POSCO
Form 20-F
June 12, 2006

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As filed with the Securities and Exchange Commission on June 12, 2006

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

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2005

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)

The Republic of Korea
(Jurisdiction of incorporation or organization)
Finance Division
POSCO Center
892 Daechi-4-dong, Gangnam-gu
Seoul, Korea
(Address of principal executive offices)
Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of Each Class	Name of Each Exchange On Which Registered

American Depositary Shares, each representing one-fourth of one share of common stock	New York Stock Exchange, Inc.
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
(Title of Class)
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.
\$300,000,000 $7^1/8$% Notes due 2006
(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

80,090,770 shares of common stock, par value Won 5,000 per share

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

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 o No þ

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 þ No o

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 þ Accelerated filer o Non-accelerated filer o

Indicate by check mark which financial statement item the registrant has elected to follow.
Item 17 o Item 18 þ

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 o No þ

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes o No o

* 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.
ADS	American Depositary Share representing one-fourth of one share of Common Stock.
Australian Dollar or A$	The currency of the Commonwealth of Australia.
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.
Government	The government of the Republic of Korea.
Yen or JPY	The currency of Japan.
Korean GAAP	Generally accepted accounting principles in the Republic of Korea.
Gwangyang Works	Gwangyang Steel Works.
We	POSCO.
Pohang Works	Pohang Steel Works.
Republic	The Republic of Korea.
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 or 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 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, 2004 and 2005 and for each of the three years in the period ended December 31, 2005 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 significant respects from U.S. GAAP.

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INCOME STATEMENT DATA

	For the Year Ended December 31,					
	2001	2002	2003	2004	2005	2005(11)
	(in billions of Won and millions of Dollars, except per share data)					
Korean GAAP:						
Sales(1)	W 13,121	W 14,355	W 17,789	W 23,973	W 26,302	US$ 26,041
Cost of goods sold(2)	10,680	11,338	13,451	17,361	18,767	18,581
Selling and administrative expenses	854	967	1,075	1,293	1,451	1,437
Operating income	1,587	2,050	3,263	5,319	6,083	6,023
Interest expense	451	332	250	192	149	148
Foreign exchange transaction and translation gains (losses), net	(10)	135	(105)	179	159	157
Donations(3)	83	50	103	170	153	152
Income taxes	337	398	730	1,502	1,482	1,468
Net earnings	846	1,089	1,996	3,814	4,012	3,972
Basic and diluted earnings per share of common stock(4)	10,366	13,295	24,496	47,185	50,652	50.15
Dividends per share of common stock	2,500	3,500	6,000	8,000	8,000	7.92
U.S. GAAP(5):						
Operating income	W 1,588	W 2,021	W 3,235	W 5,299	W 5,671	US$ 5,615
Net earnings	908	1,018	1,997	3,460	4,102	4,061
Basic and diluted earnings (loss) per share of common stock	11,126	12,430	24,508	42,806	51,789	51.28

BALANCE SHEET DATA

	For the Year Ended December 31,					
	2001	2002	2003	2004	2005	2005(11)
	(in billions of Won and millions of Dollars, except per share data)					
Korean GAAP:						
Working capital(6)	W 1,342	W 1,695	W 3,450	W 5,493	W 5,759	US$ 5,702
Property, plant and equipment, net(7)	10,601	10,325	9,846	10,440	12,272	12,150
Total assets(7)	19,405	19,077	20,769	24,129	27,507	27,235
Long-term debt(8)(9)(10)	4,235	3,194	2,952	2,051	1,131	1,120
Total stockholders Equity(7)	10,351	11,820	13,250	16,386	19,867	19,670
U.S. GAAP(5):						
Property, plant and equipment, net	W 10,522	W 10,322	W 9,880	W 10,541	W 12,420	US$ 12,297
Total assets	19,285	19,000	20,838	24,279	27,525	27,252
Total shareholders Equity	10,940	11,464	13,018	16,208	19,498	19,305

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

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

(3) Includes donations to educational foundations supporting basic science and technology research. See Item 5. Operating and Financial Review and Prospects Item 5.C. Research and Development, Patents and Licenses, Etc. and Note 24 of Notes to Consolidated Financial Statements.

(4) See Note 26 of Notes to Consolidated Financial Statements for method of calculation.

(5) A description of the material differences between Korean GAAP and U.S. GAAP as well as the reconciliation to U.S. GAAP are discussed in detail in Note 33 of Notes to Consolidated Financial Statements.

(6) Working capital means current assets minus current liabilities.

(7) Reflects revaluations of assets permitted under Korean law.

(8) Net of current portion and discount on debentures issued.

(9) For information regarding swap transactions entered into by us, see Item 5. Operating and Financial Review and Prospects Item 5A. Operating Results Exchange Rate Fluctuations and Note 22 of Notes to Consolidated Financial Statements.

(10) Monetary assets and liabilities denominated in foreign currencies are translated into Korean 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 27 of Notes to Consolidated Financial Statements.

(11) Translated into U.S. Dollars at the rate of Won 1,010.00 to US$1.00, the noon buying rate of the Federal Reserve Bank of New York for Won in effect on December 31, 2005. This translation should not be construed as a representation that the Korean 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 noon buying rate for the periods and dates indicated.

Period	**At End of Period**	**Average Rate(1)**	**High**	**Low**
		(per US$1.00)		
2001	1,313.5	1,293.4	1,369.0	1,234.0
2002	1,186.3	1,242.0	1,332.0	1,160.6
2003	1,192.0	1,183.0	1,262.0	1,146.0
2004	1,035.1	1,139.3	1,195.1	1,035.1
2005	1,010.0	1,023.2	1,059.8	997.0
2006 (through June 9)	954.2	958.8	1,002.9	927.4
January	958.9	981.4	1,002.9	958.9
February	979.9	969.8	976.3	962.0
March	971.4	974.7	982.0	966.8
April	942.8	952.6	970.4	939.6
May	945.3	940.8	951.5	927.4
June (through June 9)	954.2	947.9	954.2	942.7

Source: Federal Reserve Bank of New York.

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

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We have translated the Won amounts into Dollars in this prospectus solely for your convenience. We make no representation that the Won or Dollar amounts contained in this prospectus could have been or could be converted into Dollar or Won, as the case may be, at any particular rate or at all.

Item 3.B. ***Capitalization and Indebtedness***

Not applicable

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

Not applicable

Item 3.D. ***Risk Factors***

You should carefully consider the risks described below.

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 73.5% of our total sales volume of steel products in 2005. 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.

From early 1997 until 1999, Korea experienced a significant financial and economic downturn, from which it is widely believed the country has now recovered to a significant extent. However, the economic indicators in recent years have shown mixed signs of recovery and uncertainty, and future recovery or growth of the economy is subject to many factors beyond our control. Events related to the terrorist attacks in the United States on September 11, 2001, recent developments in the Middle East including the war in Iraq, higher oil prices, the general weakness of the global economy and the outbreak of severe acute respiratory syndrome, or SARS, 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 financial condition and results of operations.

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

- financial problems relating to *chaebols,* or Korean conglomerates, and their suppliers;
- failure or lack of progress in restructuring of *chaebols* and other large troubled companies or the financial sector, including credit card companies;
- loss of investor confidence arising from corporate accounting irregularities and corporate governance issues of certain *chaebols;*
- a slowdown in consumer spending;
- adverse changes or volatility in foreign currency reserve levels, commodity prices, exchange rates, 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 manufacturing base from Korea to China);

social and labor unrest;

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

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

the recurrence of SARS or avian flu 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 supply of oil or increase 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 accounted for 26.5% of our total sales volume for steel products in 2005. Our export sales to Asia, including China, Japan, Indonesia, Thailand and Malaysia, accounted for 74.4% of our total export sales volume for steel products in 2005, 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.

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 64.6% of our total long-term debt (excluding discounts on debentures issued and including current portion) as of December 31, 2005;

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

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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 Stock Market Division of the Korea Exchange (formerly the Korea Stock Exchange) and, as a result, will likely affect the market price of the ADSs. These fluctuations will also affect the Dollar conversion by the depositary 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.

We purchase substantially all of the principal raw materials we use from sources outside Korea, including iron ore and coal. In 2005, we imported approximately 42.2 million tons of iron ore and 19.8 million tons of coal. Iron ore is imported primarily from Australia, Brazil and India. Coal is imported primarily from Australia, China, Canada and Russia. 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.

We expect global steel production capacity to continue to expand in the near future, and over-capacity in the global steel industry may return.

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 International Iron and Steel Institute estimated the global crude steel production capacity to increase from 1,057 million tons in 2004 to 1,129 million tons in 2005 and expects that the production capacity to continue to increase further in 2006, primarily as a result of additions of new capacity in China, India and other Asian countries. Over-capacity in the global steel industry may return if increase in demand from developing countries that have experienced significant growth in the past several years does not meet this growth in production capacity. Over-capacity will affect our ability to expand export sales and to increase steel production in general, as well as reduce export prices in Dollar terms of our principal products.

Consolidation in the global steel industry may increase competition.

In recent years, there has been a trend toward industry consolidation among our competitors, and smaller competitors in the global steel market today may become larger competitors in the future. For example, Aceralia, Arbed and Usinor merged in February 2002 to create Arcelor, and LNM Holdings NV and Ispat International NV merged in October 2004 to create Mittal Steel. Mittal Steel also launched a hostile takeover bid in the first half of 2006, which was raised to $33.0 billion in May 2006, for a controlling stake in Arcelor. If successful, it would create a company with approximately 10% of global steel production capacity. Competition from global steel manufacturers with expanded production capacity such as Mittal Steel and Arcelor, and new market entrants, especially from China, 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 have limited experience with operations outside Korea. We intend to expand our production operations internationally by carefully seeking out promising investment opportunities, particularly in China and India, 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. For example, we entered into a memorandum of understanding with Orissa State Government of India in June 2005 for the construction of an integrated steel mill and the development of an iron ore mine in Orissa state. Under the memorandum of understanding, the project contemplates granting of iron ore mining leases for 30 years with possible renewal for an additional 20 years upon application by us. The project contemplates construction of a steel mill from 2007 to 2010 with an annual production capacity of 4 million tons of slab and hot rolled products and construction of additional facilities to increase its annual production capacity to 12 million tons. In addition, the project contemplates development of a mine for up to 600 million tons of iron ore. We estimate the aggregate costs of the initial round of construction and mine development to be approximately $3.7 billion and an additional approximately $8.3 billion in order to increase the annual production capacity to 12 million tons. In return, Orissa State Government will provide us a thirty-year mining lease to develop the mine for up to 600 million tons of iron ore to be used principally at the Orissa steel mill. In preparation of the project, we established POSCO-India Private Limited in August 2005 and made a capital contribution of $53.1 million in September 2005. POSCO-India Private Limited filed an application for a prospecting license to conduct analyses of the applicable iron ore mines on September 27, 2005 and the Orissa State Government approved the land acquisition of the steelworks site (in Jagatsinghpur District) on November 2, 2005. 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 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.

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

In recent years, several of our products have been subject to anti-dumping and countervailing proceedings or safeguard measures, including in the United States 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. Exports to these regions accounted for 9.7% of our sales volume of steel products in 2005. See Item 4. Information on the Company Item 4B. Business Overview Markets Exports.

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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 program 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. In August 2003, representatives of Korea, the United States, North Korea, China, Japan and Russia held six party multi-lateral talks in an effort to resolve issues relating to North Korea s nuclear weapons program. Two more rounds of multi-lateral talks were held in February 2004 and June 2004 without any resolution, and the parties agreed to hold further talks. In February 2005, North Korea pulled out of the six-party disarmament talks and announced that it possesses nuclear weapons.

North Korea returned to the six-party talks and a two-phased fourth round of the talks was held in Beijing, China during the summer and fall of 2005. In September 2005, North Korea agreed in principle to end its nuclear weapons program and the six participating nations signed a draft preliminary accord pursuant to which North Korea agreed to dismantle its existing nuclear weapons, abandon efforts to produce new weapons and readmit international inspectors to its nuclear facilities. Representatives of the six nations reconvened in Beijing in November 2005 for the first phase of the fifth-round of six-party talks, which concluded without further progress being made with respect to the implementation of the draft preliminary accord.

In addition, in October 2004, the United States and Korea agreed to a three-phase withdrawal of 12,500 US troops by the end of 2008, which represent approximately one-third of the U.S. troops stationed in Korea at the time of the agreement.

There can be no assurance that the level of tension on the Korean peninsula will not escalate. Any further increase in tension, including breakdown of high-level contacts between Korea and North Korea or occurrence of military hostilities, could have a material adverse effect on our operations and the market value of our securities.

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

Under the deposit agreement, holders of shares of our common stock may deposit those shares with the ADR depositary s custodian in Korea and obtain ADRs, and holders of ADRs may surrender ADRs to the ADR depositary and receive shares of our common stock. However, under current Korean laws and regulations, the depositary bank is required to obtain our prior consent for the number of shares to be deposited in any given proposed deposit that exceeds the difference between (i) the aggregate number of shares deposited by us for the issuance of ADSs (including deposits in connection with the initial and all subsequent offerings of ADSs and stock dividends or other distributions related to these ADSs) and (ii) the number of shares on deposit with the depositary bank at the time of such proposed deposit. It is possible that we may not give the consent. As a result, if you surrender ADRs and withdraw shares of common stock, you may not be able to deposit the shares again to obtain ADRs. See Item 10. Additional Information Item 10D. 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 of Korea 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 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. 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.

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. statements include, among other things, the discussions of our business strategy and expectations concerning our market position, future operations, margins, profitability, liquidity and capital resources. We caution you that reliance on any forward-looking statement involves risks and uncertainties, and that although we believe that the assumptions on which our forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and, as a result, the forward-looking statements based on those assumptions could be incorrect. The uncertainties in this regard include, but are not limited to, those identified in the risk factors discussed above. In light of these and other uncertainties, you should not conclude that we will necessarily achieve any plans and objectives or projected financial results referred to in any of the forward-looking statements. We do not undertake to release the results of any revisions of these forward-looking statements to reflect future events or circumstances.

Item 4. *Information on the Company*

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

We were established by the Government on April 1, 1968, under the Commercial Code of the Republic of Korea, 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 Stock Market Division of the Korea Exchange. In July 1998, the Government announced its intention to sell all of our common stock owned directly by it or indirectly through The Korea Development Bank. 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.

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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 2005. We produced over 30.5 million tons of crude steel in 2005, substantially all at Pohang Works and Gwangyang Works. Currently, Pohang Works has 13.3 million tons of annual crude steel and stainless steel production capacity, and Gwangyang Works has an annual crude steel production capacity of 16.7 million tons. We manufacture and sell a broad line of steel products, including hot rolled and cold rolled products, plates, wire rods, silicon steel sheets and stainless steel products.

We sell primarily to the Korean market, with domestic sales accounting for 73.5% of our total sales volume of steel products in 2005. We believe that we had an overall market share of approximately 48.5% of the total sales volume of steel products sold in Korea in 2005.

Our exports in 2004 and 2005 accounted for 25.8% and 26.5% of our total sales volume of steel products, respectively. Our major export market is Asia, with China accounting for 32.1%, Japan 22.4% and the rest of Asia 19.9% of our total steel export sales volume in 2005.

Business Strategy

Our goal is to maintain and strengthen our position as one of the leading steel producers in the world. 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. We are currently pursuing the following business strategies.

Continue to Seek Investment Opportunities Abroad and Establish Global Production Base

We carefully seek out promising investment opportunities abroad, primarily in China and India, in part to prepare for the eventual maturation of the Korean steel market. We believe that China and India will continue to offer substantial growth opportunities, and we plan to selectively seek additional investment opportunities and expand our production base in China and India. In November 2003, we launched POSCO China Holding Corporation, a holding company for our investments in China. In June 2005, we also entered into a memorandum of understanding with Orissa State Government of India for the construction of an integrated steel mill and the development of an iron ore mine in Orissa state. Under the memorandum of understanding, the project contemplates granting of iron ore mining leases for 30 years with possible renewal for an additional 20 years upon application by us. The project currently contemplates construction of a steel mill from 2007 to 2010 with an annual production capacity of 4 million tons of slab and hot rolled products and construction of additional facilities to increase its annual production capacity to up to 12 million tons. In addition, the project contemplates development of a mine for up to 600 million tons of iron ore. We estimate the aggregate costs of the initial round of construction and mine development to be approximately $3.7 billion and an additional approximately $8.3 billion in order to increase the annual production capacity to 12 million tons. In return, Orissa State Government is expected to provide us a thirty-year mining lease to develop the mine for up to 600 million tons of iron ore to be used principally at the Orissa steel mill. In preparation of the project, we established POSCO-India Private Limited in August 2005 and made a capital contribution of $53.1 million in September 2005. POSCO-India Private Limited filed an application for a prospecting license to conduct analyses of the applicable iron ore mines on September 27, 2005 and the Orissa State Government approved the acquisition of the steelworks site (in Jagatsinghpur District) on November 2, 2005. We continue to seek investment opportunities abroad in addition to China and India.

