

POSCO
Form 20-F
June 29, 2009

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As filed with the Securities and Exchange Commission on June 29, 2009

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

(Mark One)

- o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
OR
- b ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008
OR
- o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
OR
- o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report
For the transition period from to

**Commission file number 1-13368
POSCO**

(Exact name of Registrant as specified in its charter)

POSCO

(Translation of Registrant's name into English)

The Republic of Korea

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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Telephone: +82-2-3457-0428; E-mail: sjp0428@posco.com; Facsimile: +82-2-3457-1982
(Name, telephone, e-mail and/or facsimile number and address of company contact person)

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

Title of Each Class

Name of Each Exchange on Which Registered
New York Stock Exchange, Inc.

American Depositary Shares, each representing
one-fourth of one share of common stock
Common Stock, par value Won 5,000 per share*

New York Stock Exchange, Inc.*

Securities registered or to be registered pursuant to Section 12(g) of the Act.
None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.
None

**As of December 31, 2008, there were 76,569,916 shares of common stock, par value Won 5,000 per share,
outstanding
(not including 10,616,919 shares of common stock held by the company as treasury shares)**

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

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

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

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GLOSSARY

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

U.S. GAAP

Generally accepted accounting principles in the United States of America.

Won ~~₩~~ W

The currency of the Republic of Korea.

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

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PART I

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

Item 1.A. *Directors and Senior Management*

Not applicable

Item 1.B. *Advisers*

Not applicable

Item 1.C. *Auditors*

Not applicable

Item 2. *Offer Statistics and Expected Timetable*

Not applicable

Item 2.A. *Offer Statistics*

Not applicable

Item 2.B. *Method and Expected Timetable*

Not applicable

Item 3. *Key Information*

Item 3.A. *Selected Financial Data*

The selected financial data presented below should be read in conjunction with our Consolidated Financial Statements and related notes thereto and Item 5. Operating and Financial Review and Prospects included elsewhere in this annual report. The selected financial data as of December 31, 2007 and 2008 and for each of the three years in the period ended December 31, 2008 is derived from our Consolidated Financial Statements included elsewhere in this annual report. Our Consolidated Financial Statements are prepared in accordance with Korean GAAP, which differ in certain significant respects from U.S. GAAP.

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	For the Year Ended December 31,					
	2004	2005	2006	2007	2008	2008(10)
	(In billions of Won and millions of dollars, except per share data)					
Korean GAAP:						
Sales(1)	₩ 23,973	₩ 26,302	₩ 25,842	₩ 31,608	₩ 41,743	US\$ 33,077
Cost of goods sold(2)	17,361	18,767	19,897	24,903	32,562	25,802
Selling and administrative expenses	1,293	1,451	1,556	1,785	2,006	1,590
Operating income	5,319	6,083	4,389	4,920	7,174	5,684
Interest expense	192	149	183	240	345	273
Foreign currency transaction and translation gains (losses), net	179	159	99	(19)	(940)	(745)
Donations	170	153	155	197	143	113
Income tax expenses	1,502	1,474	922	1,274	1,734	1,374
Net income	3,841	4,007	3,353	3,678	4,350	3,447
Net income attributable to controlling interest	3,814	4,022	3,314	3,559	4,379	3,470
Net income attributable to minority interest	27	(15)	39	119	(29)	(23)
Basic and diluted earnings per share of common stock(3)	47,185	50,790	42,115	46,854	58,002	45.96
Dividends per share of common stock	8,000	8,000	8,000	10,000	10,000	7.92
U.S. GAAP(4):						
Operating income	₩ 5,299	₩ 5,671	₩ 4,259	₩ 4,967	₩ 7,129	US\$ 5,649
Net income	3,460	4,102	3,408	3,565	4,106	3,254
Basic and diluted earnings per share of common stock	42,806	51,789	43,304	46,938	54,387	43.10

BALANCE SHEET DATA

	As of December 31,					
	2004	2005	2006	2007	2008	2008(10)
	(In billions of Won and millions of dollars, except per share data)					
Korean GAAP:						
Working capital(5)	₩ 5,493	₩ 5,759	₩ 7,155	₩ 7,769	₩ 11,188	US\$ 8,865
Property, plant and equipment, net(6)	10,440	12,272	14,643	15,582	18,069	14,318
Total assets(6)	24,129	27,507	31,149	36,275	46,961	37,212
Long-term debt(7)(8)(9)	2,051	1,131	2,726	3,306	6,896	5,464
Capital stock	482	482	482	482	482	382

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Total shareholders equity(6)	16,386	19,874	22,402	25,118	28,344	22,460
U.S. GAAP(4):						
Property, plant and equipment, net	₩ 10,541	₩ 12,420	₩ 14,860	₩ 15,836	₩ 18,328	US\$ 14,523
Total assets	24,279	27,525	31,208	36,349	47,208	37,407
Total shareholders equity	16,208	19,498	21,972	24,561	27,759	21,996

(1) Includes sales by our consolidated sales subsidiaries of steel products purchased by such subsidiaries from third parties, including trading companies to which we sell steel products.

