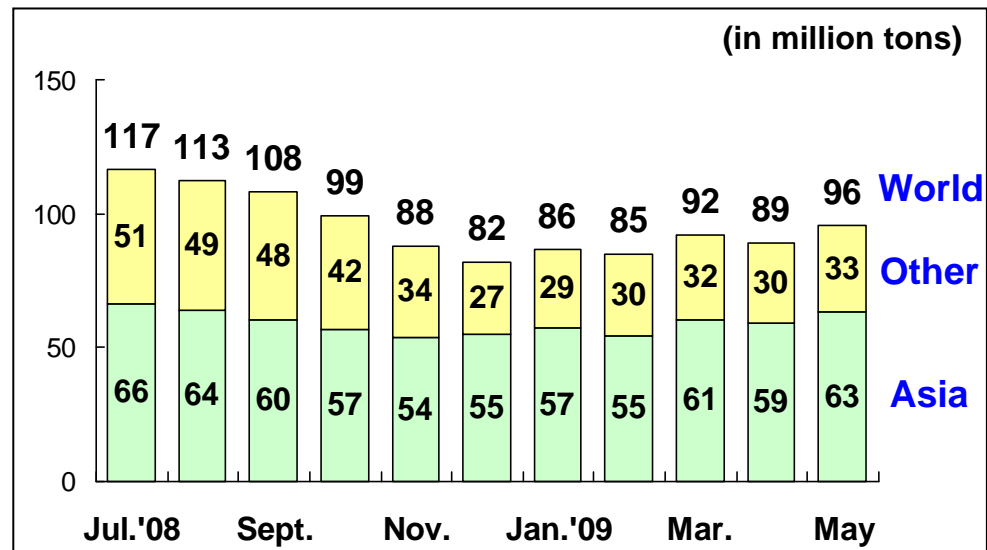
- **2Q crude steel production showing slight upturn after sharp decline**
 - Upward trend in steel consumption with improved condition of demand-industries

< Automotive Sales by Region >

Auto Sales Increase Rate Jan.'09 → May (YoY)	U.S	E.U	Japan	China	Korea
	-40% → -34%	-27% → -4%	-28% → -19%	-15% → +34%	-24% → +15%

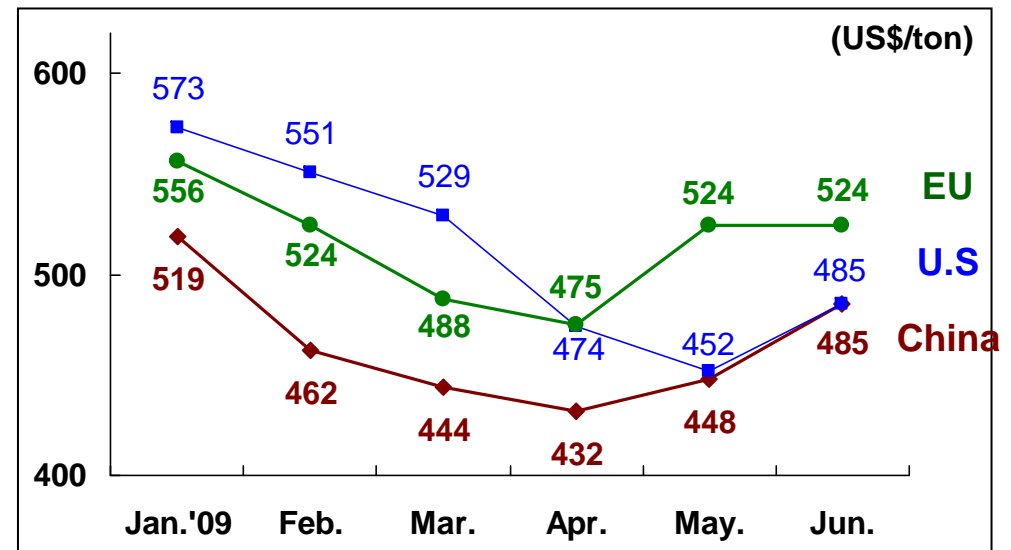
- **Global price hit bottom during 2Q, expect slight recovery in 2H**
 - Major steelmakers start raising 3Q prices
 - Price increase (Jul) : A-Mittal +30€/t, TKS +25€/t, Nucor +30~40U\$/t, Baoshan(HR) +88U\$/t, etc.