Develop Leading Technology to Increase Sales of Higher Margin, Higher Value-Added Products and Enhance Quality of Our Products

We plan to continue to invest in developing leading technology necessary to produce higher margin, higher value-added products and enhance the overall quality of our products. We are currently developing FINEX, a low cost, environmentally friendly steel manufacturing process that we believe optimizes our production capacity by utilizing non-agglomerated iron ore fines and using non-coking coal as an energy source and a reducing agent. We believe that FINEX offers considerable environmental and economic advantages through elimination of major sources of pollution such as sinter and coke plants, as well as decreasing operating and raw material costs. We began construction of our first FINEX plant with an annual production capacity of 1.5 million tons in August 2004 and expect to complete the construction in December 2006. We are also incorporating a new technology called strip casting, in which molten steel ore is transferred directly to steel sheets. We are currently building a testing plant with an annual production capacity of 600 thousand tons that utilizes strip casting technology with expected completion in June 2006.

We have also sought to enhance the quality of our products through continued modernization and rationalization of our facilities. Through our strategic alliance with Nippon Steel, we also participate in jointly sponsored research. Leveraging our leading technology, we plan to further increase the proportion of our sales of higher margin, higher value-added products such as cold-rolled products (including automotive steel sheets), silicon steel sheets and stainless steel products.

Capitalize on e-commerce Opportunities to Enhance Profitability and Operating Efficiency

We are currently implementing strategies that would enable us to take advantage of advances in technology, particularly related to the Internet, to increase our sales and profitability and the efficiency of our operations. We believe that capitalizing on e-commerce opportunities could lead to a number of benefits, including more efficient inventory management, improved delivery time for our products and enhanced customer service. Among the e-commerce opportunities that we are pursuing is the establishment of an online market at *www.steel-n.com* that enables our customers to purchase many of our products through online auctions. We believe that the site provides more cost effective access to a wider customer base. The site also provides various steel industry-related information that we believe contributes to the enhancement of our brand recognition. We plan to continue to seek additional online opportunities to increase our sales and profitability and the efficiency of our operations.

Enhance Efficiency of Operations and Cost-Effectiveness through Company-Wide Process Innovation

Recently we completed the implementation of Six Sigma programs as part of our company-wide process for innovation and enhancing efficiency of operations and launched POSPIA, our integrated management program. We reoriented our business transaction processes, including purchase of raw materials and sale of goods, to focus on our customers and established a computerized resource management system. The company-wide inventory and product classification and data standardization system have substantially cut operational inefficiencies and enhanced our cost-effectiveness. Production scheduling lead time has fallen from 60 days to 15 days, allowing us to shorten our delivery time for hot rolled steel from 30 days to 14 days. In addition, by sharing inventory and cost information in real time, we have shortened the period required to prepare monthly financial accounting data from six days to one. In addition to improving the efficiency of our production, we also strive to create an innovative corporate culture. Under the slogan of improve and practice everyday, the POSCO Six Sigma Model extends to business process management which enables us to monitor and control our performance. We will continue to seek new opportunities to implement our company-wide process innovation and increase our efficiency and cost-effectiveness.

Continue to Expand Our Export Customer Base

Although supplying the Korean domestic market is our priority, we intend to continue to supply a significant amount of our products to customers in overseas markets. Our export and overseas sales represented 26.5% of our total sales volume in 2005, with 74.4% of our export and overseas sales volume to customers in nearby Asian markets in 2005. We intend to further strengthen our global market position by cultivating relationships with our existing overseas customers and assertively seeking out prospective new customers in the emerging markets for high value steel products. Our export sales provide a foreign currency hedge by generating foreign currency that can be used to service our foreign currency debt and to purchase key raw materials, most of which we source from overseas. Maintaining strong relationships with major export customers also provides us with the flexibility to reallocate sales to foreign markets in periods when domestic demand is weak.

Secure Procurement of Raw Materials through Strategic Investments and Long-Term Contracts

We purchase substantially all of the principal raw materials we use, including iron ore and coal, from sources outside Korea. Import prices of these raw materials have increased 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, Brazil and Canada.

Selectively Seek Opportunities in Growth Industries

Our first priority is to maximize revenues and profits from our steel operations. We also selectively seek opportunities in growth industries, in part to prepare for the eventual maturation of the Korean steel market. When determining our diversification projects, we consider attractiveness of the industry and its future growth potential, as well as our capabilities to become competitive in such an industry. New businesses related to our steel operations include liquefied natural gas production and logistics. New businesses not related to our steel operations in which we intend to focus our efforts for diversification include power generation, advanced materials and alternative energy development. For example, we purchased a 50.0% interest in Korea Independent Energy Corporation for Won 291 billion in July 2005 and purchased the remaining 50.0% interest for Won 306 billion in March 2006. Korean Independent Energy Corporation is the largest private power generation company in Korea that operates power plants with total power generation capacity of 1,800 megawatts.

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.

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

	Year Ended December 31,									
	2001		2002		2003		2004		2005	
Steel Products	Billions of Won	%	Billions of Won	%	Billions of Won	%	Billions of Won	%	Billions of Won	%
Hot rolled products	3,125	24.8	3,416	25.4	4,185	26.1	5,449	25.1	5,877	25.0
Plates	1,242	9.9	1,237	9.2	1,320	8.2	1,987	9.1	2,253	9.6
Wire rods	1,149	9.1	1,178	8.7	1,064	6.6	1,351	6.2	1,528	6.5
Cold rolled products	4,055	32.2	4,310	32.0	5,208	32.4	6,564	30.2	7,527	32.0
Silicon steel sheets	304	2.4	347	2.6	431	2.7	531	2.4	688	2.9
Stainless steel products	2,076	16.5	2,278	16.9	3,172	19.7	4,920	22.6	4,543	19.3
Others	624	5.0	700	5.2	687	4.3	952	4.4	1,132	4.7
Total	12,576	100.0	13,465	100.0	16,067	100.0	21,753	100.0	23,547	100.0

	Year Ended December 31,									
	2001		2002		2003		2004		2005	
Steel Products	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%
Hot rolled products	11,381	37.9	11,461	37.8	11,514	37.6	10,966	34.5	10,330	33.2
Plates	3,146	10.5	3,060	10.1	3,047	9.9	3,385	10.6	3,193	10.3
Wire rods	2,802	9.3	2,808	9.3	2,777	9.1	2,503	7.9	2,366	7.6
Cold rolled products	9,425	31.3	9,503	31.3	9,770	31.9	10,242	32.2	10,468	33.6
Silicon steel sheets	591	2.0	589	1.9	671	2.2	705	2.2	737	2.4
Stainless steel products	1,266	4.2	1,394	4.6	1,778	5.8	2,069	6.5	1,919	6.2
Others	1,455	4.8	1,518	5.0	1,100	3.5	1,926	6.1	2,100	6.7
Total	30,065	100.0	30,333	100.0	30,657	100.0	31,796	100.0	31,115	100.0

The sales revenues and sales volumes in the tables above represent the steel product sales of our consolidated entities which are steel-related companies but do not include the non-steel product sales of these entities. They include sales by our consolidated sales subsidiaries of steel products purchased by these subsidiaries from third parties, including trading companies to which we sell steel products. The sales of steel products purchased from third parties amounted to approximately 1.3 million tons in 2001, 1.2 million tons in 2002, 1.4 million tons in 2003, 1.0 million tons in 2004 and 1.0 million tons in 2005, accounting for Won 657 billion in 2001, Won 511 billion in 2002, Won 679 billion in 2003, Won 699 billion in 2004 and Won 807 billion in 2005, respectively.

Hot Rolled Products

Hot rolled coils and sheets have many different industrial applications. They are used to manufacture structural steel used in the construction of buildings, railway rolling stocks, industrial pipes and tanks, and automobile chassis. Hot rolled coil is also manufactured in a wide range of widths and thickness as the feedstock for higher value-added products such as cold rolled products and silicon steel sheets.

Our deliveries of hot rolled products amounted to 10.3 million tons in 2005, representing 33.2% of our total steel sales volume. The Korean market accounted for 8.4 million tons or 81.0% of our hot rolled product sales in 2005, representing a domestic market share of approximately 65.9%. The largest customers of our hot rolled products are downstream steelmakers in Korea who use the products to manufacture pipes and cold rolled products.

Hot rolled products constitute one of our two largest product categories in terms of sales volume and revenue. In 2005, our sales volume of hot rolled products decreased by 5.8% compared to 2004 primarily due to an increase in the quantity set aside for use in the production of cold rolled products and a decrease in demand from the construction industry.

Plates

Plates are used in shipbuilding, structural steelwork, offshore oil and gas production, power generation, mining, and the manufacture of earth-moving and mechanical handling equipment, boiler and pressure vessels and other industrial machinery.

Our deliveries of plates amounted to 3.2 million tons in 2005, representing 10.3% of our total steel sales volume. The Korean market accounted for 3.0 million tons or 92.8% of our plate sales in 2005, representing a domestic market share of approximately 36.9%. The Korean shipbuilding industry, which uses plates to manufacture chemical tankers, rigs, bulk carriers and containers, and the construction industry are our largest customers of plates.

In 2005, our sales volume of plates decreased by 5.7% compared to 2004 primarily due to a temporary suspension of our plates production facility for rationalization, which was partially offset by an increase in demand from the industrial machinery industry.

Wire Rods

Wire rods are used mainly by manufacturers of wire, nails, bolts, nuts and welding rods. Wire rods are also used in the manufacture of coil springs, tension bars and tire cords in the automobile industry.

Our deliveries of wire rods amounted to 2.4 million tons in 2005, representing 7.6% of our total steel sales volume. The Korean market accounted for 2.0 million tons or 85.9% of our wire rod sales in 2005, representing a domestic market share of approximately 69.7%. The largest customers for our wire rods are manufacturers of wire and nails.

In 2005, our sales volume of wire rods decreased by 5.5% compared to 2004 primarily due to a decrease in demand from the construction industry, which more than offset an increase in demand from the automobile industry.

Cold Rolled Products

Cold rolled coils and further refined galvanized cold rolled products are used mainly in the automobile industry to produce car body panels. Other users include the household goods, electrical appliances, engineering and metal goods industries.

Our deliveries of cold rolled products amounted to 10.5 million tons in 2005, representing 33.6% of our total steel sales volume. The Korean market accounted for 6.3 million tons or 60.4% of our cold rolled product sales in 2005, representing a domestic market share of approximately 55.1%.

Cold rolled products constitute one of our two largest product categories in terms of sales volume and revenue. Sales of cold rolled products in recent years have experienced growth due to increasing demand for higher quality products in the automobile, electrical appliances and other industries. In 2005, our sales volume of cold rolled products increased by 2.2% compared to 2004 primarily due to an increase in demand from the automobile industry.

Silicon Steel Sheets

Silicon steel sheets are used mainly in the manufacture of power transformers and generators and rotating machines.

Our deliveries of silicon steel sheets amounted to 737 thousand tons in 2005, representing 2.4% of our total steel sales volume. The Korean market accounted for 475 thousand tons or 64.4% of our silicon steel sheet sales in 2005, representing a domestic market share of approximately 91.3%.

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Our sales volume of silicon steel sheets showed strong growth in recent years following increased demand from manufacturers of power transformers and generators. In 2005, our sales volume of silicon steel sheets increased by 4.5% compared to 2004.

Stainless Steel Products

Stainless steel products are used to manufacture household goods and are also used by the chemical industry, paper mills, the aviation industry, the automobile industry, the construction industry and the food processing industry.

Our deliveries of stainless steel products amounted to 1.9 million tons in 2005, representing 6.2% of our total steel sales volume. The Korean market accounted for 887 thousand tons or 46.2% of our stainless steel product sales in 2005, representing a domestic market share of approximately 48.9%.

Although sales of stainless steel products accounted for only 6.2% of our total sales volume in 2005, they represented 19.3% of our total revenues from sales of steel products in 2005. Our sales volume of stainless steel products decreased by 7.2% compared to 2004 due to a decrease in demand resulting from an oversupply of inventory caused by an increase in production from China.

Others

Other products include lower value-added semi-finished products such as pig iron, billets, blooms and slab.

Markets

Korea is our most important market. Domestic sales represented 73.5% of our total steel sales volume in 2005. Exports and overseas sales represented 26.5% of our total sales volume in 2005. Our sales strategy has been to devote our production primarily to satisfy domestic demand, while seeking export sales to utilize capacity to the fullest extent, to expand our international market presence and to earn foreign exchange.

Domestic Market

The total Korean market for steel products amounted to 47.1 million tons in 2005. We sold a total of 22.9 million tons of steel products in Korea in 2005, maintaining an overall domestic market share of 48.5% for such period.

The table below sets out sales of steel products in Korea for the periods indicated.

	Year Ended December 31,									
	2001		2002		2003		2004		2005	
Region	**Thousands of Tons**	**%**	**Thousands of Tons**	**%**	**Thousands of Tons**	**%**	**Thousands of Tons**	**%**	**Thousands of Tons**	**%**
POSCO s sales	20,894	54.6	21,090	48.2	21,121	46.6	23,599	50.0	22,880	48.5
Other Korean steel companies sales	14,144	37.0	17,732	40.6	17,838	39.3	15,969	33.9	15,957	33.9
Imports(1)	3,235	8.5	4,898	11.2	6,411	14.1	7,595	16.1	8,287	17.6
Total domestic sales(1)	38,273	100.0	43,720	100.0	45,370	100.0	47,163	100.0	47,124	100.0

(1) Source: 2005 Official Statistics, Korea Iron & Steel Association.

Increased demand from the shipbuilding industry and the automobile industry contributed to a robust 14.2% increase in total domestic sales volume in 2002 compared to 2001. Domestic sales volume of other Korean steel companies increased by 25.4% in 2002 to 17.7 million tons, and imports from foreign competitors, primarily from Japan, China and Russia, also showed strong growth of 51.4% in 2002 to

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4.9 million tons. On the other hand, growth in our domestic sales volume slowed to 0.9% in 2002, and our market share dropped to 48.2% in 2002 from 54.6% in 2001.

Total domestic sales increased by 3.8% in 2003, primarily resulting from an increase in demand from the construction industry which more than offset decreases in demand from the automobile industry and the consumer appliance industry. Imports from foreign competitors, primarily from Japan, China and Russia, showed strong growth as import sales volume increased by 30.9% in 2003 to 6.4 million tons. Growth in domestic sales volume of other Korean steel companies in 2003 slowed to 0.6% in 2003 while our domestic sales volume remained stable with a 0.1% increase in 2003 to 21.1 million tons. Accordingly, our market share dropped to 46.6% in 2003 from 48.2% in 2002.

In 2004, total domestic sales increased by 4.0%, primarily due to an increase in demand from the automobile, consumer appliance, and shipbuilding industries which more than offset a decrease in demand from the construction industry. Imports from foreign competitors, primarily from Japan, China, and Russia, showed strong growth as import sales volume increased by 18.5% in 2004 to 7.6 million tons. Growth in domestic sales volume of other Korean steel companies decreased by 10.5% in 2004 while our domestic sales volume increased by 11.7% in 2004 to 23.6 million tons. Accordingly, our market share increased to 50.0% in 2004 from 46.6% in 2003.

In 2005, total domestic sales decreased by 0.1%, primarily due to a decrease in demand from the construction industry, which more than offset an increase in demand from the automobile and shipbuilding industries. Imports from foreign competitors, primarily from Japan, China, and Russia, showed strong growth as import sales volume increased by 9.1% in 2005 to 8.3 million tons. Growth in domestic sales volume of other Korean steel companies decreased by 0.1% in 2005 while our domestic sales volume decreased by 3.0% in 2005 to 22.9 million tons. Accordingly, our market share decreased to 48.5% in 2005 from 50.0% in 2004.

We sell in Korea higher value-added and other finished products to end-users and semi-finished products to other steel manufacturers for further processing. Local distribution companies and sales affiliates sell finished steel products to low-volume customers. We provide service technicians for large customers and distributors in each important product area.

For a discussion of our domestic sales of steel products and factors that may affect domestic sales in the future, see Item 5. Operating and Financial Review and Prospects Item 5.A. Operating Results.

Exports

Our exports and overseas sales represented 26.5% of our total sales volume of steel products in 2005, 74.4% of which was generated in exports and sales to Asian countries. Our exports in terms of sales volume increased by 0.4% to 8.2 million tons in 2005. The tables below set out our exports and sales of steel products in terms of sales volume by geographical market and by product for the periods indicated.