(2) Includes purchases of steel products by our consolidated subsidiaries from third parties, including trading companies to which we sell steel products.

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- (3) See Note 26 of Notes to Consolidated Financial Statements for method of calculation.
- (4) A description of the significant differences between Korean GAAP and U.S. GAAP as well as the reconciliation to U.S. GAAP are provided in detail in Note 32 of Notes to Consolidated Financial Statements.
- (5) Working capital means current assets minus current liabilities.
- (6) Reflects revaluations of assets permitted under Korean law.
- (7) Net of current portion and discount on debentures issued.
- (8) For information regarding swap transactions entered into by us, see Item 5. Operating and Financial Review and Prospects Item 5.A. Operating Results Exchange Rate Fluctuations and Note 23 of Notes to Consolidated Financial Statements.
- (9) Monetary assets and liabilities denominated in foreign currencies are translated into Won at the basic rates in effect at the balance sheet date and resulting translation gains and losses are recognized in current operations. See Notes 2 and 28 of Notes to Consolidated Financial Statements.
- (10) Translated into U.S. Dollars at the rate of Won 1,262.0 to US\$1.00, the noon buying rate in the City of New York for cable transfers in Won as certified for customs purposes by the Federal Reserve Bank of New York, on December 31, 2008. This translation should not be construed as a representation that the Won amounts represent, have been, or could be converted to U.S. Dollars at that rate or any other rate.

EXCHANGE RATE INFORMATION

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

Period	At End of Period	Average Rate(1) (Per US\$1.00)	High	Low
2004	1,043.8	1,145.3	1,195.5	1,038.3
2005	1,013.8	1,024.2	1,060.3	998.2
2006	929.6	956.1	1,031.0	918.0
2007	938.2	929.2	950.0	902.2
2008	1,257.5	1,102.6	1,509.0	934.5
2009 (through June 26)	1,283.6	1,349.5	1,573.6	1,236.1
January	1,368.5	1,346.1	1,391.0	1,257.5
February	1,516.4	1,429.5	1,516.4	1,376.2
March	1,377.1	1,462.0	1,573.6	1,328.9
April	1,348.0	1,341.9	1,398.2	1,316.2
May	1,272.9	1,258.7	1,307.3	1,236.1
June (through June 26)	1,283.6	1,349.5	1,573.6	1,236.1

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

Item 3.B. *Capitalization and Indebtedness*

Not applicable

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

Not applicable

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Item 3.D. Risk Factors

You should carefully consider the risks described below.

The global economic downturn may result in reduced demand and adversely affect our profitability.

Recent difficulties affecting the U.S. and global financial sectors, adverse conditions and volatility in the U.S. and worldwide credit and financial markets, fluctuations in oil and commodity prices and the general weakness of the U.S. and global economy have increased the uncertainty of global economic prospects in general and have adversely affected the global and Korean economies. The recent global economic downturn has adversely affected demand for products manufactured by our customers in Korea and overseas, such as those in the automobile, shipbuilding and construction industries, which has in turn led them to reduce or plan reductions of their production beginning in the fourth quarter of 2008. Partly in response to the weakening demand, we have reduced our crude steel production and sales prices in the first half of 2009. We may decide to adjust our future crude steel production or our sales prices on an on-going basis subject to market demand for our products, the production outlook of the global steel industry and global economic conditions in general. Deterioration of market conditions may also result in changes in assumptions underlying the carrying value of certain assets, which in turn could result in impairment of such assets, including intangible assets such as goodwill. We cannot predict how long the current market conditions will last. We expect the general decline in demand for our steel products to continue to prevail at least in the near future, which may adversely affect our business, results of operations or financial condition.