Global Crude Steel Production



* Source : worldsteel

HR Price by Region



* Source : CRU, mysteel.com, MetalBulletin

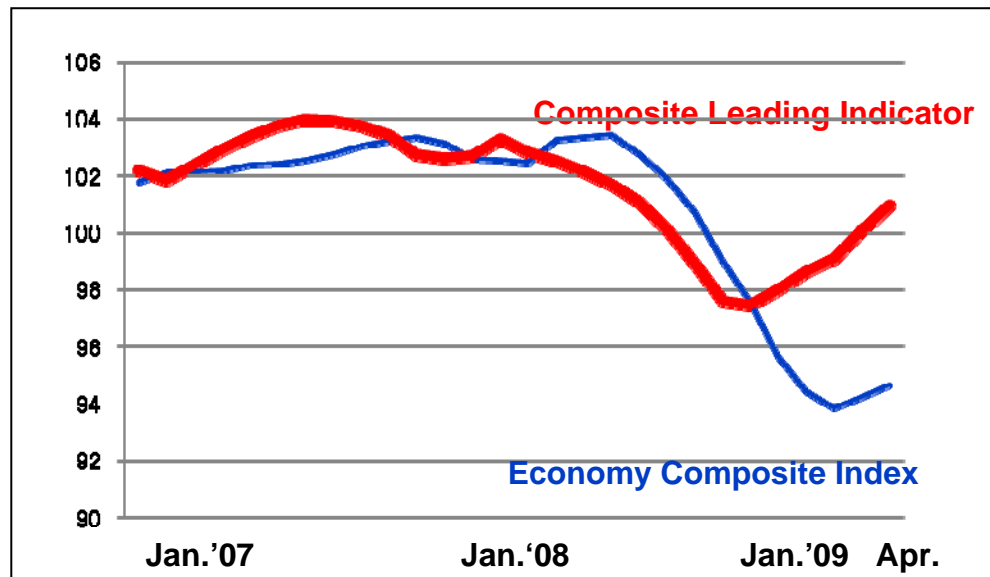
China Steel Market

- **Rising expectation for 8% GDP growth with massive stimulus packages**
 - RMB 4tn stimulus plan, 10 key industries , auto & home appliance incentive plan, etc.
 - Urban fixed asset investment in May: +38.6% yoy (real: +45.8%, largest since '98)

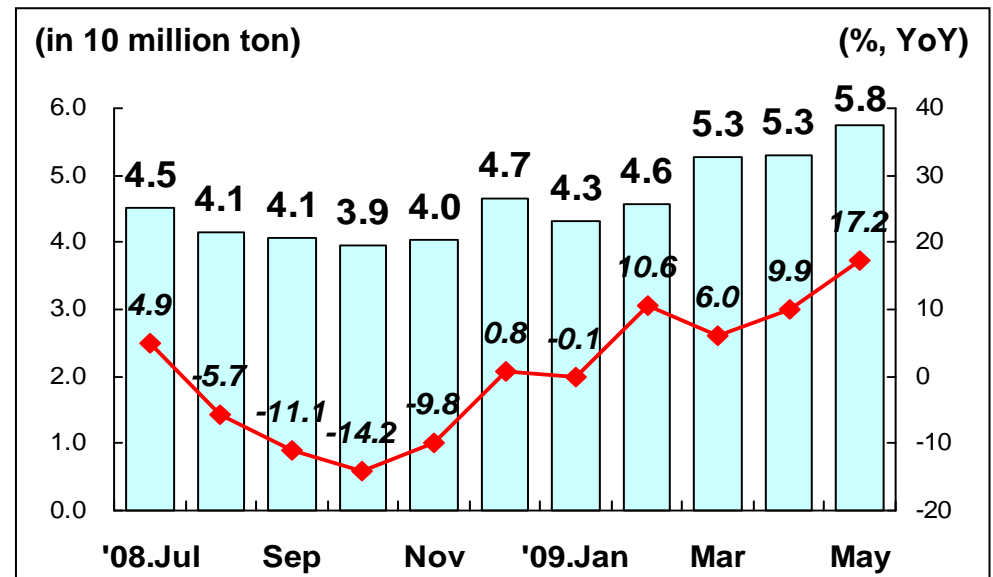
2009 China economy growth forecasts (Previous → Revised)	IMF (Jul.'09)	OECD (Jun.'09)	GS (May '09)	BNPP(Jul.'09)
	6.5% → 7.5%	6.3% → 7.7%	6.0% → 8.3%	7.7% → 8.2%

- **Rising demand to accelerate with economy recovery in 2H**
 - Nominal steel demand (Jan~ May): 8.7% YoY ↑ → +13.8%(e) in '09 (My Steel, '09.6)