	Year Ended December 31,									
	2001		2002		2003		2004		2005	
Region	**Thousands of Tons**	**%**	**Thousands of Tons**	**%**	**Thousands of Tons**	**%**	**Thousands of Tons**	**%**	**Thousands of Tons**	**%**
China	2,976	32.4	2,828	30.6	3,510	36.8	3,138	38.3	2,640	32.1
Asia (other than China and Japan)	1,965	21.4	2,414	26.1	2,259	23.7	1,502	18.3	1,636	19.9
Japan	2,040	22.2	1,780	19.3	1,719	18.0	1,661	20.3	1,843	22.4
North America	665	7.2	978	10.6	715	7.5	737	9.0	761	9.2
Europe	313	3.4	294	3.2	236	2.5	116	1.4	34	0.4
Others	1,213	13.2	949	10.3	1,096	11.5	1,043	12.7	1,320	16.0

Total	9,172	100.0	9,243	100.0	9,535	100.0	8,198	100.0	8,234	100.0

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	Year Ended December 31,									
	2001		2002		2003		2004		2005	
Steel Products	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%
Hot rolled products	2,225	24.3	2,224	24.1	2,464	25.8	2,049	25.0	1,960	23.8
Plates	318	3.5	300	3.2	363	3.8	295	3.6	229	2.8
Wire rods	672	7.3	679	7.3	598	6.3	252	3.1	333	4.1
Cold rolled products	4,923	53.7	4,694	50.8	4,649	48.8	4,139	50.5	4,142	50.3
Silicon steel sheets	134	1.5	161	1.7	223	2.3	245	3.0	262	3.2
Stainless steel products	646	7.0	706	7.6	795	8.3	1,019	12.4	1,032	12.5
Others	254	2.8	478	5.2	443	4.7	199	2.4	276	3.3
Total	9,172	100.0	9,243	100.0	9,535	100.0	8,198	100.0	8,234	100.0

The table below sets out our total net sales, including non-steel sales, by geographic region for the periods indicated.

	Year Ended December 31,		
Region	2003	2004	2005
		(in billions)	
Korea	W 12,100	W 16,738	W 18,566
China	2,706	3,316	3,118
Asia (other than China and Japan)	1,079	1,257	1,502
Japan	771	1,164	1,372
North America	312	529	550
Other	822	969	1,194
Total	17,789	23,973	26,302

The above tables include sales by our consolidated sales subsidiaries of steel products purchased by these subsidiaries from third parties, including trading companies to which we sell steel products.

The table below sets out the world s apparent crude steel use for the periods indicated.

Year Ended December 31,				
2001	2002	2003	2004	2005

Apparent Crude Steel Use (million metric tons)	863	917	984	1,091	1,136
Percentage of annual increase (decrease)	1.4%	6.3%	7.3%	10.9%	4.1%

Source: International Iron and Steel Institute.

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 International Iron and Steel Institute estimated the global crude steel production capacity to increase from 1,057 million tons in 2004 to 1,129 million tons in 2005 and expects the production capacity to increase further in 2006, primarily as a result of additions of new capacity in China, India and other Asian countries. Over-capacity in the global steel industry may return if increase in demand from developing countries that have experienced significant growth in the past several years does not meet this growth in production capacity.

We distribute our export products mostly through Korean trading companies and our overseas sales subsidiaries. Our largest export market in 2005 was China, which accounted for 32.1% of our export volume of steel products, including sales by our overseas subsidiaries. The principal products exported to China are cold rolled products and stainless steel products. Our exports to China amounted to 3.5 million tons in 2003, 3.1 million tons in 2004 and 2.6 million tons in 2005. Exports to China increased by 24.1% in 2003 due to our increased marketing focus in this region but decreased by 10.6% in 2004 primarily due to our decision to focus on meeting increased domestic demand. Our exports to China further decreased in

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2005 by 15.9% primarily due to unfavorable market conditions in China in the second half of 2005. Sales volume to Asian countries other than China and Japan decreased from 2.3 million tons in 2003 to 1.5 million tons in 2004 primarily due to our decision to focus on meeting increased domestic demand. In 2005, however, sales volume to Asian countries other than China and Japan increased to 1.6 million primarily due to an adjustment of our sales volume from China to other Asian countries with more favorable market price conditions. Our exports to Japan had decreased during the period between 2001 through 2004, from 2.0 million tons in 2001 to 1.7 million tons in 2004 due to a generally unfavorable Japanese market prices. However, sales volume to Japan recovered to 1.8 million in 2005 primarily due to a general increase in Japanese market prices for our products.

To offset the slowdown in the economies of Asian countries in the late 1990s, we focused our efforts on increasing exports to the United States and Europe during that period. However, from 1999 to 2004, sales volume to these regions decreased and remained at low levels, primarily due to our decision to export to Asian countries other than Japan that have higher profit margins. As a result, sales volume to the United States and Europe decreased to 795 thousand tons in 2005, representing only 9.6% of our export volume of steel products.

A significant part of our sales in North America are made to USS-POSCO Industries (UPI), a 50-50 joint venture between U.S. Steel Corporation and us. We sell hot rolled products to UPI, which uses such products to manufacture cold rolled and galvanized steel products for sale in the United States. Our sales to UPI were 539 thousand tons in 2003, 639 thousand tons in 2004 and 572 thousand tons in 2005, accounting for approximately 75% of our sales to North America in 2003, 87% in 2004 and 75% in 2005.

In the United States, a number of our products have been subject to anti-dumping and countervailing proceedings since 1992. As a result of these proceedings, our sales of corrosion resistant steel are subject to a countervailing duty of 1.15% and an anti-dumping duty of 2.06%, our sales of stainless steel plates are subject to an anti-dumping duty of 1.19% and our sales of stainless steel sheets are subject to an anti-dumping duty of 0.92%.

In China, we are subject to an anti-dumping duty of 11.0% on our sales of stainless cold rolled steel since December 2000. However, we entered into a suspension agreement in December 2000 with China and agreed to certain price undertakings. Since then, we have been exporting certain types of stainless cold rolled steel products to China that are exempt from such anti-dumping duty.

Our products that have been subject to anti-dumping and countervailing proceedings or safeguard measures in the aggregate have not accounted for a material portion of our total sales in recent years. Consequently, the anti-dumping and countervailing duties or safeguard measures imposed on our products have not had a material adverse effect on our total sales. However, there can be no assurance that further increases in or new imposition of dumping duties, countervailing duties, quotas or tariffs on our sales in the United States, China or elsewhere may not have a material adverse effect on our exports to these or other regions in the future.

Pricing Policy

We determine the sales price of our products based on market conditions. In setting prices, we take into account our costs, including those of raw materials, supply and demand in the Korean market, exchange rates, and conditions in the international steel market.

Our export prices can fluctuate considerably over time, depending on market conditions and other factors. The export prices of our higher value-added steel products in the largest markets are determined considering the prices of the similar products charged by our competitors. Export prices in Dollar terms, after stabilizing in the first half of 2003, increased until the first half of 2005, primarily as a result of general recovery of the global economy and continued increase in steel consumption in China, as well as increases in transportation cost and price of raw materials. However, our export prices in Dollar terms increased in the first half of 2005 due to an increase in demand in China but decreased in the second half

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of 2005 due to excessive supply of steel products from China. In the first half of 2006, our export prices in Dollar terms have increased due to the recovery of the global steel markets.

Raw Materials

Steel Production

The principal raw materials used in producing steel through the basic oxygen steelmaking method are iron ore and coal. We import all of the coal and virtually all of the iron ore that we use. In 2005, we imported approximately 42.2 million tons of iron ore and 19.8 million tons of coal. Iron ore is imported primarily from Australia, Brazil and India. Coal is imported primarily from Australia, China, Canada and Russia.

In 2005, we purchased most of our iron ore and coal imports pursuant to long-term contracts. We purchased approximately 17% of our iron ore and coal imports in 2005 from foreign mines in which we have made an investment. The long-term contracts generally have terms of three to ten years and provide for periodic price adjustments to the then-market prices. The long-term contracts require us to purchase a minimum amount of the relevant raw materials each year, and to date the minimum purchase amounts have been equivalent to about 10% to 20% of our total yearly purchases under these contracts. We or the suppliers may cancel the long-term contracts only if performance under the contracts is prevented by causes beyond our or their control and these causes continue for a specified period.

The prices of coal and iron ore increased substantially in recent years. The average price of coal per ton (including transportation costs) increased from $49.12 in 2003 to $72.02 in 2004 and $112.15 in 2005. The average price of iron ore per ton (including transportation costs) increased from $26.10 in 2003 to $31.96 in 2004 and $44.22 in 2005. We currently do not depend on any single country or supplier for our coal or iron ore.

In April 2002, we entered into an agreement with BHP Billiton, Itochu Corporation and Mitsui Corporation and invested A$16.3 million to establish the largest iron ore development project in Australia. We have a 20% interest in the project, while BHP Billiton, Itochu and Mitsui have 65%, 8% and 7% interests, respectively. We are obligated under the agreement to purchase 3.0 million tons of iron ore each year, representing approximately 8% of our total annual iron ore procurement amount, for twenty-five years starting in 2003. The purchase price is determined based on the global market price at the time of purchase. We purchased 2.4 million tons of iron ore from this development project in 2004 and 3.2 million tons in 2005.

In 2004 and 2005, we made the following investments in Australia: (i) $38 million to acquire a 20% interest in a coal mine project in Foxleigh, Australia, securing 0.5 million tons of coal per year, (ii) $7.5 million to acquire a 5% interest in a coal mine in Glennies Creek, NSW, Australia, securing 0.5 million tons of coal per year, (iii) $9.4 million to acquire a 5% interest in a coal mine in Carborough Downs, Queensland, Australia, securing 0.8 million tons of coal per year, and (iv) Australian Dollar 3.0 million to acquire 10 million shares of Murchison Metals Ltd. to develop iron ore mines in the western region of Australia. In addition, we invested approximately $25 million to acquire a 2.5% stake in a coal mine project in Elkview, Canada, securing additional 0.7 million tons of coal per year. We continue to seek opportunities to enter into additional strategic relationships, particularly in Brazil, that would enhance our ability to meet our requirements for high quality raw materials.

Stainless Steel Production

The principal raw materials for the production of stainless steel are wrought nickel, ferrochrome, stainless steel scrap and carbon steel scrap. We purchase a substantial portion of our requirements for wrought nickel from leading producers in Australia, Indonesia, New Caledonia, Russia and Japan, as well as Korea. A substantial portion of requirements for ferrochrome are purchased from producers in South Africa, India and Kazakhstan. Most of the requirements for stainless steel scrap are sourced from domestic and overseas suppliers in Japan, United States and Southeast Asian countries. As for the requirements for carbon steel scrap, scrap from the Pohang Steelworks is also utilized. The average nickel price per ton increased from $9,634 in 2003 to $13,852 in 2004 and $15,230 in 2005.

In May 2005, we entered into a memorandum of understanding with Société Minière du Sud Pacifique (SMSP), a New Caledonian nickel mining company, to establish joint ventures to procure nickel ore deposits in New Caledonia and operate a ferro-nickel production plant in Korea with annual production capacity of approximately 30,000 metric tons of nickel. SMSP and we executed a joint venture agreement on April 5, 2006, whereby two joint venture companies were established in Korea and New Caledonia in May 2006 and June 2006, respectively. We expect to invest US$352 million and will have ownership interest of 49% in each joint venture company. The joint venture in New Caledonia will own the nickel mines and assets relating to nickel mining operations. We plan to purchase all of the ferro-nickel produced by the joint venture company in Korea using the nickel ore supplied from the New Caledonian joint venture starting in 2009 and use it for our stainless steel production.

Transportation

Since 1983, we have retained a fleet of dedicated bulk carriers to transport our raw materials through long-term contracts with shipping companies in Korea. These dedicated bulk carriers transported approximately 74% of our coal and iron ore in 2005, with the remaining 26% transported by other vessels through chartering contracts. All imported raw materials are unloaded at our port facilities in Pohang and Gwangyang. Costs of transportation of iron ore and coal represented approximately 21% and 8% of the total cost of such materials in 2005.

The Steelmaking Process

Our major production facilities, Pohang Works and Gwangyang Works, produce steel by the basic oxygen steelmaking method. The stainless steel plant at Pohang Works produces stainless steel by the electric arc furnace method. Continuous casting improves product quality by imparting a homogenous structure to the steel. Pohang Works and Gwangyang Works produce all of their products through continuous casting.

Steel Basic Oxygen Steelmaking Method

First, molten pig iron is produced in a blast furnace from iron ore, which is the basic raw materials used in steelmaking. Molten pig iron is then refined into molten steel in converters by blowing pure oxygen at high pressure to remove impurities. At this stage, steel scrap may be added to increase the volume of molten steel produced. Different desired steel properties may also be obtained by regulating the chemical contents.

At this point, molten steel is made into semi-finished products such as slab, blooms or billets at the continuous casting machine. Slab, blooms and billets are produced at different standardized sizes and shapes. Slab, blooms and billets are semi-finished lower margin products that we either use to produce our further processed products or sell to other steelmakers that produce further processed steel products.

Slab are processed to produce hot rolled coils products at hot strip mills or to produce plates at plate mills. Hot rolled coils are an intermediate stage product that may either be sold to our customers as various finished products or be further processed by us or our customers into higher value-added products, such as cold rolled sheets and silicon steel sheets. Blooms and billets are processed into wire rods at wire rod mills.

Stainless Steel Electric Arc Furnace Method

Stainless steel is produced from stainless steel scrap, chrome, nickel and steel scrap using an electric arc furnace. Stainless steel is then processed into higher value-added products by methods similar to those used for steel production. Stainless steel slab are produced at a continuous casting mill. The slab are

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processed at hot rolling mills into stainless steel hot coil, which can be further processed at cold strip mills to produce stainless cold rolled steel products.

Competition

Domestic Market

We are currently the only fully integrated steel producer in Korea. As we had an overall market share of 48.5% of the total sales volume of steel products sold in Korea in 2005, we generally face fragmented competition in the domestic market. In hot rolled products, where we had a market share of approximately 65.9% in 2005, we face competition from a Korean operator of mini-mills, which produces lower quality products, and from various foreign producers, primarily from China and Japan. In cold rolled products and stainless steel products, where we had a market share of approximately 55.1% and 48.9% in 2005, respectively, we compete with smaller specialized domestic manufacturers and various foreign producers, primarily from China and Japan.

We may face increased competition in the future from new specialized or integrated domestic manufacturers of steel products in the Korean market. Our biggest competitor in Korea is Hyundai Steel, an electric-furnace steel producer with annual crude steel production of 8.2 million tons in 2005. Hyundai Steel is a new company name for INI Steel, which was spun-off from Hyundai Group in August 2000. In October 2004, INI Steel acquired Hanbo Steel, which has an annual production capacity of 1.8 million tons of hot rolled products and 1.2 million tons of steel bars.

The Korean Government does not impose quotas on or provide subsidies to local steel producers. As a World Trade Organization signatory, Korea has also removed all steel tariffs.

Export Markets

The competitors in our export markets include all the leading steel manufacturers of the world. In recent years, there has been a trend toward industry consolidation among our competitors, and smaller competitors in the global steel market today may become larger competitors in the future. For example, Aceralia, Arbed and Usinor merged in February 2002 to create Arcelor, and LNM Holdings and Ispat International merged in October 2004 to create Mittal Steel. Mittal Steel also launched a hostile takeover bid in the first half of 2006, which was raised to $33.0 billion in May 2006 for a controlling stake in Arcelor. If successful, it would create a company with approximately 10% of global steel production capacity. Competition from global steel manufacturers with expanded production capacity such as Mittal Steel and Arcelor, and new market entrants, especially from China, could result in a significant increase in competition. Major competitive factors include the range of products offered, quality, price, delivery performance and customer service. Our larger competitors may use their resources, which may be greater than ours, against us in a variety of ways, including by making additional acquisitions, investing more aggressively in product development and capacity and displacing demand for our export products.

Various export markets currently impose tariffs on different types of steel products. However, we do not believe that tariffs significantly affect our ability to compete in these markets.

Joint Venture and Other Investments

In September 1996, we entered into an agreement with Sagang Group Co. to establish Zhangjiagang Pohang Stainless Steel Co., Ltd., a joint venture company in China for the manufacture and sale of stainless cold rolled steel products. We have a 91.5% interest in the joint venture (including 33.6% interest of POSCO China Holding Corporation). The plant commenced production of stainless cold rolled steel products and galvanizing iron in December 1998 and produced 335 thousand tons of stainless cold rolled products in 2005, as well as 132 thousand tons of galvanizing iron. The joint venture is currently constructing new mills with expected completion in July 2006 in order to add additional annual production capacity of 600 thousand tons of stainless hot rolled products.

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We established Changwon Specialty Steel as a wholly-owned subsidiary in Korea in February 1997. The plants operated by Changwon Specialty Steel have annual production capacities of 810 thousand tons of wire rods, round bars, steel pipes and semi-finished products. Changwon Specialty Steel produced 801 thousand tons of such products in 2005.