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

We are incorporated in Korea, and most of our operations and assets are located in Korea. In addition, Korea is our most important market, accounting for 68.3% of our total sales volume of steel products in 2008. Domestic demand for our products is affected by the condition of major steel consuming industries, such as construction, shipbuilding, automobile, electrical appliances and downstream steel processors, and the Korean economy in general. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea.

The economic indicators in Korea in recent years have shown mixed signs, and future growth of the Korean economy is subject to many factors beyond our control. Events related to terrorist attacks in the United States that took place on September 11, 2001, developments in the Middle East, including the war in Iraq and Afghanistan, fluctuations in oil and commodity prices, and the occurrence of natural disasters or outbreaks of disease in Asia and other parts of the world have increased the uncertainty of global economic prospects and may continue to adversely affect the Korean economy. Any future deterioration of the Korean and global economy could adversely affect our business, financial condition and results of operations.

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

continuing difficulties in the housing and financial sectors in the United States and elsewhere and the resulting adverse effect on the global financial markets;

a slowdown in consumer spending and the overall economy;

adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the Dollar or Yen exchange rates or revaluation of the Chinese renminbi), interest rates or stock markets;

adverse developments in the economies of countries that are important export markets for Korea, such as the United States, Japan and China, or in emerging market economies in Asia or elsewhere;

the continued emergence of the Chinese economy, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and the relocation of the manufacturing base from Korea to China);

the economic impact of any pending or future free trade agreements, including the Free Trade Agreements with the United States and the European Union;

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social and labor unrest;

substantial decreases in the market prices of Korean real estate;

a decrease in tax revenues and a substantial increase in the Government's expenditures for unemployment compensation and other social programs that, together, would lead to an increased government budget deficit;

financial problems or lack of progress in restructuring of Korean conglomerates, other large troubled companies, their suppliers or the financial sector;

loss of investor confidence arising from corporate accounting irregularities and corporate governance issues of certain Korean conglomerates;

geo-political uncertainty and risk of further attacks by terrorist groups around the world;

the recurrence of severe acute respiratory syndrome or an outbreak of avian flu or influenza A (H1N1) in Asia and other parts of the world;

deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from trade disputes or disagreements in foreign policy;

political uncertainty or increasing strife among or within political parties in Korea;

hostilities involving oil producing countries in the Middle East and any material disruption in the global oil supply or fluctuations in the price of oil; and

an increase in the level of tension or an outbreak of hostilities between North Korea and Korea or the United States.

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

Our export sales and overseas sales to customers abroad accounted for 31.7% of our total sales volume of steel products in 2008. Our export sales volume to customers in Asia, including China, Japan, Indonesia, Thailand and Malaysia, accounted for 64.4% of our total export sales volume for steel products in 2008, and we expect our sales to these countries, especially to China, to remain important in the future. Accordingly, adverse economic and financial developments in these countries may have an adverse effect on demand for our products. Economic weakness in Asia may also adversely affect our sales to the Korean companies that export to the region, especially companies in the construction, shipbuilding, automobile, electrical appliances and downstream steel processing industries. Weaker demand in these countries, combined with addition of new steel production capacity, particularly in China, may also reduce export prices in Dollar terms of our principal products. We attempt to maintain and expand our export sales to generate foreign currency receipts to cover our foreign currency purchases and debt service requirements. Consequently, any decrease in our export sales could also increase our foreign exchange risks.

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

The Won has fluctuated rapidly against major currencies recently. The market average exchange rate, as announced by the Seoul Money Brokerage Services, Ltd., depreciated from Won 934.5 to US\$1.00 on January 3, 2008 to Won 1,573.6 to US\$1.00 on March 3, 2009. The market average exchange rate, as announced by the Seoul Money Brokerage Services, Ltd., was Won 1,283.6 to US\$1.00 on June 26, 2009. Depreciation of the Won may materially affect the results of our operations because, among other things, it causes:

an increase in the amount of Won required for us to make interest and principal payments on our foreign currency-denominated debt, which accounted for approximately 58.3% of our total long-term debt (excluding discounts on debentures issued and including current portion) as of December 31, 2008;

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an increase in Won terms in the costs of raw materials and equipment that we purchase from overseas sources and a substantial portion of our freight costs, which are denominated primarily in Dollars; and

foreign exchange translation losses on liabilities, which lower our earnings for accounting purposes.