Composite Leading Indicator



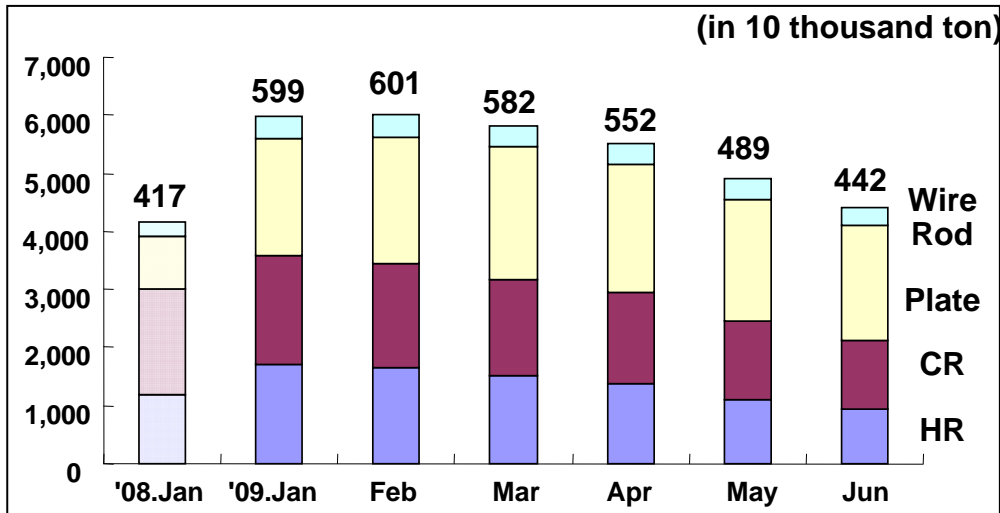
Steel Demand (Nominal)



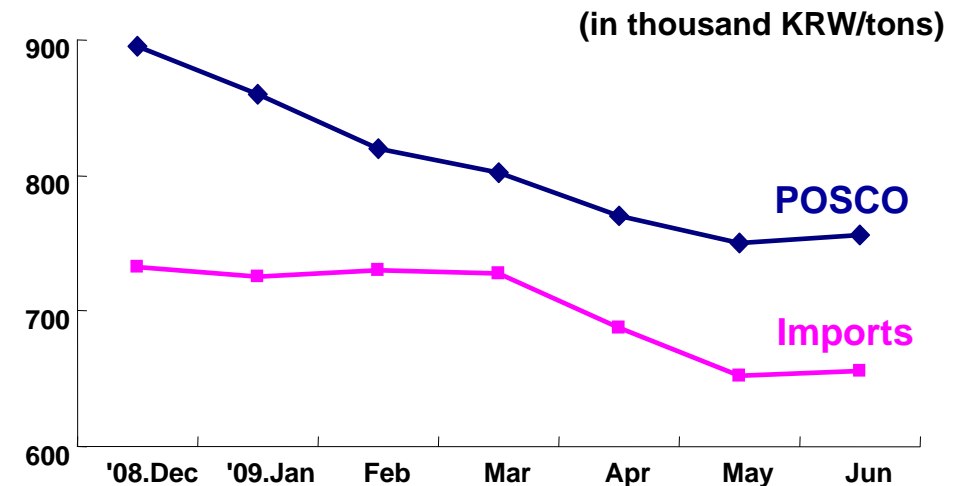
Domestic Steel Market

- Demand industry utilization & steel price to increase, yet below '08 level

Inventory by Products



Domestic HR Spot Price



Forecast on Demand Industry



Stagnating production to ease out from 2H & Expect yoy increase in 2010

- Automotive production (thous)
1,513('09.1H) → 1,682('09.2H)



Shipbuilding vol. increase yoy despite sharp drop in new order

- Shipbuilding forecast (in thous. GT)
25,600('08) → 28,500('09)

* Source : POSRI (Jul.'09)



Steady recovery with domestic/global demand recover

- Major 3 product production (thous)
5,187('09.1H) → 5,225('09.2H)



More constructions with larger SOC investment, despite decline in housing sector

- CAPEX (in trillion won)
73('09.1H) → 85('09.2H)

Raw Material

■ Tight market continues as Chinese imports keep rise

Iron Ore

- **FY'09 contract price settled**
 - Rio Tinto : Fine U\$58(△33%), Lump U\$69(△44%)
 - Vale : Fine U\$56(△28%), Pellet U\$73(△48%)
 - BHPB : negotiating in line with Rio Tinto level
- **Expect tight S/D as miners cut production**
 - Demand to rise in 2H w/ China economy recovery
 - Concerns for unfair trade from BHP-RioTinto JV