We currently hold an 80.0% interest in Qingdao Pohang Stainless Steel Co., Ltd. (including 10.0% interest of POSCO China Holding Corporation), a joint venture set up to manufacture and sell stainless cold rolled steel products in China. Construction of the plant operated by Qingdao Pohang Steel began in August 2003 and became operational in December 2004, with an annual production capacity of 180 thousand tons of stainless cold rolled steel products. Qingdao Pohang Steel produced 130 thousand tons of such products in 2005.

In August 2003, we entered into a joint venture agreement with Benxi Iron and Steel Group in China to establish Benxi Steel POSCO Cold Rolled Sheet Co., Ltd. and build a cold rolling mill with annual production capacity of 1.8 million tons. The cold rolling mill became operational in March 2006. We currently hold a 10.0% interest in this joint venture.

In November 2003, we launched POSCO China Holding Corporation, a wholly-owned holding company for our investments in China. POSCO China Holding Corporation also provides support to our Chinese investment projects and affiliated companies with their marketing efforts in China and solidify their business relationships with clients and suppliers.

Diversification

Our first priority is to maximize revenues and profits from our steel operations. In addition, we selectively seek opportunities in growth industries, in part to prepare for the eventual maturation of the Korean steel market. When determining our diversification projects, we consider attractiveness of the industry and its future growth potential, as well as our capabilities to become competitive in such an industry.

New businesses related to our steel operations include liquefied natural gas production and logistics. We completed the construction of a liquefied natural gas terminal in July 2005. In January 2003, we also entered into a joint venture with Mitsui Corporation of Japan for a 51.0% interest in POSCO Terminal Co., Ltd. which provides logistics services related to storage and transportation of raw materials used in steel production and other industries. Facilities operated by POSCO Terminal Co., Ltd. currently have an annual handling capacity of 6.3 million tons and enable us to transport raw materials on behalf of third parties, including electric power companies, cement companies and overseas steel manufacturers.

New businesses not related to our steel operations in which we intend to focus our efforts for diversification include power generation, development of alternative energy and advanced materials and biotechnology. We purchased a 50.0% interest in Korea Independent Energy Corporation for Won 291 billion in July 2005 and purchased the remaining 50% interest for Won 306 billion in March 2006. Korean Independent Energy Corporation is the largest private power generation company in Korea that operates power plants with total power generation capacity of 1,800 megawatts. For our participation in the development and sale of alternative energy products, such as fuel cells, we plan to establish partnerships with established corporations. As for production of advanced materials, we plan to utilize our proprietary steel rolling and strip casting technologies and to develop additional technologies and manufacturing capabilities. In the biotechnology field, we launched in September 2002 POSCO BioVentures, L.P., a $50.0 million venture capital fund established in the United States. The BioVentures fund is committed to investing in promising biotech companies, including various pharmaceutical companies, and assists in their development in cooperation with the Biotech Center at Pohang University of Science & Technology. In order to seek and develop business opportunities outside the steel industry, we expect to continue to work closely with Pohang University of Science & Technology and Research Institute of Industrial Science & Technology, a private research organization wholly sponsored by POSCO.

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Currently, the revenues we derive from these ventures and companies are not, in the aggregate, material.

Insurance

As of December 31, 2005, our property, plant and equipment are insured against fire and other casualty losses up to Won 4,784 billion. In addition, we carry general insurance for vehicles and accident compensation insurance for our employees to the extent we consider appropriate.

Item 4.C. ***Organizational Structure***

We are not part of a group. Our significant subsidiaries include POSCO Engineering & Construction Co., Ltd., an engineering and construction company, and Posteel Co., Ltd., our steel sales subsidiary. The following table sets out their jurisdiction of incorporation and our ownership interests:

Name	Jurisdiction of Incorporation	Percentage of Ownership
POSCO Engineering & Construction Co., Ltd.	Korea	90.9%
Posteel Co., Ltd.	Korea	95.3%

Item 4.D. ***Property, Plants and Equipment***

Our principal properties are Pohang Works, which is located at Youngil Bay on the southeastern coast of Korea, and Gwangyang Works, which is located in Gwangyang City in the southwestern region of Korea. We expect to increase our production capacity in the future when we increase our capacity as part of our facilities expansion or as a result of continued modernization and rationalization of our existing facilities. For a discussion of major items of our capital expenditures currently in progress, see Item 5. Operating and Financial Review and Prospects Item 5B. Liquidity and Capital Resources Liquidity Capital Expenditures and Capital Expansion.

Pohang Works

Construction of Pohang Works began in 1970 and ended in 1983. Currently, Pohang Works has an annual crude steel and stainless steel production capacity of 13.3 million tons. Pohang Works produces a wide variety of steel products. Products produced at Pohang Works include hot rolled sheets, plates, wire rods and cold rolled sheets, as well as specialty steel products such as stainless steel sheets and silicon steel sheets. These products can also be customized to meet the specifications of our customers.

Situated on a site of 8.9 million square meters at Youngil Bay on the southeastern coast of Korea, Pohang Works consists of 43 plants and 46 supporting facilities, including iron-making, crude steelmaking and continuous casting and other rolling facilities. Pohang Works also has docking facilities capable of accommodating ships as large as 250,000 tons for unloading raw materials, storage areas for up to 45 days supply of raw materials and separate docking facilities for ships carrying products for export. Pohang Works is equipped with an up-to-date computerized production-management system allowing constant monitoring and control of the production process.

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The following table sets out Pohang Work s capacity utilization rates for the periods indicated.

	Year Ended December 31,				
	2001	2002	2003	2004	2005
Crude steel and stainless steel production capacity (million tons per year)	12.20	12.20	12.67	13.30	13.30
Actual crude steel and stainless steel output (million tons)	12.04	12.16	12.67	13.45	13.36
Capacity utilization rate(%)(1)	98.7	99.7	100.0	101.1	100.4

(1) Calculated by dividing actual crude steel and stainless steel output by the actual crude steel and stainless steel production capacity for the relevant period as determined by us.

Gwangyang Works

Construction of Gwangyang Works began in 1985 on a site of 14.0 million square meters reclaimed from the sea in Gwangyang City in the southwestern region of Korea. Production capacity is currently 16.7 million tons per year. Gwangyang Works specializes in high volume production of a limited number of steel products. Products manufactured at Gwangyang Works include both hot and cold rolled types.

Gwangyang Works is comprised of 40 plants and 43 supporting facilities, including iron-making plants, steelmaking plants, continuous casting plants, hot strip mills and thin-slab hot rolling plants. The site also features docking and unloading facilities for raw materials capable of accommodating ships of as large as 300,000 tons for unloading raw materials, storage areas for 44 days supply of raw materials and separate docking facilities.

We believe Gwangyang Works is one of the most technologically advanced integrated steel facilities in the world. Gwangyang Works has a completely automated, linear production system that enables the whole production process, from iron-making to finished products, to take place without interruption. This advanced system reduces the production time for hot rolled products to only four hours. Like Pohang Works, Gwangyang Works is equipped with an up-to-date computerized production-management system allowing constant monitoring and control of the production process.

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

	Year Ended December 31,				
	2001	2002	2003	2004	2005
Crude steel and stainless steel production capacity (million tons per year)	15.80	15.80	16.23	16.70	16.70
Actual crude steel and stainless steel output (million tons)	15.78	15.90	16.23	16.76	17.19
Capacity utilization rate(%)(1)	99.9	100.6	100.0	100.4	102.9

(1) Calculated by dividing actual crude steel and stainless steel output by the actual crude steel and stainless steel production capacity for the relevant period as determined by us.

The Environment

We believe we are in compliance with applicable environmental laws and regulations in all material respects. Our levels of pollution control are higher than those mandated by Government standards. We established an environmental monitoring system with real-time feedback on pollutant levels and a forecast system of pollutant concentration in surrounding areas. We also undergo periodic environmental inspections by both internal and external inspectors in accordance with ISO 14001 standards to monitor execution and maintenance of our environmental management plan. We recently invested in comprehensive waste gas treatment facilities at some of our sinter plants, dust collector at our steelmaking plants and coke wastewater treatment facilities. In addition, we recycle much of the by-products such as slag and sludge into cement, fertilizer, road construction materials and raw materials to be used in the steelmaking process.

POSCO spent Won 93.2 billion in 2003, Won 145.5 billion in 2004 and 127.0 billion in 2005 on anti-pollution facilities.

Item 4A. ***Unresolved Staff Comments***

We do not have any unresolved comments from the Securities and Exchange Commission staff regarding our periodic reports under the Exchange Act of 1934.

Item 5. ***Operating and Financial Review and Prospects***

Item 5.A. ***Operating Results***

Our results of operations are affected by sales volume, unit prices and product mix, costs and production efficiency and exchange rate fluctuations.

Overview

Sales Volume, Prices and Product Mix

In recent years, our net sales have been affected by the following factors:

- the demand for our products in the Korean market and our capacity to meet that demand;
- our ability to compete for sales in the export market;
- price levels; and
- our ability to improve our product mix.

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.

Our sales volume increased by 3.7% in 2004 but decreased by 2.1% in 2005. In 2004, our crude steel output increased to 30.2 million tons and sales volume increased to 31.8 million tons due to an increase in domestic demand primarily from the automobile, consumer appliance, and shipbuilding industries, which outweighed a decrease in demand from the construction industry. In 2005, however, while our crude steel output increased to 30.5 million tons, sales volume decreased to 31.1 million tons due to an increase in our inventory in the second half of 2005 resulting from adverse Chinese market conditions. For a discussion of our sales volume and revenues by major products and markets from 2001 to 2005, see Item 4. Information on the Company Item 4.B. Business Overview Major Products and Markets.

Unit sales price in Won for all of our principal product lines increased in 2004 despite an appreciation of the Korean Won against the Dollar. The weighted average unit prices for our products increased by 30.5% in 2004 compared to 2003. Unit sales price of wire rods, which accounted for 7.9% of total sales volume, increased by 40.9% in 2004. Unit sales price of hot rolled products, which accounted for 34.5% of total sales volume, increased by 36.7% in 2004. Unit sales price of plates, which accounted for 10.6% of total sales volume, increased by 35.5% in 2004. In 2005, unit sales price in Won for all of our principal product lines other than stainless steel products increased, and the weighted average unit prices for our products increased by 10.6% in 2005 compared to 2004 despite an appreciation of the Korean Won against the Dollar. Unit sales price of silicon steel sheets, which accounted for 2.4% of total sales volume, increased by 24.0% in 2005. Unit sales price of plates, which accounted for 10.3% of total sales volume, increased by 20.2% in 2005. Unit sales price of wire rods, which accounted for 7.6% of total sales volume, increased by 19.7%. These increases were partially offset by a 0.5% decrease in unit sales price of stainless steel products, which accounted for 6.2% of total sales volume in 2005.

Export prices in Dollar terms increased in 2004, primarily as a result of general recovery of the global economy as well as continuous increases in transportation costs and price of raw materials. Although export prices in Dollar terms increased in the first half of 2005 primarily as a result of an increase in demand in China, such prices decreased in the second half of 2005 due to excessive supply of steel products in China. In the first half of 2006, our export prices in Dollar terms have increased due to the recovery of the global steel markets. See Item 4. Information on the Company Item 4.B. Business Overview Markets Exports.

The table below sets out the average unit sales prices for our semi-finished and finished steel products for the periods indicated.

	Year Ended December 31,		
Product	**2003**	**2004**	**2005**
	(In thousands of Won per ton)		
Hot rolled products	W 363.5	W 496.9	W 568.9
Plates	433.1	586.8	705.4
Wire rods	383.2	539.6	645.9
Cold rolled products	533.1	640.8	719.0
Silicon steel sheets	642.0	753.0	934.0
Stainless steel products	1,783.7	2,378.4	2,366.9
Others	624.6	494.4	538.6
Average(1)	W 524.1	W 684.1	W 756.8

(1) Average prices are based on the weighted average, by sales volume, of our sales for the listed products. See Item 4. Information on the Company Item 4.B. Business Overview Major Products.

Costs and Production Efficiency

Our major costs and operating expenses are raw material purchases, depreciation, labor and other purchases.

The table below sets out a breakdown of our total costs and operating expenses as a percentage of our net sales for the periods indicated.

	Year Ended December 31,		
	2003	**2004**	**2005**
	(percentage of net sales)		
Cost of goods sold	75.6%	72.4%	71.4%
Selling and administrative expenses(1)	6.0	5.4	5.5
Total operating expenses	81.6	77.8	76.9
Gross margin	24.4	27.6	28.6
Operating margin	18.4	22.2	23.1

(1) See Note 23 of Notes to Consolidated Financial Statements.

Our production efficiency in recent years has continued to benefit from operation near or in excess of stated capacity levels. Production capacity represents our maximum production capacity that can be achieved with an optimal level of operations of our facilities. We expect to increase our production capacity in the future when we increase our production capacity as part of our facilities expansion or as a result of continued modernization and rationalization of our existing facilities. See Item 4. Information on the Company Item 4.D. Property, Plants and Equipment.

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

	2001	2002	2003	2004	2005
Crude steel and stainless steel production capacity (million tons per year)	28.00	28.00	28.90	30.00	30.00
Actual crude steel and stainless steel output (million tons)	27.83	28.07	28.90	30.21	30.54
Capacity utilization rate(%)	99.4	100.3	100.0	100.7	101.8
Steel product sales (million tons)(1)	30.07	30.33	30.66	31.80	31.12
Man-hours per ton of crude steel produced(2)	1.28	1.26	1.17	1.12	1.16

(1) Includes sales by our consolidated sales subsidiaries of steel products purchased by them from third parties, including trading companies to which we sell steel products. These sales amounted to approximately 1.3 million tons in 2001, 1.2 million tons in 2002, 1.4 million tons in 2003, 1.0 million tons in 2004 and 1.0 million tons in 2005.

(2) Does not include in the calculation employees of our subsidiaries or subcontractors.

Exchange Rate Fluctuations

Exchange rate fluctuations also have affected our results of operations and liquidity in recent years. Foreign exchange translation gains and losses arise as a result of fluctuations in the rates of exchange of Won to the foreign currencies in which some of our assets and liabilities are denominated (primarily Dollars and Yen). 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 64.6% of our total long-term debt (excluding discounts on debentures issued and including current portion) as of December 31, 2005;

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

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

Appreciation of the Won, on the other hand, (i) causes our export products to be less competitive by raising our prices in Dollar terms and (ii) reduces net sales and accounts receivables in Won from export sales, which are primarily denominated in Dollars. However, because of the larger positive effects of the appreciation of the Won (i.e., the reverse of the negative effects caused by the depreciation of the Won, as discussed above), appreciation of the Won generally has a positive impact on our results of operations. In terms of the average noon buying rate, the Won appreciated against the Dollar from Won 1,192.0 to US$1 as of December 31, 2003 to Won 1,010.0 to US$1 as of December 31, 2005. See Item 3. Key Information Exchange Rate Information.

We attempt to minimize our exposure to currency fluctuations by attempting to maintain export sales, which result in foreign currency receipts, at a level that covers foreign currency obligations to the extent feasible. As a result, a decrease in our export sales could increase our foreign exchange risks. From time to time we also enter into cross currency swap agreements in the management of our interest rate and currency risks and currency forward contracts with financial institutions to reduce the fluctuation risk of future cash flows. As of December 31, 2005, we had entered into one option contract and six currency forward contracts. The net valuation loss of the above contracts was approximately Won 19.7 billion and the net transaction loss was Won 5.1 billion in 2005. We may incur losses under our existing contracts or any swap or other derivative product transactions entered into in the future. See Note 22 of Notes to Consolidated Financial Statements.

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Impairment Loss on the No. 2 Mini-mill at Gwangyang Works

We started the construction of the no. 2 mini-mill at Gwangyang Works in 1997. Our board of directors decided in May 1998 to temporarily suspend the construction of the mini-mill due to the unstable economic condition in Korea and the Asia Pacific Region. Due to the continuing unstable economic condition and related decrease in the selling price of products, which in turn resulted in the deterioration in profitability, the management s operations committee decided in April 2002 to cease the construction of the No. 2 mini-mill. We recognized impairment losses on the construction-in-progress in Gwangyang No. 2 mini-mill amounting to Won 469.6 billion in 2003 and 2004 and reclassified related machinery held to be disposed of in the future as other investment assets as of December 31, 2004.

Inflation

Inflation in the Republic, which was 3.6% in 2003 and 2004, and 2.7% in 2005 has not had a material impact on our results of operations in recent years.

Critical Accounting Estimates

Our financial statements are prepared in accordance with Korean GAAP and reconciled to U.S. GAAP. The preparation of these financial statements under Korean GAAP as well as the U.S. GAAP reconciliation requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. We have identified the following areas where we believe assumptions and estimates are particularly critical to the financial statements:

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for exposures in our receivable balances that represent our estimate of probable losses in our short-term and long-term receivable balances. Determining the allowance for doubtful accounts requires significant management judgment and estimates including, among others, the credit worthiness of our customers, experience of historical collection patterns, potential events and circumstances affecting future collections and the ongoing risk assessment of our customers ability to pay. Unforeseen circumstances such as adverse market conditions that deviate significantly from our estimates may require us to change the timing of and make additional allowances to our receivable balances.