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

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

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

We purchase substantially all of the principal raw materials we use from sources outside Korea, including iron ore and coal. In 2008, POSCO imported approximately 49.4 million dry metric tons of iron ore and 25.5 million wet metric tons of coal. Iron ore is imported primarily from Australia, Brazil and South Africa. Coal is imported primarily from Australia, Canada and China. Although we have not experienced significant unanticipated supply disruptions in the past, supply disruptions, which could be caused by political or other events in the countries from which we import these materials, could adversely affect our operations.

In addition, we are particularly exposed to increases in the prices of coal, iron ore and nickel, which represent the largest components of our cost of goods sold. The average price of coal per wet metric ton (benchmark free on board price of Australian premium hard coking coal), which decreased from \$116 in 2006 to \$98 in 2007, increased more than three-fold to \$300 in 2008. The average price of iron ore per dry metric ton (benchmark free on board price of Australian iron ore fines with iron (Fe) 64% content) increased from \$47 in 2006 to \$52 in 2007 and \$93 in 2008. The average price of nickel per ton (including insurance and freight costs) increased substantially from \$24,254 in 2006 to \$37,230 in 2007 but decreased to \$21,111 in 2008. Further increases in prices of our key raw materials and our inability to pass along such increases to our customers could adversely affect our margins and profits. Increased prices may also cause potential customers to defer purchase of steel products, which would have an adverse effect on our business, financial condition and results of operations.

The expansion of steel production capacity, combined with the global economic downturn, may result in intensification of production over-capacity in the global steel industry and adversely affect our profitability.

In recent years, driven in part by strong growth in steel consumption in China, the global steel industry has experienced renewed interest in expansion of steel production capacity. The increased production capacity, combined with weakening demand due primarily to the recent slowdown of the global economy, has resulted in production over-capacity in the global steel industry.

Production over-capacity in the global steel industry may intensify if the slowdown of the global economy is prolonged or demand from developing countries that have experienced significant growth in the past several years does not meet the recent growth in production capacity. Production over-capacity in the global steel industry is likely

to:

reduce export prices in Dollar terms of our principal products, which in turn may reduce our sales prices in Korea;

increase competition in the Korean market as foreign producers seek to export steel products to Korea as other markets experience a slowdown;

negatively affect demand for our products abroad and our ability to expand export sales; and

affect our ability to increase steel production in general.

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

Disruptions in global credit and financial markets and the resulting governmental actions around the world could have a material adverse impact on our business and the ability to meet the funding needs of us and our customers.

Global credit markets have been experiencing difficulties and volatility since the second half of 2008. The market uncertainty that started from the U.S. residential market further expanded to other markets such as those for leveraged finance, collateralized debt obligations and other structured products. These developments have resulted in significant contraction, de-leveraging and reduced liquidity in the global credit markets, as well as bankruptcy or acquisition of, and government assistance to, several major U.S. and European financial institutions, including the bankruptcy filing of Lehman Brothers in September 2008. In response to such developments, legislators and financial regulators in the United States and other jurisdictions, including Korea, have implemented a number of policy measures designed to add stability to financial markets. However, the overall impact of these legislative and regulatory efforts on the global financial markets is uncertain, and they may not have the intended stabilizing effects. The SEC, other regulators, self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies, and may effect changes in law or interpretations of existing laws.

We are exposed to risks related to changes in the global and Korean economic environments, changes in interest rates and instability in the global financial markets. As liquidity and credit concerns and volatility in the global financial markets increased significantly, the value of the Won relative to the Dollar has depreciated at an accelerated rate. Such depreciation of the Won has increased the cost of imported raw materials in Won terms and our cost in Won of servicing our foreign currency-denominated debt, while continued exchange rate volatility may also result in foreign exchange losses for us. Furthermore, as a result of adverse global and Korean economic conditions, there has been a significant volatility in securities prices of Korean companies, including ours, which may result in trading and valuation losses on our securities portfolio. The Korea Stock Price Index declined from 1,888.88 on May 16, 2008 to 938.75 on October 24, 2008. The Korea Stock Price Index was 1,394.53 on June 26, 2009. In addition, recent fluctuations in credit spreads, as well as limitations on the availability of credit resulting from heightened concerns about the stability of the markets generally and the strength of counterparties specifically have led many lenders and institutional investors to reduce or cease providing funding to borrowers, which may negatively impact our liquidity and results of operation. Major market disruptions and the current adverse changes in market conditions and regulatory climate may further impair our ability to meet our desired funding needs. We cannot predict how long the current market conditions will last. These recent and developing economic and governmental factors may have a material adverse effect on our business and the ability to meet the funding needs of us and our customers, as well as negatively affect our credit rating and cause the price of the ADSs to decline.