Coal

- **FY'09 contract price settled**
 - HCC : U\$129(△57%), PCI: U\$90/ton(△63%)
 - Semi-soft : U\$83 (△65%)
- **Supply-demand condition reverse in May**
 - Increased import to China: expect 20~25Mt in '09
 - Demand rise as steelmakers resume operation & Australia logistics cause more shipping delays

Iron Ore Supply/Demand Forecast

(in million tons)

	2008	2009	2010	2011	2012
Demand (a)	845	860	949	1,063	1,158
China	438	539	587	670	739
Supply (b)	853	849	950	1,039	1,156
(b) – (a)	7	-11	1	-25	-2

* Source : Macquarie Research (Jul.'09), Trade volume

Coal Supply/Demand Forecast

(in million tons)

	2008	2009	2010	2011	2012
Demand (a)	223	208	219	235	251
China	3	23	18	18	18
Supply (b)	223	205	220	234	246
(b) – (a)	-	-3	1	-2	-5

* Source : Macquarie Research (Jul.'09), Trade Volume

Stainless Steel

Market Trend

• Asia

- Korea : visible upturn of new orders as spot price rise & 2H economy recovery is expected
- China : mills maintain full utilization rate due to increasing demand resulted from stimulus package

• Europe

- Prices turned uptrend due to low inventory level
- 60~70% in utilization rate as new orders increase

Nickel / Chrome Trend

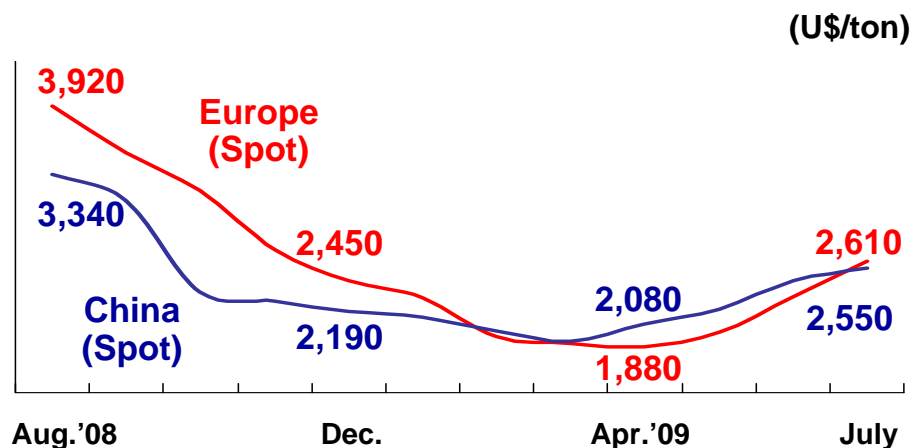
• Nickel

- Spot price hike since May in expectation of global economy recovery & increasing STS production
- Expect strong price of U\$15K/ton or more in 2H09

• Chrome

- Continued uptrend in FeCr mkt. & supply shortage
- Expect price to hike due to increasing cost in South Africa & rising utilization rate of STS mills

STS CR Price Trend



Global Ni, Cr Supply/Demand Forecast

(in thousand tons)

		2008	2009	2010	2011
Ni.	Demand(a)	1,315	1,218	1,287	1,355
	Supply(b)	1,388	1,232	1,258	1,362
	(b) – (a)	73	14	-29	7
Cr.	Demand(a)	6,727	6,588	7,421	8,569
	Supply(b)	7,267	5,945	7,973	8,968
	(b) – (a)	547	-644	552	399

* Source: Brookhunt (Jun.'09), CRU (Feb.'09)

 2Q '09 Operating Performance Activity & Accomplishment Steel Industry Environment **2009 Business Plan**

2009 Business Plan

- 2H earnings to increase with new customer development & cost savings

(in million tons, trillion KRW)	2008	2009	1H	2H
• Crude Steel Production	33.1	29.8	13.3	16.5
- Consolidated	34.7	31.3	14.0	17.3
• Finished Product Sales	31.2	28.1	13.0	15.1
• Revenue	30.6	25.8	12.8	13.0
- Consolidated	41.7	36.1	17.7	18.4
• Operating Income	6.5	2.6	0.5	2.1
- Consolidated	7.2	3.0	0.9	2.1
• Investment	4.9	7.3*	2.0	5.3

* Investment : CAPEX (KRW 4.7tn), Overseas/Raw Material (0.8), Energy/New Business (0.1), Growth (1.7)

The data above represents company's internal objects,
thus should not be used as a basis for investment decisions



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