Valuation of Investment Securities and Derivatives

We invest in various financial instruments including debt and equity securities and derivatives. Depending on the accounting treatment specific to each type of financial instrument, an estimate of fair value is required to determine the instrument s effect on our consolidated financial statements.

If available, quoted market prices provide the best indication of fair value. We determine the fair value of our securities using quoted market prices when available, including quotes from dealers trading those securities. If quoted market prices are not available, we determine the fair value based on pricing or valuation models, quoted prices of instruments with similar characteristics or discounted cash flows. The fair value of unlisted equity securities held for investment (excluding those of affiliates and subsidiaries) is based on the latest obtainable net asset value of the investees, which often reflects cost or other reference events. These fair values based on pricing and valuation models, discounted cash flow analysis, or net asset values are subject to various assumptions used which, if changed, could significantly affect the fair value of the investments.

When the fair value of a listed equity security or the net equity value of an unlisted equity security declines compared to acquisition cost and is not expected to recover (impaired investment security), the value of the equity security is adjusted to its fair value or net asset value, with the valuation loss charged

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to current operations. When the fair value of a held-to-maturity or an available-for-sale investment debt security declines compared to the acquisition cost and is not expected to recover (impaired investment security), the carrying value of the debt security is adjusted to its fair value with the resulting valuation loss charged to current operations.

As part of this impairment review, the investee s operating results, net asset value and future performance forecasts as well as general market conditions are taken into consideration. If we believe, based on this review, that the market value of an equity security or a debt security may realistically be expected to recover, the loss will continue to be classified as temporary. If economic or specific industry trends worsen beyond our estimates, valuation losses previously determined to be recoverable may need to be charged as a valuation loss in current operations.

Significant management judgment is involved in the evaluation of declines in value of individual investments. The estimates and assumptions used by our management to evaluate declines in value can be impacted by many factors, such as the financial condition, earnings capacity and near-term prospects of the company in which we have invested, the length of time and the extent to which fair value has been less than cost, and our intent and ability to hold the related security for a period of time sufficient to allow for any recovery in market value. The evaluation of these investments is also subject to the overall condition of the economy and its impact on the capital markets. Any changes in these assumptions could significantly affect the valuation and timing of recognition of valuation losses classified as other than temporary.

Impairment of Long-lived Assets

The depreciable lives of long-lived assets are estimated and the assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. The recoverable amount is measured at the greater of net selling price or value in use. When the book value of long-lived asset exceeds the recoverable value of the asset due to obsolescence, physical damage or a sharp decline in market value and the amount is material, the impairment of assets is recognized and the asset s carrying value is reduced to its recoverable value and the resulting impairment loss is charged to current operations. Such recoverable value is based on our estimates of the future use of assets which is subject to changes in market conditions.

Our estimates of the useful lives and recoverable values of long-lived assets are based on historical trends adjusted to reflect our best estimate of future market and operating conditions. Also, our estimates include the expected future period in which the future cash flows are expected to be generated from continuing use of the assets that we review for impairment and cash outflows to prepare the assets for use that can be directly attributed or allocated on a reasonable and consistent basis. If applicable, estimates also include net cash flows to be received or paid for the disposal of the assets at the end of their useful lives. As a result of the impairment review, when the sum of the discounted future cash flows expected to be generated by the assets is less than the book value of the assets, we recognize impairment losses based on the recoverable value of those assets. We made a number of significant assumptions and estimates in the application of the discounted cash flow model to forecast cash flows, including business prospects, market conditions, selling prices and sales volume of products, costs of production and funding sources. Further impairment charges may be required if triggering events occur, such as adverse market conditions, suggesting deterioration in an asset s recoverability or fair value. Assessment of the timing of when such declines become other than temporary and/or the amount of such impairment is a matter of significant judgment. Results in actual transactions could differ from those estimates used to evaluate the impairment of such long-lived assets. A percentage difference in cash flow projections or discount rate used would not likely result in an impairment write-down.

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Operating Results

2005 Compared to 2004

Our sales in 2005 increased by 9.7% to Won 26,302 billion from Won 23,973 billion in 2004, reflecting an increase of 10.6% in the average unit sales price per ton of our steel products, as discussed in Overview Sales Volume, Prices and Product Mix above, which more than offset a 2.1% decrease in the sales volume of our steel products.

Sales volume of stainless steel products, which accounted for 6.2% of total sales volume, showed the greatest decrease among our major steel product categories in 2005 with a decrease of 7.3%. Sales volume of hot rolled products, which accounted for 33.2% of total sales volume, decreased by 5.8%. In addition, sales volume of plates, which accounted for 10.3% of total sales volume, decreased by 5.7%. These decreases in sales volume were partially offset by increases in sales volume of silicon steel sheets and cold rolled products. Sales volume of silicon steel sheets, which accounted for 2.4% of total sales volume, showed the greatest increase among our major steel product categories in 2005 with an increase of 4.5%. Sales volume of cold rolled products, which accounted for 33.6% of total sales volume, increased by 2.2%. See Item 4. Information on the Company Item 4B. Business Overview Major Products.

Our domestic sales in 2005 increased by 10.9% in terms of total sales revenues but decreased by 3.0% in terms of sales volume of steel products compared to 2004. In 2005, our domestic sales accounted for approximately 73.5% of our total sales volume, compared to 74.2% in 2004. The increase in domestic sales revenues in 2005 compared to 2004 was attributable primarily to an increase in the price of steel products sold in Korea, which more than offset a decrease in domestic sales volume.

Our export sales in 2005 increased by 6.9% in terms of sales revenues and by 0.4% in terms of sales volume compared to 2004. Exports as a percentage of total sales volume increased to 26.5% of our total sales volume in 2005 compared to 25.8% in 2004. The increase in export sales in terms of sales revenues in 2005 compared to 2004 was primarily attributable to an increase in the price of steel products sold abroad and to a lesser extent, an increase in export sales volume, which more than offset the reduction in net sales in Won from export sales due to appreciation of the Won against the Dollar.

Gross profit in 2005 increased by 13.9% to Won 7,535 billion from Won 6,612 billion in 2004. Gross margin in 2005 increased to 28.6% from 27.6% in 2004, as the 9.7% increase in sales more than offset an 8.1% increase in cost of goods sold in 2005 to Won 18,767 billion from Won 17,361 billion in 2004. The increase in cost of goods sold was attributable primarily to increases in purchase of raw materials, as well as an increase in labor expenses resulting from higher performance bonuses. Raw materials costs in 2005 increased primarily as a result of a general increase in the unit costs of coal, iron ore, nickel and scrap metal, as well as an increase in our production of crude steel to 30.5 million tons in 2005 compared to 30.2 million tons in 2004. The average price of coal per ton (including all associated costs such as customs duties and transportation costs) increased from $72.02 in 2004 to $112.15 in 2005. The average price of iron ore per ton (including all associated costs such as customs duties and transportation costs) increased from $31.96 in 2004 to $44.22 in 2005.

Operating income in 2005 increased by 14.4% to Won 6,083 billion compared to Won 5,319 billion in 2004. Operating margin increased to 23.1% in 2005 from 22.2% in 2004, as selling and administrative expenses increased by 12.3% in 2005 to Won 1,451 billion compared to Won 1,293 billion in 2004. The increase in selling and administrative expenses resulted principally from increases in provision for doubtful accounts, advertising expenses, fees and charges and labor-related expenses. Our provision for doubtful accounts increased by 94.4% in 2005 to Won 104 billion from Won 54 billion in 2004 primarily as a result of slowdown in the construction industry and an increase in reserve for doubtful receivables of POSCO Engineering & Construction Co., Ltd. Advertising expenses increased by 98.8% in 2005 to Won 98 billion from Won 49 billion in 2004 primarily as a result of reclassification of advertising expenses incurred in our Pohang and Gwangyang plants, which had been classified as manufacturing expenses until 2004, pursuant to recommendation by our internal accounting standards review committee in 2005. Our fees and charges in 2005 increased by 59.3% to Won 122 billion compared to Won 77 billion in 2004, primarily as a result

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of an increase in such expenses from POSCO Engineering & Construction. Our labor-related expenses included in selling and administrative expenses, which consist of salaries, welfare expenses and provisions for severance benefits, increased by 13.3% to Won 315 billion in 2005 from Won 278 billion in 2004, primarily as a result of a Won 20 billion increase in salaries, as well as higher welfare expenses and performance bonuses. Our welfare expenses increased by Won 12 billion in 2005 compared to 2004 primarily as a result of our decision to sell 1,325,800 shares of treasury stock in 2005 to the employee stock ownership association, with the difference between the fair value and the proceeds being recognized as welfare expenses.

Our net income in 2005 increased by 5.2% to Won 4,012 billion compared to Won 3,814 billion in 2004 as an increase in operating income, a decrease in loss on impairment of investments, an increase in non-operating income-others and a decrease in interest expense more than offset effects from an increase in non-operating expenses-others and a decrease in gain on recovery of allowance for doubtful accounts. Loss on impairment of investments decreased by 87.5% to Won 12 billion from Won 95 billion in 2004 primarily due to the absence of large impairments of investments in 2005 such as the impairment of Won 79 billion in 2004 related to our decision to permanently cease construction of our mini-mill discussed above. Non-operating income-others increased by 50.6% to Won 211 billion compared to Won 140 billion in 2004 primarily due to the reclassification of certain research and development costs relating to a strip casting testing plant previously recognized as expenses and an increase in interest payments to POSCO Engineering & Construction by its subcontractors from delayed receivables. We previously recognized research and development costs relating to a strip casting plant as expenses based on our conclusion that the technology was not available for immediate commercialization. However, we made an adjustment to non-operating income-others in 2005 because we classified the testing plant as tangible asset in 2005 and plan to use the plant to test our new technologies. Our interest expense decreased by 22.2% to Won 149 billion in 2005 from Won 192 billion in 2004 as we reduced our borrowings in 2005. Our non-operating expenses-others increased to Won 854 billion in 2005 from Won 165 billion in 2004 primarily due to an increase in subsidies to 1,672 employees who were transferred to outsourcing companies in 2005 to increase our labor productivity compared to 40 such employees in 2004, our payment of additional income taxes of Won 179 billion in 2005 in response to an audit conducted by the National Tax Service of our corporate income tax returns for 2000 to 2004, which we are currently taking legal actions to reconcile differences in the interpretation of Korean tax laws, as well as a loss of Won 120 billion related to our disposal of SK Telecom shares to enhance shareholders equity through disposition of non-core assets**.** Our gain on recovery of allowance for doubtful accounts in 2005 decreased by 85.3% to Won 19 billion compared to Won 127 billion in 2004, primarily due to the absence of large recoveries in 2005 such as our recovery of Won 108 billion from settlement of liquidation dividends from POSVEN in 2004.

Our effective tax rate in 2005 was 27.0% compared to 28.1% in 2004. The statutory income tax rate applicable to us, including resident tax surcharges, decreased to 27.5% in 2005 from 29.7% in 2004. See Note 25 of Notes to Consolidated Financial Statements.

2004 Compared to 2003

Our sales in 2004 increased by 34.8% to Won 23,973 billion from Won 17,789 billion in 2003, reflecting an increase of 30.5% in the average unit sales price per ton of our steel products and a 3.7% increase in the sales volume of our steel products.

Sales volume of stainless steel products, which accounted for 6.5% of total sales volume, showed the greatest increase among our major steel product categories in 2004 with an increase of 16.4%. Sales volume of plates, which accounted for 10.6% of total sales volume, increased by 11.1%. Sales volume of silicon steel sheets, which accounted for 2.2% of total sales volume, increased by 5.1%. In addition, sales volume of cold rolled products, which accounted for 32.2% of total sales volume, increased by 4.8%. On the other hand, sales volume of wire rods, which accounted for 7.9% of total sales volume, decreased by 9.9%, and sales volume of hot rolled plates, our largest product category in terms of sales volume which accounted for 34.5% of total sales volume, decreased by 4.8%. See Item 4. Information on the Company Item 4B. Business Overview Major Products.

Our domestic sales in 2004 increased by 38.3% in terms of total sales revenues and 11.7% in terms of sales volume of steel products compared to 2003. In 2004, our domestic sales accounted for approximately 74.2% of our total sales volume, compared to 68.9% in 2003. The increase in domestic sales revenues in 2004 compared to 2003 was attributable primarily to an increase in the price of steel products sold in Korea and, to a lesser extent, on an increase in domestic sales volume.

Our export sales in 2004 increased by 27.2% in terms of sales revenues and decreased by 14.0% in terms of sales volume compared to 2003. Exports as a percentage of total sales volume decreased to 25.8% of our total sales volume in 2004 compared to 31.1% in 2003. The increase in export sales in terms of sales revenues in 2004 compared to 2003 was primarily attributable to an increase in the price of steel products sold abroad, which outweighed the overall decrease in sales volume and the reduction in net sales in Won from export sales due to appreciation of the Won against the Dollar.

Gross profit in 2004 increased by 52.4% to Won 6,612 billion from Won 4,338 billion in 2003. Gross margin in 2004 increased to 27.6% from 24.4% in 2003, as the 34.8% increase in sales more than offset a 29.1% increase in cost of goods sold in 2004 to Won 17,361 billion from Won 13,451 billion in 2003. The increase in cost of goods sold was attributable primarily to increases in purchase of raw materials, as well as an increase in labor expenses resulting from higher performance bonuses. Raw materials costs in 2004 increased primarily as a result of a general increase in the unit costs of coal, iron ore, nickel and scrap metal, as well as an increase in our production of crude steel to 30.2 million tons in 2004 compared to 28.9 million tons in 2003. The average price of coal per ton (including all associated costs such as customs duties and transportation costs) increased from $49.12 in 2003 to $72.02 in 2004. The average price of iron ore per ton (including all associated costs such as customs duties and transportation costs) increased from $26.10 in 2003 to $31.96 in 2004.

Operating income in 2004 increased by 63.0% to Won 5,319 billion compared to Won 3,263 billion in 2003. Operating margin increased to 22.2% in 2004 from 18.3% in 2003, as selling and administrative expenses increased by 20.2% in 2004 to Won 1,293 billion compared to Won 1,075 billion in 2003. The increase in selling and administrative expenses resulted principally from increases in transportation and storage expenses, provision for doubtful accounts and labor-related expenses. Our transportation and storage expenses in 2004 increased by 10.8% to Won 494 billion compared to Won 446 billion in 2003, primarily as a result of an increase in our transportation fees per ton, as well as an increase in the transportation volume. Our provision for doubtful accounts increased almost six-fold in 2004 to Won 54 billion from Won 9 billion in 2003 primarily as a result of a slowdown in the construction industry and an increase in reserve for doubtful receivables of POSCO Engineering & Construction Co., Ltd. Our labor-related expenses included in selling and administrative expenses, which consist of salaries, welfare expenses and provisions for severance benefits, increased by 16.1% to Won 278 billion in 2004 from Won 239 billion in 2003, primarily as a result of a Won 28 billion increase in welfare expenses, as well as higher wages and performance bonuses. Our welfare expenses increased in 2004 primarily as a result of our decision to sell 1,575,039 shares of treasury stock in 2004 to the employee stock ownership association, with the difference between the fair value and the proceeds being charged to welfare expenses.

Our net income in 2004 increased by 91.1% to Won 3,814 billion compared to Won 1,996 billion in 2003 as increases in operating income, net gain on foreign currency translation and gain on recovery of allowance for doubtful accounts and decreases in loss on impairment of property, plant and equipment and interest expense more than offset effects from increases in loss on impairment of investments and donations. We recorded net gain on foreign currency translation of Won 160 billion in 2004 compared to net loss on foreign currency translation of Won 112 billion in 2003 as the Korean Won appreciated in 2004 against the Dollar. Our gain on recovery of allowance for doubtful accounts in 2004 increased by almost ten-fold to Won 127 billion compared to Won 13 billion in 2003, primarily as a result of our recovery of Won 108 billion from settlement of liquidation dividends from POSVEN in 2004. Loss on impairment of property, plant and equipment decreased by 51.8% in 2004 to Won 73 billion from Won 151 billion in

2003, as impairment related to our no. 2 mini-mill in Gwangyang of Won 79 billion was treated as impairment of investments in 2004 whereas impairment related to the mini-mill of Won 151 billion in 2003 was treated as impairment of property, plant, and equipment, which effect more than offset recognition of impairment of property, plant and equipment of Won 63 billion on the building and land of our Japanese branch in 2004 compared to no such impairment in 2003. Our loss on impairment of investments in 2004 increased eight-fold to Won 95 billion from Won 12 billion in 2003, primarily as a result of impairment of investments of Won 79 billion in 2004 related to our decision to permanently cease construction of our mini-mill discussed above. Interest expense in 2004 decreased by 23.3% to Won 192 billion compared to Won 250 billion in 2003 due to our reduction in debt and a general decrease in interest rates. Our donations also increased by 64.3% in 2004 to Won 170 billion from Won 103 billion in 2003 as we contributed Won 58 billion in 2004 to employees welfare fund.