Consolidation in the global steel industry may increase competition.

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

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

We conduct international trading and construction operations abroad, and our business relies on a global trading network comprised of overseas subsidiaries, branches and representative offices. Although many of our subsidiaries and overseas branches are located in developed countries, we also operate in numerous countries with

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developing economies. In addition, we intend to continue to expand our production operations internationally by carefully seeking out promising investment opportunities, particularly in China, India and Vietnam, in part to prepare for the eventual maturation of the Korean steel market. We may enter into joint ventures with foreign steel producers that would enable us to rely on these businesses to conduct our operations, establish local networks and coordinate our sales and marketing efforts abroad. To the extent that we enter into these arrangements, our success will depend in part on the willingness of our partner companies to dedicate sufficient resources to their partnership with us.

In other situations, we may decide to establish manufacturing facilities by ourselves instead of relying on partners. The demand and market acceptance for our products produced abroad are subject to a high level of uncertainty and are substantially dependent upon the market condition of the global steel industry. We cannot assure you that our international expansion plan will be profitable or that we can recoup the costs related to such investments.

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

challenges caused by distance, language and cultural differences;

higher costs associated with doing business internationally;

legal and regulatory restrictions, including foreign exchange controls that might prevent us from repatriating cash earned in countries outside Korea;

longer payment cycles in some countries;

credit risk and higher levels of payment fraud;

currency exchange risks;

potentially adverse tax consequences;

political and economic instability; and

seasonal reductions in business activity during the summer months in some countries.

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

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

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

In recent years, several of our products have been subject to anti-dumping or countervailing proceedings, including in the United States, the European Union and China. Further increases in or new imposition of anti-dumping duties, countervailing duties, quotas or tariffs on our sales in these markets may have a material adverse effect on our exports to these regions in the future. Our export sales and overseas sales to customers in the United States, Europe and China accounted for 11.4% of our total sales volume of steel products in 2008. See Item 4. Information on the Company

Item 4.B. Business Overview Markets Exports.

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

In order to complement our steel operations, we engage in engineering and construction activities through POSCO Engineering & Construction Co., Ltd. (POSCO E&C), an 89.5%-owned subsidiary. The engineering and construction segment, which accounted for approximately 8.8% of our consolidated sales in 2008, is highly cyclical and tends to fluctuate based on macroeconomic factors, such as consumer confidence and income, employment levels, interest rates, inflation rates, demographic trends and policies of the Government. Although we believe that POSCO E&C's strategy of focusing on high-value-added plant construction and urban planning and development projects such as Songdo New City has enabled it to be exposed to a lesser degree to general economic conditions in Korea in comparison to some of its domestic competitors, our construction revenues have fluctuated in the past depending on the level of domestic construction activity including new construction orders. POSCO E&C's construction operations could suffer in the future in the event of a general downturn in the construction market resulting in weaker demand, which could adversely affect POSCO E&C's business, result of operations or financial condition.

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

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

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

unanticipated variations in labor and equipment productivity over the term of a contract;

unanticipated increases in labor, raw material, parts and components, subcontracting and overhead costs, including as a result of bad weather;

delivery delays and corrective measures for poor workmanship; and

errors in estimates and bidding.

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

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

The performance of POSCO E&C's domestic residential property business is highly dependent on the general condition of the real estate market in Korea. The construction industry in Korea is experiencing a downturn, due to excessive investment in recent years in residential property development projects, stagnation of real property prices and reduced demand for residential property, especially in areas outside of Seoul, including as a result of deteriorating

conditions in the Korean economy. In addition, as liquidity and credit concerns and volatility in the global financial markets increased significantly starting in September 2008, there has been a general decline in the willingness by banks and other financial institutions in Korea to engage in project financing and other lending activities to construction companies, which may adversely impact POSCO E&C's ability to meet its desired funding

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needs. The Government has taken measures and announced that it will adopt measures to support the Korean construction industry, including easing of regulations imposed on redevelopment of apartment buildings and resale restrictions in the metropolitan areas, as well as reductions in property taxes. However, there can be no assurance that such measures will be successful in stabilizing the Korean real estate market. There can be no assurance that further declines in demand or prices will not take place in the Korean real estate market in the future or that the prolonged slowdown of the Korean real estate market will not have a material adverse effect on POSCO E&C's business, results of operations or financial condition.

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

In part to prepare for the eventual maturation of the Korean steel market, our overall strategy includes securing new growth engines by diversifying into new businesses related to our steel operations that we believe will offer greater potential returns, such as liquefied natural gas production, logistics and magnesium coil and sheet production, as well as entering into new businesses not related to our steel operations such as power generation, development of alternative energy and advanced materials, information and technology related consulting services and wireless broadband Internet access service. Our ability to implement this diversification strategy will depend on a variety of factors, some of which are beyond our control, including the availability of qualified engineers and personnel, establishment of new relationships and expansion of existing relationships with various customers and suppliers, procurement of necessary technology and know-how to engage in such businesses and access to investment capital at reasonable costs. No assurance can be given that our diversification strategy can be completed profitably.

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

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

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

We believe that developing new steel manufacturing technologies that can be differentiated from those of our competitors, such as FINEX, strip casting and silicon steel manufacturing technologies, is critical to the success of our business. We take active measures to obtain protection of our intellectual property by obtaining patents and undertaking monitoring activities in our major markets. However, we cannot assure you that the measures we are taking will effectively deter competitors from improper use of our proprietary technologies. Our competitors may misappropriate our intellectual property, disputes as to ownership of intellectual property may arise and our intellectual property may otherwise become known or independently developed by our competitors. Any failure to protect our intellectual property could impair our competitiveness and harm our business and future prospects.

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

We rely on trade secrets and unpatented proprietary know-how and information. We enter into confidentiality agreements with each of our employees and consultants upon the commencement of an employment or consulting relationship. These agreements generally provide that all inventions, ideas, discoveries, improvements and

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patentable material made or conceived by the individual arising out of the employment or consulting relationship and all confidential information developed or made known to the individual during the term of the relationship is our exclusive property. We cannot assure the enforceability of these types of agreements, or that they will not be breached. We also cannot be certain that we will have adequate remedies for any breach. The disclosure of our trade secrets or other know-how as a result of such a breach could adversely affect our business.

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

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In recent years, there have been heightened security concerns stemming from North Korea's nuclear weapons and long-range missile programs and increased uncertainty regarding North Korea's actions and possible responses from the international community. In December 2002, North Korea removed the seals and surveillance equipment from its Yongbyon nuclear power plant and evicted inspectors from the United Nations International Atomic Energy Agency. In January 2003, North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty. Since the renouncement, Korea, the United States, North Korea, China, Japan and Russia have held numerous rounds of six party multi-lateral talks in an effort to resolve issues relating to North Korea's nuclear weapons program.

In addition to conducting test flights of long-range missiles, North Korea announced in October 2006 that it had successfully conducted a nuclear test, which increased tensions in the region and elicited strong objections worldwide. In response, the United Nations Security Council passed a resolution that prohibits any United Nations member state from conducting transactions with North Korea in connection with any large scale arms and material or technology related to missile development or weapons of mass destruction and from providing luxury goods to North Korea, imposes an asset freeze and travel ban on persons associated with North Korea's weapons program, and calls upon all United Nations member states to take cooperative action, including through inspection of cargo to or from North Korea. In response, North Korea agreed in February 2007 at the six-party talks to shut down and seal the Yongbyon nuclear facility, including the reprocessing facility, and readmit international inspectors to conduct all necessary monitoring and verification activities. In June 2008, North Korea also demolished the cooling tower at its main reactor complex in Yongbyon. However, on April 5, 2009, North Korea launched a long-range rocket over the Pacific Ocean, claiming that the launch intended to put an orbital satellite into space. The United States Northern Command issued a statement that North Korea's long-range rocket flew over Japan, with its payload landing in the Pacific Ocean. On April 13, 2009, the United Nations Security Council unanimously passed a resolution that condemned North Korea for the launch and decided to tighten sanctions against North Korea. In response, North Korea announced on April 14, 2009 that it would permanently pull out of nuclear disarmament talks and restart its nuclear program. On May 25, 2009, North Korea announced that it had successfully conducted a second nuclear test and test-fired three short-range, surface-to-air missiles. In response, the United Nations Security Council unanimously passed a resolution on June 12, 2009 that condemned North Korea for the nuclear test and tightened sanctions against North Korea.