Our effective tax rate in 2004 was 28.1% compared to 26.6% in 2003. The statutory income tax rate applicable to us, including resident tax surcharges, remained constant at 29.7% in 2003 and 2004. See Note 25 of Notes to Consolidated Financial Statements.

Item 5.B. *Liquidity and Capital Resources*

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

	Year Ended December 31,		
	2003	**2004**	**2005**
	(in billions of Won)		
Net cash provided by operating activities	W 3,499	W 4,946	W 5,462
Net cash used in investing activities	2,135	3,386	3,742
Net cash used in financing activities	1,046	1,650	1,578
Cash and cash equivalents at beginning of period	268	594	482
Cash and cash equivalents at end of period	594	482	654
Net increase (decrease) in cash and cash equivalents	326	(112)	172

Capital Requirements

Historically, uses of cash consisted principally of purchases of property, plant and equipment and other assets and payments of long-term debt. Net cash used for investing activities was Won 2,135 billion in 2003, Won 3,386 billion in 2004 and Won 3,742 billion in 2005. These amounts included purchases of property, plant and equipment of Won 1,299 billion in 2003, Won 2,265 billion in 2004 and Won 3,361 billion in 2005. We recorded net acquisition of trading securities of Won 81 billion in 2003 and Won 64 billion in 2004 and net disposal of trading securities of Won 222 billion in 2005. We also recorded net acquisition of available-for-sale securities of Won 493 billion in 2003, Won 167 billion in 2004 and Won 271 billion in 2005. In our financing activities, we used cash of Won 1,317 billion in 2003, Won 1,125 billion in 2004 and Won 1,368 billion in 2005 for principal repayments of outstanding long-term debt. We used Won 263 billion in 2003, Won 305 billion in 2004 and Won 1,295 billion in 2005 for the repurchase of our shares from the market as treasury stock. We raised cash of Won 932 billion in 2005 from disposal of treasury shares, including our sale of 3,500,000 shares in the form of ADSs in connection with the listing on the Tokyo Stock Exchange in November 2005.

We anticipate that capital expenditures and repayments of outstanding debt will represent the most significant uses of funds for the next several years. From time to time, we may also require capital for investments involving acquisitions and strategic relationships and repurchase of our shares from the market as treasury stock. Our total capital expenditures were Won 3,361 billion in 2005 and, under current plans, are estimated to increase to approximately Won 3,995 billion in 2006 to maintain our competitive strengths and develop higher margin, higher value-added products. We retain the ability to reduce or suspend our planned capital expenditures. However, our failure to undertake planned expenditures on steel-producing facilities could adversely affect the modernization of our production facilities and our ability to produce higher value-added products.

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In addition to our funding requirements relating to our capital investment program, payments of the principal of and interest on indebtedness will require considerable resources. Principal repayment obligations with respect to long-term debt outstanding as of December 31, 2005 are Won 1,056 billion in 2006, Won 213 billion in 2007, Won 564 billion in 2008, Won 189 billion in 2009 and Won 168 billion in 2010 and beyond. As of December 31, 2005, we had short-term borrowings of Won 860 billion and current portion of long term debt of Won 1,057 billion. We expect to repay these obligations primarily through cash provided by operations and additional borrowings.

We paid dividends on common stock in the amount of Won 326 billion in 2003, Won 525 billion in 2004 and Won 681 billion in 2005.

The following table sets forth the amount of long-term debt, capital lease and operating lease obligations as of December 31, 2005.

	Payments due by Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1 to 3 years**	**4 to 5 years**	**After 5 years**
	(in billions of Won)				
Long-term debt obligations	2,189.6	1,055.6	966.4	167.6	
Capital lease obligations	3.1	2.8	0.3		
Operating leases obligations	10.5	6.7	3.8		
Purchase obligations	(a)	(a)	(a)	(a)	(a)
Other long-term liabilities					
Total	2,203.2	1,065.1	970.5	167.6	

(a) Our purchase obligations include long-term contracts to purchase iron ore, coal, nickel, chrome, stainless steel scrap and liquefied natural gas. These contracts generally have terms of three to ten years and provide for periodic price adjustments to then-market prices. As of December 31, 2005, 500 million tons of iron ore and 113 million tons of coal remained to be purchased under long-term contracts.

In addition, as of December 31, 2005, contingent liabilities for outstanding guarantees provided for the repayment of loans of affiliated companies and non-affiliated companies totaled Won 561 billion and Won 509 billion, respectively. See Note 17 of Notes to Consolidated Financial Statements for a description of our commitments and contingent liabilities.

Capital Resources

We have traditionally met our working capital and other capital requirements principally from cash provided by operations, while raising the remainder of our requirements primarily through long-term and short-term debt. We do not depend on the use of off-balance sheet financing arrangements.

Our major sources of cash have been net earnings before depreciation and amortization and proceeds of long-term debt and other long-term liabilities, and we expect that these sources will continue to be our principal sources of cash in the future. Net income before depreciation and amortization were Won 3,564 billion in 2003, Won 5,380 billion in 2004 and Won 5,624 billion in 2005, and cash proceeds from long-term debt were Won 600 billion in 2003, Won 280 billion in 2004 and Won 594 billion in 2005. Cash proceeds in 2003 included Won 513 billion we raised through the disposition of 1,696,428 shares of SK Telecom to Zeus (Cayman), an exempted company formed with limited liability under the laws of the Cayman Islands. This disposition was effected in conjunction with Zeus (Cayman) s issuance of notes exchangeable into SK Telecom ADSs, whose notes are fully and unconditionally guaranteed by us. Total long-term debt, including current portion and excluding discount on debentures issued, was Won 3,989 billion as of December 31, 2003, Won 3,104 billion as of December 31, 2004 and Won 2,190 billion as of December 31, 2005.

We believe that we have sufficient working capital available to us for our current requirements and that we have a variety of alternatives available to us to satisfy our financial requirements to the extent that they are not met by funds generated by operations, including the issuance of debt and equity securities and bank borrowings denominated in Won and various foreign currencies. However, our ability to rely on some of these alternatives could be affected by factors such as the liquidity of the Korean and other financial markets, prevailing interest rates, our credit rating and the Government s policies regarding Won currency and foreign currency borrowings.

Our total shareholders equity increased from Won 13,250 billion as of December 31, 2003 to Won 19,867 billion as of December 31, 2005. This growth is attributable primarily to growth in retained earnings.

Liquidity

Our liquidity is affected by exchange rate fluctuations. See Overview Exchange Rate Fluctuations. Approximately 32.0% of our sales in 2003, 30.2% of our sales in 2004 and 29.4% of our sales in 2005 were denominated in foreign currencies, of which approximately two-thirds were denominated in Dollars and one-third in Yen and which were derived almost entirely from export sales. As of December 31, 2005, approximately 64.6% of our long-term debt (excluding discounts on debentures issued and including current portion) was denominated in foreign currencies, principally in Dollars and Yen. We have incurred foreign currency debt in the past principally due to the limited availability and cost of Won-denominated financing in the Republic, which had historically been higher than for Dollar or Yen-denominated financings.

Our liquidity is also affected by our construction expenditures and raw materials purchases. Cash used for purchases of property, plant and equipment was Won 1,299 billion in 2003, Won 2,265 billion in 2004 and Won 3,361 billion in 2005. We have entered into several long-term contracts to purchase iron ore, coal and other raw materials. The long-term contracts generally have terms of three to ten years and provide for periodic price adjustments to then-market prices. At December 31, 2005, 500 million tons of iron ore and 113 million tons of coal remained to be purchased under long-term contracts. We may face unanticipated increases in capital expenditures and raw materials purchases. There can be no assurance that we will be able to secure funds on satisfactory terms from financial institutions or other sources which are sufficient for our unanticipated needs.

We had a working capital (current assets minus current liabilities) surplus of Won 3,450 billion as of December 31, 2003, Won 5,493 billion as of December 31, 2004 and Won 5,759 billion as of December 31, 2005. As of December 31, 2005, we had unused credit lines of Won 1,484 billion out of total available credit lines of Won 2,174 billion. We have not had, and do not believe that we will have, difficulty gaining access to short-term financing sufficient to meet our current requirements.

The following table sets forth the summary of our significant current assets for the periods indicated:

	As of December 31,		
	2003	**2004**	**2005**
	(in billions of Won)		
Cash and cash equivalents, net of government grants	W 593	W 480	W 653
Short-term financial instruments	695	647	760
Trading securities	1,321	2,690	2,611
Trade accounts and notes receivable, net of allowance for doubtful accounts and present value discount	2,308	3,094	3,045
Inventories	2,068	3,066	3,793

Under Korean GAAP, bank deposits and all highly liquid temporary cash instruments within maturities of three months are considered as cash equivalents. Short-term financial instruments primarily consist of time and trust deposits with maturities between four to twelve months.

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The following table sets forth the summary of our significant current liabilities for the periods indicated:

	As of December 31,		
	2003	2004	2005
	(in billions of Won)		
Trade accounts and notes payable	W 917	W 1,082	W 1,146
Short-term borrowings	732	658	860
Income tax payable	573	1,087	1,367
Current portion of long-term debt, net of discount on debentures issued	1,021	1,047	1,057

In January 2000, we reduced our period for payment of accounts receivable for all customers from a range of 70 days to 80 days to a range of 30 days to 60 days. We do not believe that these changes in the credit terms for our customers have had or will have a material effect on our cash flows.

Capital Expenditures and Capacity Expansion

Our capital expenditures for 2003, 2004 and 2005 amounted to Won 1,299 billion, 2,265 billion and Won 3,361 billion, respectively.

Our current capital investment in production facilities emphasizes capacity rationalization, increased production of higher value-added products and improvements in the efficiency of older facilities in order to reduce operating costs. Our total capital expenditures are estimated to be approximately Won 3,995 billion in 2006. The following table sets out the major items of our capital expenditures currently in progress:

Project	Expected Completion Date	Total Cost of Project	Estimated Remaining Cost of Completion as of December 31, 2005
		(in billions of Won)	
Pohang Works:			
Construction of FINEX demonstration plant	December 2006	553	273
Rationalization of silicon steel mill (level 2)	March 2007	309	152
Second relining of no. 3 blast furnace	May 2006	264	188
Replacement of no. 2 hot rolled mill	June 2006	226	173
Installation of de-phosporization facility at no. 2. steelmaking department	February 2007	143	104
Installation of rolling equipment at no. 2 hot rolled mill	June 2006	129	110
Gwangyang Works:			
Rationalization of no.3 hot rolled mill	December 2007	263	244
Installation of no. 6 continuous galvanizing line	June 2006	230	17
Coke oven gas purification facility	June 2007	176	151
	May 2006	135	52

Upgrading of pickling-tandem cold mill at no 1. cold rolled mill

Significant Changes in Korean GAAP

In February 2004, the Korean Accounting Standards Boards issued Statements of Korean Financial Accounting Standards (SKFAS) No. 15, Equity Investment. This statement provides clarification that our proportionate unrealized profit arising from sales by us to equity method investees, sales by the equity method investees to us or sales between equity method investees should be eliminated. SKFAS No. 15 amends Interpretation No. 42-59 which prescribes that unrealized profit arising from sales by us to equity method investees should be fully eliminated. Under SKFAS No. 15, we also assess the potential impairment of investment securities in accordance with the accounting standards on impairment loss, when there is objective evidence. The provisions of this standard are effective prospectively for equity investments beginning on or after December 31, 2004. We do not expect the adoption of this statement to have a material impact on our financial position or results of operations.

In June 2004, the Korea Accounting Standards Board issued SKFAS No. 16, Accountings for income taxes. SKFAS No. 16 provides clarification that deferred income tax on gain and losses on valuation of available-for-sale securities should be recognized. Under this statement, any changes in deferred income tax arising on initial classification of the equity component should be reflected in equity. SKFAS No. 16 amends SKFAS Interpretation No. 45-52 which does not require recognition of the aforementioned deferred income tax. In accordance with the nature of the equity component, accounting treatment should be provided based on the component s applicable guidance. The provisions of this standard are effective prospectively for available-for-sale securities beginning on or after December 31, 2004. We do not expect the adoption of this statement to have a material impact on our financial position or results of operations.

In October 2004, the Korea Accounting Standards Board issued SKFAS No. 17, Provision for Liabilities and Contingencies. SKFAS No. 17, which clarifies pre-KASB standard of Article 74, Contingencies, states that if the difference between nominal value and present value of provision for liabilities is considered material, expected expenses for performing duty should be valued at present value. Provision for liabilities should be used only for the intended purpose at initial recognition. The provisions of this standard are effective prospectively for liabilities beginning on or after December 31, 2004. We do not expect the adoption of this statement to have a material impact on our financial position or results of operations.

In February 2005, the Korean Accounting Standards Boards (KASB) issued SKFAS No. 18, Interests in Joint Ventures. This statement provides the definition of joint venture which requires an investor to recognize assets, liabilities, revenue and expenses related to its investment on a joint venture. Under SKFAS No. 18, joint venture may be classified into one of the following types; joint venture business, joint venture assets or joint venture corporation, and an investor should apply SKFAS No. 15, Investments in Associates correspondingly for its investment on joint venture corporation. The provisions of this standard are effective prospectively for joint ventures beginning on or after December 31, 2005. We do not expect the adoption of this statement to have a material impact on its financial position or results of operations.

In March 2005, the KASB issued SKFAS No. 19, Lease accounting, which supersedes pre-KASB standard of Accounting Standards for Lease Industry. Under SKFAS No. 19, lease transactions that the risk and benefit from the ownership of the leased property is de facto transferred to the lessee should be classified as a finance lease, and an operating lease otherwise. The classification should be determined by substance of a transaction and lease of real estate also are subject to the statements as other property leases. The provisions of this standard are effectively for lease transactions beginning on or after December 31, 2005. We do not expect the adoption of this statement to have a material impact on its financial position or results of operations.

In September 2005, the KASB issued SKFAS No. 20, Related Party Disclosures, which supersedes pre-KASB standard of financial reporting. SKFAS No. 20 requires substance over legal form and disclosure of the characteristics of the related party relationships. Under SKFAS No. 20, we are also required to disclose disaggregated information of compensation for chief officers and basis for classifying chief officers. The provisions of this standard are effective for the period beginning after December 31, 2005.

In April 2006, the KASB issued SKFAS No. 21, Preparation and Disclosure of Financial Statements. Under SKFAS No. 21, changes in stockholders equity are included as one of the main financial statements when a company prepares and discloses non-consolidated financial statements. The provisions of this standard are effective for the period beginning after December 31, 2006.

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U.S. GAAP Reconciliation

Our consolidated financial statements are prepared in accordance with Korean GAAP, which differ in significant respects from U.S. GAAP. For a discussion of the significant differences between Korean GAAP and U.S. GAAP, see Note 33 of Notes to Consolidated Financial Statements.

We recorded net income under U.S. GAAP of Won 4,102 billion in 2005 compared to net income of Won 3,460 billion in 2004 and Won 1,997 billion in 2003 primarily due to the factors discussed in Operating Results. Our net income under U.S. GAAP of Won 4,102 billion in 2005 is 2.2% higher than our net income under Korean GAAP of Won 4,012 billion. See Note 33(a) of Notes to Consolidated Financial Statements.

Recent Accounting Pronouncements in U.S. GAAP

In November 2004, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standard No. 151 (FAS 151), Inventory Costs, an amendment of ARB No. 43, Chapter 4. The standard requires that abnormal amounts of idle capacity and spoilage costs should be excluded from the cost of inventory and expensed when incurred. Additionally, the standard requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities and clarifies the meaning of the term normal capacity . The provisions of FAS 151 are applicable to inventory costs incurred during fiscal years beginning after June 15, 2005. We are in the process of determining the impact of adoption on our financial position and results of operation.

In December 2004, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standards No. 123 R, Share-Based Payment. This Statement requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. In April 2005, the Securities Exchange Commission (SEC) approved a new rule that delayed the effective date of FAS 123 R. Under the SEC rule, FAS 123 R is now effective for annual rather than interim period that begin after June 15, 2005. We are evaluating the requirements of FAS No. 123 R and currently expects that the adoption of FAS No. 123 R will not have a material impact on our financial position and results of operation.

In December 2004, the FASB issued Statement No. 153 (FAS 153), Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29. FAS 153 is based on the principle that nonmonetary asset exchanges should be recorded and measured at the fair value of the assets exchanged, with certain exceptions. This standard requires exchanges of productive assets to be accounted for at fair value, rather than at carryover basis, unless (1) neither the asset received nor the asset surrendered has a fair value that is determinable within reasonable limits or (2) the transactions lack commercial substance (as defined). The new standard is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005.

In March 2005, the SEC issued SAB No. 107 (SAB 107), which expresses the view of the staff regarding the interaction between the FASB s SFAS No. 123 (revised 2004) (FAS 123R), Share-Based Payment , and certain SEC rules and regulations and provides the staff s views regarding the valuation of share-based payment arrangements for public companies. Specifically, SAB 107 provides guidance on how to determine the expected volatility and expected term inputs into a valuation model used to determine the fair value of share based payments under FAS 123R. SAB 107 also provides guidance related to numerous aspects of the adoption of FAS 123R such as taxes, capitalization of compensation costs, modification of share based payments prior to adoption and the classification of expenses.

In March 2005, the FASB issued FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143. This interpretation clarifies that an entity is required to recognize a liability for the fair value of a conditional assets retirement obligation if the fair value of the liability can be reasonably estimated. The Interpretation is effective no later than the end of fiscal years ending after December 15, 2005 (December 31, 2005, for calendar-year enterprises).

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The adoption of this Interpretation did not have a material effect on our financial position and results of operation.

In May 2005, the FASB issued Financial Accounting Standards No. 154 (FAS 154), Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20, which changes the requirements for the accounting and reporting of a change in accounting principle. The Statement requires that changes in accounting principle be retroactively applied. FAS 154 is effective for accounting changes and correction of errors made on or after January 1, 2006, with earlier adoption permitted. We have applied the provisions of this Statement starting January 1, 2006.

In February 2006, the FASB issued Financial Accounting Standards No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140. This Statement resolves issues addressed in Statement 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets and is effective for all financial instrument acquired or issued after beginning of an entity s first fiscal year that begins after September 15, 2006. We do not expect the adoption of this statement to have a material impact on its financial position or result of operations.

In March 2006, the FASB issued FASB issued Financial Accounting Standards No. 156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140. This Statement amends FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a certain servicing contract and all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. An entity should adopt this Statement as of the beginning of its first fiscal year that begins after September 15, 2006, with earlier adoption is permitted. We do not expect the adoption of this statement to have a material impact on its financial position or result of operations.

Item 5.C. ***Research and Development, Patents and Licenses, Etc.***

We maintain a research and development program to carry out basic research and applied technology development activities. Our technology development department works closely with the Pohang University of Science & Technology, Korea s first research-oriented college founded by us in 1986, and the Research Institute of Industrial Science and Technology, Korea s first private comprehensive research institute founded by us in 1987. At December 31, 2005, we employed a total of 172 researchers.

In 1994, we founded the POSCO Technical Research Laboratory to carry out applied research and technology development activities. At December 31, 2005, the Technical Research Laboratory employed a total of 588 researchers.

We recorded research and development expenses of Won 199 billion as cost of goods sold in 2003, Won 206 billion in 2004 and Won 173 billion in 2005, as well as research and development expenses of Won 57 billion as selling and administrative expenses in 2003, Won 71 billion in 2004 and Won 53 billion in 2005. In addition, we made donations to educational foundations supporting basic science and technology research, amounting to Won 39 billion in 2003, Won 40 billion in 2004 and Won 33 billion in 2005. We also donated Won 2 billion to Pohang University of Science & Technology, a university founded by us, in 2003 and an additional Won 32 billion in 2004 and Won 17 billion in 2005. See Note 24 of Notes to Consolidated Financial Statements.

Our research and development program has filed over twenty thousand industrial rights applications relating to steel-making technology, approximately one-fourth of which were registered as of December 31, 2005, and has successfully applied many of these to improve our manufacturing process.

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Item 5.D. ***Trend Information***

These matters are discussed under Item 5A. and Item 5B. above where relevant.

Item 5.E. ***Off-balance Sheet Arrangements***

As of December 31, 2003, 2004 and 2005, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Item 5.F. ***Tabular Disclosure of Contractual Obligations***

These matters are discussed under Item 5.B. above where relevant.

Item 6. ***Directors, Senior Management and Employees***

Item 6.A. ***Directors and Senior Management***

Board of Directors

Our board of directors has the ultimate responsibility for the management of our business affairs. Under our articles of incorporation, our board is to consist of six directors who are to also act as our executive officers (Standing Directors) and nine directors who are to be outside directors (Outside Directors). Our shareholders elect both the Standing Directors and Outside Directors at a general meeting of shareholders. Candidates for Standing Director are recommended to shareholders by the board of directors after the board reviews such candidates qualifications and candidates for Outside Director are recommended to the shareholders by a separate board committee consisting of three Outside Directors and one Standing Director (the Director Candidate Recommendation Committee) after the committee reviews such candidates qualifications. Any shareholder holding an aggregate of 0.5% or more of our outstanding shares with voting rights for at least six months may suggest candidates for Outside Directors to the Director Candidate Recommendation Committee.

Our board of directors maintains the following six sub-committees:

- the Director Candidate Recommendation Committee;
- the Evaluation and Compensation Committee;
- the Finance and Operation Committee;
- the Executive Management Committee;
- the Audit Committee; and
- the Insider Trading Committee.

Our board committees are described in greater detail below under Item 6.C. Board Practices.

Under the Commercial Code and our articles of incorporation, one Chairman should be elected among the Outside Directors and several Representative Directors may be elected among the Standing Directors by our board of directors resolution.

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Standing Directors

Our current Standing Directors are:

Name	Position	Responsibility & Division	Years as director	Years with POSCO	Age	Expiration of term of office
Lee, Ku-Taek	Chief Executive Officer and Representative Director		17	37	60	February 2007
Yoon, Seok-Man	President and Representative Director	Chief Marketing Officer, Corporate Communication Dept.	3	29	57	February 2007
Lee, Youn	President and Representative Director	General Superintendent, Stainless Steel Division	2	32	58	February 2008
Chung, Joon-Yang	Senior Executive Vice President and Representative Director	Chief Operating Officer and Technology Officer	3	31	58	February 2007
Cho, Soung-Sik	Senior Executive Vice President	Managing Director, POSCO- India Pvt. Ltd.	1	32	55	February 2009
Lee, Dong-Hee	Executive Vice President	Chief Finance Officer	1	29	56	February 2009

All Standing Directors are engaged in our business on a full-time basis.

Outside Directors

Our current Outside Directors are set out in the table below. Each of our Outside Directors meets the applicable independence standards set forth under the rules of the Korean Securities and Exchange Act of 1962 (the Securities and Exchange Act).

Name	Position	Principal Occupation	Years as director	Age	Expiration of term of office
Park, Young-Ju	Chairman of the Board	Chairman, Eagon Industrial Co., Ltd.	3	65	February 2009
Kim, E. Han	Director	Professor, University of Michigan	4	59	February 2008
Jun, Kwang-Woo	Director	Vice Chairman, Deloitte Korea	3	56	February 2007
Jones, Jeffrey D	Director	Attorney, Kim & Chang	3	53	February 2007
Suh, Yoon-Suk	Director	Dean of Division of Business Administration, Ewha Woman s University	3	51	February 2009

Park, Won-Soon	Director	Executive Director, Beautiful Foundation	3	50	February 2007
Sun, Wook	Director	Former President & CEO, Samsung Human Resources Development Center	2	61	February 2008
Ahn, Charles	Director	Chairman of the Board, AhnLab, Inc.	2	44	February 2008
Huh, Sung-Kwan	Director	President, Gwangju Institute of Science and Technology	1	58	February 2009

The term of office of the Directors is up to three years**.** Each Director s term expires at the close of the ordinary general meeting of shareholders convened in respect of the fiscal year that is the last one to end during such Director s tenure.

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Senior Management

In addition to the Standing Directors who are also our executive officers, we have the following executive officers:

Name	Position	Responsibility and Division	Years with POSCO	Age
Kim, Dong-Jin	Senior Executive Vice President	Managing Director, POSCO-China Holding Corp.	32	59
Choi, Jong-Tae	Senior Executive Vice President	Chief Staff Officer, General Superintendent, Human Resources Development Center	32	56
Kim, Sang-Ho	Executive Vice President	Department Manager, Legal Affairs Dept.	6	52
Hur, Nam-Suk	Executive Vice President	General Superintendent, Gwangyang Works	32	56
Oh, Chang-Kwan	Executive Vice President	General Superintendent, Pohang Works	29	53
Kwon, Young-Tae	Executive Vice President	Coal Procurement Dept., Iron Ore Procurement Dept., Steel Raw Material Procurement Dept.	31	55
Chang, Hyun-Shik	Executive Vice President	Energy Project Dept.	6	55
Kim, Jin-Il	Executive Vice President	Marketing Division, Market Development Dept., Production Order and Process Dept., Product Technology Dept.	31	53
Kwon, Oh-Joon	Senior Vice President	General Superintendent, Technical Research Laboratories	20	55
Chung, Dong-Hwa	Senior Vice President	Deputy General Superintendent, Gwangyang Works (Maintenance)	30	54
Lee, Sang-Young	Senior Vice President	Deputy General Superintendent, Pohang Works (Iron and Steel Making)	28	56
Sung, Hyun-Uck	Senior Vice President	Deputy General Superintendent, Pohang Works (Maintenance)	30	56
Park, Han-Yong	Senior Vice President	Materials Purchasing and Supply Management Dept., Outside Services Dept.	28	55
Chung, Keel-Sou	Senior Vice President	Managing Director, Zhangjiagang POSCO Stainless Steel Co. Ltd.	31	56
Ha, Sang-Wook	Senior Vice President	Technology Development Dept.	31	53
Kim, Sang-Young	Senior Vice President		20	54

		Corporate Communication Dept.		
Lee, Young-Suk	Senior Vice President	Stainless Steel Division, Stainless Steel Strategy Dept., Stainless Steel Sales Dept., Stainless Steel Sales Development Dept.	29	55
Kim, Sang-Myun	Senior Vice President	Deputy General Superintendent, Gwangyang Works (Administration)	28	55
Park, Kee-Young	Senior Vice President	Marketing Division, Hot Rolled Steel Sales Dept., API Steel Sales Dept., Plate Sales Dept., Wire Rod Sales Dept.	30	54
Lee, Kyu-Jeong	Senior Vice President	Business Innovation Dept.	28	54
Won, Jong-Hai	Senior Vice President	Managing Director, Qingdao Pohang Stainless Steel Co., Ltd.	29	54

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Name	Position	Responsibility and Division	Years with POSCO	Age
Kim, Tae-Man	Senior Vice President	Deputy General Superintendent, Pohang Works (Administration)	28	52
Cho, Jun-Gil	Senior Vice President	Deputy General Superintendent, Pohang Works (Hot and Cold Rolling)	29	54
Yoo, Kwang-Jae	Senior Vice President	Stainless Steel Division, Stainless Steel Production and Technology	28	54
Yoon, Yong-Chul	Senior Vice President	Deputy General Superintendent, Gwangyang Works (Iron and Steel Making)	29	54
Cho, Noi-Ha	Senior Vice President	Deputy General Superintendent, Gwangyang Works (Hot and Cold Rolling)	29	53
Yoon, Yong-Won	Senior Vice President	Facilities Investment Planning Dept., Plant and Equipment Procurement Dept.	28	54
Kim, Soo-Kwan	Senior Vice President	Audit Dept., Corporate Ethics Dept.	29	54
Park, Ki-Hong	Vice President	Department Manager, Corporate Strategic Planning Dept.	1	48
Choo, Wung-Yong	Vice President	European Union Office	23	53
Kim, Sung-Kwan	Vice President	Deputy Managing Director, Zhangjiagang POSCO Stainless Steel Co. Ltd.	29	55
Jang, Byung-Hyo	Vice President	Managing Director, POSCO-Japan Corp.	29	52
Jeong, Tae-Hyun	Vice President	Deputy Managing Director, POSCO-India Pvt. Ltd.	29	53
Kim, Joon-Sik	Vice President	Investment Management Dept.	25	52
Jang, Young-Ik	Vice President	Stainless Steel Raw Materials Procurement Dept.	27	52
Kim, Moon-Seok	Vice President	Seoul Office	28	52
Yun, Tai-Han	Vice President	Marketing Strategy Dept. Sales and Production Planning Dept.	27	53
Cho, Bong-Rae	Vice President	FINEX Research and Development Project Dept.	26	53
Chang, In-Hwan	Vice President	Cold Rolled Steel Sales Dept., Automotive Flat Products Sales Dept., Automotive Flat Products Exports Dept., Coated Steel Sales Dept., Electrical	25	51

Steel Sales Dept.

Item 6.B. ***Compensation***

Compensation of Directors and Officers

Salaries and bonuses for Standing Directors and salaries for Directors are paid in accordance with standards determined by the board of directors within the limitation of directors remuneration guidelines approved at an annual general meeting of shareholders. In addition, compensation of executive officers is paid in accordance with standards determined by the board of directors. The aggregate compensation paid and accrued to all Directors and executive officers was approximately Won 15.0 billion in 2005 and the aggregate amount set aside or accrued by us to provide pension and retirement benefits to such persons was Won 2.1 billion in 2005.

We have also granted stock options to some of our Directors and executive officers. See Item 6E. Share Ownership for a list of stock options granted to our Directors and executive officers. At the annual shareholders meeting held in February 2006, our shareholders elected to terminate the stock option program. Stock options granted prior to this meeting remain valid and outstanding pursuant to the articles of incorporation in effect at the time of the issuance of the stock option.

Item 6.C. *Board Practices*

Director Candidate Recommendation Committee

The Director Candidate Recommendation Committee comprises three Outside Directors, Wook Sun (committee chair), E. Han Kim and Charles Ahn, and one Standing Director, Dong-Hee Lee. The Director Candidate Recommendation Committee reviews the qualifications of potential candidates and proposes nominees to serve on our board of directors as an Outside Director. Any shareholder holding an aggregate of 0.5% or more of our outstanding shares with voting rights for at least six months may suggest candidates for Outside Directors to the committee.

Evaluation and Compensation Committee

The Evaluation and Compensation Committee comprises four Outside Directors, Yoon-Suk Suh (committee chair), Young-Ju Park, Kwang-Woo Jun and Won-Soon Park. The Evaluation and Compensation Committee s primary responsibilities include establishing evaluation procedures and compensation plans for executive officers and taking necessary measures to execute such plans.

Finance and Operation Committee

The Finance and Operation Committee is comprised of three Outside Directors, Kwang-Woo Jun (committee chair), Charles Ahn and Sung-Kwan Huh, and two Standing Directors, Seok-Man Yoon and Dong-Hee Lee. This committee is an operational committee that oversees decisions with respect to finance and operational matters, including making assessments with respect to potential capital investments and evaluating prospective capital-raising activities.

Executive Management Committee

The Executive Management Committee comprises six Standing Directors: Ku-Taek Lee (committee chair), Seok-Man Yoon, Youn Lee, Joon-Yang Chung, Soung-Sik Cho and Dong-Hee Lee. This committee oversees decisions with respect to our operational and management matters, including review of management s proposals of new strategic initiatives, as well as deliberation over critical internal matters related to organization structure and development of personnel.

Audit Committee

Under Korean law and our articles of incorporation, we are required to have an Audit Committee. The Audit Committee may be composed of three or more directors; all members of the Audit Committee must be Outside Directors. Audit Committee members must also meet the applicable independence criteria set forth under the rules and regulations of the Sarbanes-Oxley Act of 2002. Members of the Audit Committee are elected by the shareholders at the ordinary general meeting of shareholders. We currently have an Audit Committee composed of four Outside Directors. Members of our Audit Committee are E. Han Kim (committee chair), Jeffrey D. Jones, Yoon-Suk Suh and Wook Sun.

The duties of the Audit Committee include:

- engaging independent auditors;
- approving independent audit fees;
- approving audit and non-audit services;

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reviewing annual financial statements;

reviewing audit results and reports, including management comments and recommendations;

reviewing our system of controls and policies, including those covering conflicts of interest and business ethics; and

examining improprieties or suspected improprieties.

In addition, in connection with general meetings of stockholders, the committee examines the agenda for, and financial statements and other reports to be submitted by, the board of directors at each general meeting of stockholders. Our internal and external auditors report directly to the Audit Committee. The committee holds regular meetings at least once each quarter, and more frequently as needed.

Insider Trading Committee

The Insider Trading Committee is comprised of four Outside Directors, E. Han Kim (committee chair), Jeffrey D. Jones, Yoon-Suk Suh and Wook Sun. This committee reviews related party and other internal transactions and ensures compliance with the Monopoly Regulation and Fair Trade Act.

Differences in Corporate Governance Practices

Pursuant to the rules of the New York Stock Exchange applicable to foreign private issuers like us that are listed on the New York Stock Exchange, we are required to disclose significant differences between the New York Stock Exchange s corporate governance standards and those that we follow under Korean law and in accordance with our own internal procedures. The following is a summary of such significant differences.