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

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

Under the deposit agreement, holders of shares of our common stock may deposit those shares with the ADR depositary's custodian in Korea and obtain ADRs, and holders of ADRs may surrender ADRs to the ADR depositary and receive shares of our common stock. However, under current Korean laws and regulations, the depositary bank is

required to obtain our prior consent for the number of shares to be deposited in any given proposed deposit that exceeds the difference between (i) the aggregate number of shares deposited by us for the issuance of ADSs (including deposits in connection with the initial and all subsequent offerings of ADSs and stock

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dividends or other distributions related to these ADSs) and (ii) the number of shares on deposit with the depositary bank at the time of such proposed deposit. It is possible that we may not give the consent. As a result, if you surrender ADRs and withdraw shares of common stock, you may not be able to deposit the shares again to obtain ADRs. See Item 10. Additional Information Item 10.D. Exchange Controls.

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

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

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

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

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

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

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

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

This annual report contains forward-looking statements that are based on our current expectations, assumptions, estimates and projections about our company and our industry. The forward-looking statements are subject to various risks and uncertainties. Generally, these forward-looking statements can be identified by the use of forward-looking

terminology such as anticipate, believe, estimate, expect, intend, project, should, and similar expressions. Our forward-looking statements include, among other things, the discussions of our business strategy and expectations concerning our market position, future operations, margins, profitability, liquidity and capital resources. We caution you that reliance on any forward-looking statement involves risks and uncertainties,

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and that although we believe that the assumptions on which our forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and, as a result, the forward-looking statements based on those assumptions could be incorrect. The uncertainties in this regard include, but are not limited to, those identified in the risk factors discussed above. In light of these and other uncertainties, you should not conclude that we will necessarily achieve any plans and objectives or projected financial results referred to in any of the forward-looking statements. We do not undertake to release the results of any revisions of these forward-looking statements to reflect future events or circumstances.

Item 4. *Information on the Company*

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

We were established by the Government on April 1, 1968, under the Commercial Code, to manufacture and distribute steel rolled products and plates in the domestic and overseas markets. The Government owned more than 70% of our equity until 1988, when the Government reduced its ownership of our common stock to 35% through a public offering and listing our shares on the KRX KOSPI Market. In December 1998, the Government sold all of our common stock it owned directly, and The Korea Development Bank completed the sale of our shares that it owned in September 2000. The Government no longer holds any direct interest in us, and our outstanding common stock is currently held by individuals and institutions. See Item 7. Major Shareholders and Related Party Transactions Item 7A. Major Stockholders.

Our legal and commercial name is POSCO. Our principal executive offices are located at POSCO Center, 892 Daechi-4-dong, Gangnam-gu, Seoul, Korea, and our telephone number is (822) 3457-0114.

Item 4.B. *Business Overview*

The Company

We are the largest and the only fully integrated steel producer in Korea, and one of the largest steel producers in the world, based on annual crude steel production in 2008. We produced approximately 34.7 million tons of crude steel in 2008 (including 2.1 million tons of stainless steel), a substantial portion of which was produced at Pohang Works and Gwangyang Works. Currently, Pohang Works has 15.0 million tons of annual crude steel and stainless steel production capacity, and Gwangyang Works has an annual crude steel production capacity of 18.0 million tons. We believe Pohang Works and Gwangyang Works are two of the most technologically advanced integrated steel facilities in the world. For a discussion of our capital expenditure plan and actual capital expenditures in recent years, see

Item 5. Operating and Financial Review and Prospects Item 5.B. Liquidity and Capital Resources Liquidity Capital Expenditures and Capital Expansion. We manufacture and sell a diversified line of steel products, including hot rolled and cold rolled products, plates, wire rods, silicon steel sheets and stainless steel products, and we are able to meet a broad range of customer needs from manufacturing industries that consume steel, including automotive, shipbuilding, home appliance, engineering and machinery industries.

We sell primarily to the Korean market, with domestic sales accounting for 68.3% of our total sales volume of steel products in 2008. We believe that we had an overall market share of approximately 39.1% of the total sales volume of steel products sold in Korea in 2008. Our export sales and overseas sales to customers abroad in 2007 and 2008 accounted for 33.8% and 31.7% of our total sales volume of steel products, respectively. Our major export market is Asia, with China accounting for 24.0%, Japan 18.4% and the rest of Asia 22.0% of our total steel export sales volume in 2008.

Business Strategy

Leveraging on our success during the past four decades, our goal is to strengthen our position as one of the leading steel producers in the world and strive to rank among the top three global steel companies in technology leadership, operational excellence and production capacity. In recent years, the global steel industry has undergone significant consolidation, resulting in the emergence of steel companies with expanded production capacity. We seek to achieve continued global excellence in this era of consolidation through a renewed emphasis on growth and innovation. Over the next decade, we seek to expand our position as a global company by adding significant

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production bases outside Korea. We also intend to secure growth by further solidifying our market position in the steel sector, while allocating additional resources into businesses that we believe will offer us greater potential returns and serve as our new growth engines, such as the engineering and construction, energy and information and technology businesses.

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

Continue to Seek Growth Opportunities in the Steel Sector

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

For example, we are in the process of obtaining regulatory approvals from the Indian Government for the construction of an integrated steel mill and the development of iron ore mines in Orissa State. In Vietnam, we obtained an approval from the Vietnamese Government in November 2006 to construct steel mills with an annual production capacity of 1.2 million tons of cold rolled products and 3.0 million tons of hot rolled products. We began construction of a cold rolling mill in Vietnam with target completion in September 2009. In Mexico, we are building a plant with an annual production capacity of 0.4 million tons to produce automotive steel sheets.

We are also building a global distribution network of supply chain management centers to provide processing and logistics services and more effectively respond to changes in consumer trends in the global steel market. In 2008, we operated 35 supply chain management centers worldwide that recorded aggregate sales of 2.15 million tons of steel products. We plan to continue expanding our global network of supply chain management centers, and we expect to operate 50 centers by the end of 2011. In Korea, we plan to continue to expand our production facilities and upgrade our facilities that utilize advanced manufacturing technologies, and we plan to enhance the quality of our products through continued modernization and rationalization of our facilities.

Maintain Technology Leadership

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

Pursue Cost-Cutting through Operational and Process Innovations

We seek to achieve cost reductions in this era of increasing raw material costs through our company-wide process for innovation and enhancing efficiency of operations. We believe that strategic cost cutting measures through utilization

of efficient production methods and management discipline will strengthen our corporate competitiveness. After implementation of Six Sigma innovations in recent years, we are now implementing the Quick Six Sigma program, a customized program that we believe will enhance our corporate culture that rewards innovative ideas at all stages of our operations and enable us to benchmark successful innovations to all relevant processes within the company. We will also strive to invest more in human resources development to nurture employees who are capable of working in the global environment.

Table of Contents***Secure Procurement of Raw Materials through Strategic Investments***

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

Selectively Seek Opportunities in Growth Industries

We will continue to selectively seek opportunities in growth industries to diversify our business both vertically and horizontally. New businesses not related to our steel operations in which we intend to focus our diversification include power generation, alternative energy development and information and technology. POSCO Power Corporation, our wholly-owned subsidiary that is the largest private power generation company in Korea, completed construction of a fuel cell manufacturing plant with an annual production capacity of 50 megawatts in Pohang in 2008 with the objective of enhancing the company's ability to meet the growing demands for clean and renewable energy. Through POSDATA, a 61.9%-owned subsidiary, we also engage in information and technology consulting and wireless broadband Internet access service. Businesses related to our steel operations in which we intend to devote more resources include engineering and construction. POSCO E&C, our consolidated subsidiary and one of the leading engineering and construction companies in Korea, is primarily engaged in the planning, design and construction of industrial plants and architectural works and civil engineering. We will continue to selectively seek opportunities to identify new growth engines and diversify our operations.

Major Products

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

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

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

	For the Year Ended December 31,									
	2004		2005		2006		2007		2008	
Steel Products	Billions of Won	%	Billions of Won	%	Billions of Won	%	Billions of Won	%	Billions of Won	%
	5,449	25.1	5,877	25.0	4,650	20.8	4,495	16.1	6,950	19.4

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Hot rolled products										
Plates	1,987	9.1	2,253	9.6	2,380	10.7	2,847	10.2	4,710	13.2
Wire rods	1,351	6.2	1,528	6.5	1,243	5.6	1,458	5.2	2,236	6.2
Cold rolled products	6,564	30.2	7,527	32.0	6,765	30.3	8,672	31.1	11,751	32.8
Silicon steel sheets	531	2.4	688	2.9	681	3.0	1,105	4.0	1,613	4.5
Stainless steel products	4,920	22.6	4,543	19.3	5,751	25.8	8,268	29.7	7,271	20.3
Others	952	4.4	1,132	4.7	859	3.8	1,003	3.7	1,305	3.6
Total	21,753	100.0	23,547	100.0	22,329	100.0	27,848	100.0		