NYSE Corporate Governance Standards	POSCO s Corporate Governance Practice
Director Independence	
Independent directors must comprise a majority of the board	Our articles of incorporation provide that our board of directors must comprise no less than a majority of Outside Directors. Our Outside Directors must meet the criteria for outside directorship set forth under the Securities and Exchange Act of Korea. The majority of our board of directors is independent (as defined in accordance with the New York Stock Exchange s standards), and 9 out of 15 directors are Outside Directors.
Nomination/ Corporate Governance Committee	
Listed companies must have a nomination/ corporate governance committee composed entirely of independent directors	We have not established a separate nomination/ corporate governance committee. However, we maintain a Director Candidate Recommendation Committee composed of three Outside Directors and one Standing Director.
Compensation Committee	
Listed companies must have a compensation committee composed entirely of independent directors	We maintain an Evaluation and Compensation Committee composed of four Outside Directors.
Executive Session	
Listed companies must hold meetings solely attended by non-management directors to more effectively check and balance management directors	Our Outside Directors hold meetings solely attended by Outside Directors in accordance with operation guidelines of our board of directors.

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NYSE Corporate Governance Standards	POSCO s Corporate Governance Practice
Audit Committee Listed companies must have an audit committee that is composed of more than three directors and satisfy the requirements of Rule 10A-3 under the Exchange Act	We maintain an Audit Committee comprised of four Outside Directors who meet the applicable independence criteria set forth under Rule 10A-3 under the Exchange Act.
Shareholder Approval of Equity Compensation Plan Listed companies must allow its shareholders to exercise their voting rights with respect to any material revision to the company s equity compensation plan	We currently have an employee stock ownership program. We previously provided a stock options program for officers and directors, as another equity compensation plan. However, during our annual shareholders meeting in February 2006, our shareholders resolved to terminate the stock option program and amended our articles of incorporations to delete the provision allowing grant of stock options to officers and directors. Consequently we may not grant stock options to officers and directors starting February 24, 2006. Matters related to the Employee Stock Ownership Program are not subject to shareholders approval under Korean law.
Corporate Governance Guidelines Listed companies must adopt and disclose corporate governance guidelines	We have adopted a Corporate Governance Charter setting forth our practices with respect to relevant corporate governance matters. Our Corporate Governance Charter is in compliance with Korean law but does not meet all requirements established by the New York Stock Exchange for U.S. companies listed on the exchange. A copy of our Corporate Governance Charter is available on our website at *www.posco.co.kr.*
Code of Business Conduct and Ethics Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers	We have adopted a Code of Conduct for all directors, officers and employees. A copy of our Code of Conduct is available on our website at *www.posco.co.kr.*

Item 6.D. *Employees*

As of December 31, 2005, we had 28,853 employees, including 9,849 persons employed by our subsidiaries, almost all of whom were employed within Korea. Of the total number of employees, approximately 80% are technicians and skilled laborers and 20% are administrative staff. We use subcontractors for maintenance, cleaning and transport activities. We had 27,919 employees, including 8,524 persons employed by our subsidiaries, as of December 31, 2004 and 27,415 employees, including 8,042 persons employed by our subsidiaries, as of December 31, 2003. To improve operational efficiency and increase labor productivity, we plan to reduce the number of our employees in future years through natural attrition. However, we expect the number of persons employed by our subsidiaries in growth industries to increase in the future.

We consider our relations with our work force to be excellent. We have never experienced a work stoppage or strike. Wages of our employees are among the highest in Korea. In addition to a base monthly wage, employees receive periodic bonuses and allowances. Base wages are determined annually following consultation between the management and employee representatives, who are currently elected outside the framework of the POSCO labor union. A labor union was formed by our employees in June 1988. Union

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membership peaked at 19,026 employees at the beginning of 1991, but has steadily declined since then. As of December 31, 2005, only 21 of our employees were members of the POSCO labor union.

We maintain a retirement plan, as required by Korean labor law, pursuant to which employees terminating their employment after one year or more of service are entitled to receive a lump-sum payment based on the length of their service and their total compensation at the time of termination. We are required to transfer a portion of retirement and severance benefit amounts accrued by our employees to the National Pension Fund. The amounts so transferred reduce the retirement and severance benefit amounts payable to retiring employees by us at the time of their retirement. We also provide a wide range of fringe benefits to our employees, including housing, housing loans, company- provided hospitals and schools, a company-sponsored pension program, an employee welfare fund, industrial disaster insurance, and cultural and athletic facilities.

As of December 31, 2005, our employees owned approximately 2.1% of our common stock through an employee stock ownership association.

Item 6.E. ***Share Ownership***

Common Stock

The persons who are currently our Directors or executive officers held, as a group, 2,555 common shares as of December 31, 2005, the most recent date for which this information is available. The table below shows the ownership of our common shares by Directors and executive officers.

Shareholders	**Number of common shares owned**
Chang-Kwan Oh	770
Jong-Tae Choi	542
E. Han Kim	364
Sang-Young Kim	195
Tae-Man Kim	91
Jin-Il Kim	90
Jun-Gil Cho	81
Yong-Chul Yoon	81
Yong-Won Yoon	79
Noi-Ha Cho	70
Dong-Hwa Chung	53
Soo-Kwan Kim	42
Sang-Wook Ha	40
Oh-Joon Kwon	19
Han-Yong Park	12
Young-Ik Jang	10
Youn Lee	2
Dong-Jin Kim	2
Nam-Suk Hur	2
Kee-Yeoung Park	2
Jong-Hai Won	2
Kwang-Jae Yoo	2
Tai-Han Yun	2
In-Hwan Chang	2
Total	2,555

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Stock Options

The following table sets forth information regarding the stock options we have granted to our current Directors and executive officers as of March 31, 2006. With respect to all of the options granted, we may elect either to issue shares of common stock, distribute treasury stock or pay in cash the difference between the exercise and the market price at the date of exercise. The options may be exercised by a person who has continued employment with POSCO for two or more years from the date on which the options are granted and within seven years from the second anniversary of the issuance of such options. All of the stock options below relate to our common stock.

At the annual shareholders meeting held in February 2006, our shareholders elected to terminate the stock option program. Stock options granted prior to this meeting remain valid and outstanding pursuant to the articles of incorporation in effect at the time of the issuance of the stock option.

		Exercise Period					
Directors	**Grant Date**	**From**	**To**	**Exercise Price**	**Number of Granted Options**	**Number of Exercised Options**	**Number of Exercisable Options**
Ku-Taek Lee	July 23, 2001	7/24/2003	7/23/2008	98,900	45,184	4,518	40,666
	July 23, 2004	7/24/2006	7/23/2011	151,700	49,000	0	49,000
Seok-Man Yoon	September 18, 2002	9/19/2004	9/18/2009	116,100	11,179	3,000	8,179
	July 23, 2004	7/24/2006	7/23/2011	151,700	7,840	0	7,840
Youn Lee	July 23, 2001	7/24/2003	7/23/2008	98,900	9,037	903	8,134
	April 26, 2003	4/27/2005	4/26/2010	102,900	1,921	192	1,729
	July 23, 2004	7/24/2006	7/23/2011	151,700	7,840	0	7,840
Joon-Yang Chung	April 27, 2002	4/28/2004	4/27/2009	136,400	9,316	931	8,385
	July 23, 2004	7/24/2006	7/23/2011	151,700	4,900	0	4,900
Soung-Sik Cho	July 23, 2001	7/24/2003	7/23/2008	98,900	9,037	5,903	3,134
	April 26, 2003	4/27/2005	4/26/2010	102,900	1,921	192	1,729
Dong-Hee Lee	April 26, 2003	4/27/2005	4/26/2010	102,900	9,604	960	8,644
Young-Ju Park	July 23, 2004	7/24/2006	7/23/2011	151,700	1,862	0	1,862
E. Han Kim	April 26, 2003	4/27/2005	4/26/2010	102,900	2,401	0	2,401
Kwang-Woo Jun	July 23, 2004	7/24/2006	7/23/2011	151,700	1,862	0	1,862
Jeffrey D. Jones	July 23, 2004	7/24/2006	7/23/2011	151,700	1,862	0	1,862
Yoon-Suk Suh	July 23, 2004	7/24/2006	7/23/2011	151,700	1,862	0	1,862
Wook Sun	April 28, 2005	4/29/2007	4/28/2012	194,900	2,000	0	2,000
Charles Ahn	April 28, 2005	4/29/2007	4/28/2012	194,900	2,000	0	2,000

		Exercise Period					
Executive Officers	**Grant Date**	**From**	**To**	**Exercise Price**	**Number of Granted Options**	**Number of Exercised Options**	**Number of Exercisable Options**
Dong-Jin Kim	July 23, 2001	7/24/2003	7/23/2008	98,900	9,037	903	8,134
	April 26, 2003	4/27/2005	4/26/2010	102,900	1,921	192	1,729
	July 23, 2004	7/24/2006	7/23/2011	151,700	7,840	0	7,840
Jong-Tae Choi	July 23, 2001	7/24/2003	7/23/2008	98,900	9,037	903	8,134
	April 26, 2003	4/27/2005	4/26/2010	102,900	1,921	192	1,729
Sang-Ho Kim	April 28, 2005	4/29/2007	4/28/2012	194,900	12,000	0	12,000
Nam-Suk Hur	April 27, 2002	4/28/2004	4/27/2009	136,400	9,316	5,316	4,000

	April 28, 2005	4/29/2007	4/28/2012	194,900	2,000	0	2,000
Chang-Kwan Oh	April 27, 2002	4/28/2004	4/27/2009	136,400	9,316	931	8,385
Young-Tae Kwon	September 18, 2002	9/19/2004	9/18/2009	116,100	9,316	931	8,385
Hyun-Shik Chang	April 26, 2003	4/27/2005	4/26/2010	102,900	9,604	960	8,644
Jin-Il Kim	April 26, 2003	4/27/2005	4/26/2010	102,900	9,604	8,252	1,352
Oh-Joon Kwon	April 26, 2003	4/27/2005	4/26/2010	102,900	9,604	960	8,644

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Executive Officers	Grant Date	Exercise Period From	Exercise Period To	Exercise Price	Number of Granted Options	Number of Exercised Options	Number of Exercisable Options
Dong-Hwa Chung	April 26, 2003	4/27/2005	4/26/2010	102,900	9,604	960	8,644
Sang-Young Lee	April 26, 2003	4/27/2005	4/26/2010	102,900	9,604	5,460	4,144
Hyun-Uck Sung	April 26, 2003	4/27/2005	4/26/2010	102,900	9,604	960	8,644
Han-Yong Park	April 26, 2003	4/27/2005	4/26/2010	102,900	9,604	5,282	4,322
Keel-Sou Chung	July 23, 2004	7/24/2006	7/23/2011	151,700	9,800	0	9,800
Sang-Wook Ha	July 23, 2004	7/24/2006	7/23/2011	151,700	9,800	0	9,800
Sang-Young Kim	July 23, 2004	7/24/2006	7/23/2011	151,700	9,800	0	9,800
Young-Suk Lee	July 23, 2004	7/24/2006	7/23/2011	151,700	9,800	0	9,800
Sang-Myun Kim	July 23, 2004	7/24/2006	7/23/2011	151,700	9,800	0	9,800
Kee-Yeoung Park	July 23, 2004	7/24/2006	7/23/2011	151,700	9,800	0	9,800
Kyu-Jeong Lee	July 23, 2004	7/24/2006	7/23/2011	151,700	9,800	0	9,800
Jong-Hai Won	April 28, 2005	4/29/2007	4/28/2012	194,900	10,000	0	10,000
Tae-Man Kim	April 28, 2005	4/29/2007	4/28/2012	194,900	10,000	0	10,000
Jun-Gil Cho	April 28, 2005	4/29/2007	4/28/2012	194,900	10,000	0	10,000
Kwang-Jae Yoo	April 28, 2005	4/29/2007	4/28/2012	194,900	10,000	0	10,000
Yong-Chul Yoon	April 28, 2005	4/29/2007	4/28/2012	194,900	10,000	0	10,000
Noi-Ha Cho	April 28, 2005	4/29/2007	4/28/2012	194,900	10,000	0	10,000
Yong-Won Yoon	April 28, 2005	4/29/2007	4/28/2012	194,900	10,000	0	10,000

Item 7. ***Major Shareholders and Related Party Transactions***

Item 7.A. ***Major Shareholders***

The following table sets forth certain information relating to the shareholders of our common stock issued as of December 31, 2005.

Shareholders	Number of Shares Owned	Percentage
SK Telecom	2,481,311	2.85
Pohang University of Science and Technology	2,418,000	2.77
National Pension Corporation	2,407,509	2.76
Directors and executive officers as a group	2,555	0.00
Public(1)	72,781,395	83.48
POSCO (held in the form of treasury stock)	6,189,091	7.10
POSCO (held through treasury stock fund)	906,974	1.04
Total issued shares of common stock	87,186,835	100.00%

(1) Includes 23,869,739 shares of common stock, representing 27.38% of the total issued shares of common stock, in the form of ADRs.

Item 7.B. ***Related Party Transactions***

We have issued guarantees of Won 425 billion as of December 31, 2003, Won 443 billion as of December 31, 2004 and Won 561 billion as of December 31, 2005, in favor of affiliated and related companies. We have also engaged in various transactions with our subsidiaries and affiliated companies. Please see Notes 17 and 28 of Notes to Consolidated Financial Statements.

As of December 31, 2003, 2004 and 2005, we had no loans outstanding to our executive officers and Directors.

Item 7.C. ***Interests of Experts and Counsel***

Not applicable

Item 8. ***Financial Information***

Item 8.A. ***Consolidated Statements and Other Financial Information***

See Item 18. Financial Statements and pages F-1 through F-87.

Legal Proceedings

Claim against the Fair Trade Commission

In December 2000, Hyundai HYSCO requested us to sell hot rolled coils which are necessary in manufacturing cold rolled coils used in the automobile industry to produce car body panels. In response to our refusal to sell hot rolled coils to Hyundai HYSCO, Hyundai Motors announced in January 2001 that it will reduce its purchase of cold rolled products from us. In addition, the Fair Trade Commission began an investigation into a potential anti-competitive action by us.

On April 12, 2001, the Fair Trade Commission determined that we were involved in anti-competitive action by refusing to sell our hot rolled coils to Hyundai HYSCO. In addition to issuing a suspension order, the Fair Trade Commission imposed on us a surcharge of Won 1.6 billion. We brought a claim against the Fair Trade Commission but the Seoul High Court rendered its decision against us in August 2002. We appealed to the Supreme Court of Korea in August 2002 and our petition for an injunction against the decision of the Fair Trade Commission was granted in October 2002 in our favor. We cannot predict the ultimate outcome of our appeal.

Anti-dumping and Countervailing Proceedings and Safeguard Measures

We have been subject to a number of anti-dumping and countervailing proceedings in the United States and China. The U.S. and China anti-dumping and countervailing proceedings have not had a material adverse effect on our business and operations. However, there can be no assurance that further increases in or new imposition of countervailing duties, dumping duties, quotas or tariffs on our sales in the United States or China may not have a material adverse effect on our exports to these regions in the future. See Item 4. Information on the Company Item 4B. Business Overview Markets Exports.

Except as described above, we are not involved in any pending or threatened legal or arbitration proceedings that may have, or have had during the last 12 months, a material adverse effect on our results of operations or financial position.

DIVIDENDS

The amount of dividends paid on our common stock is subject to approval at the annual general meeting of shareholders, which is typically held in February or March of the following year. In addition to our annual dividends, our board of directors is authorized to declare and distribute interim dividends once a year under our articles of incorporation. If we decide to pay interim dividends, our articles of incorporation authorize us to pay them in cash and to the shareholders of record as of June 30 of the relevant fiscal year. We may pay cash dividends out of retained earnings that have not been appropriated to statutory reserves.

The table below sets out the annual dividends declared on the outstanding common stock to shareholders of record on December 31 of the years indicated and the interim dividends declared on the outstanding common stock to shareholders of record on June 30 of the years indicated. A total of 87,186,835 shares of common stock were issued at the end of 2005. Of these shares, 80,090,770 shares were outstanding and 6,189,091 shares were held by us in treasury and 906,974 shares were held through

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our treasury stock fund. The annual dividends set out for each of the years below were paid in the immediately following year.

Year	Annual Dividend per Common Stock to Public	Interim Dividend per Common Stock	Average Total Dividend per Common Stock
		(in Won)	
2001	W 2,000	W 500	W2,500
2002	3,000	500	3,500
2003	5,000	1,000	6,000
2004	6,500	1,500	8,000
2005	6,000	2,000	8,000

Owners of the ADSs are entitled to receive any dividends payable in respect of the underlying shares of common stock.

Historically, we have paid to holders of record of our common stock an annual dividend. However, we can give no assurance that we will continue to declare and pay any dividends in the future.

Item 8.B. ***Significant Changes***

Not applicable

Item 9. ***The Offer and Listing***

Item 9.A. ***Offer and Listing Details***

Market Price Information

Notes

Our $7^1/8$ % notes due 2006 are traded in the over-the-counter market. Sales prices for the notes are not regularly reported on any exchange or other quotation service.

Common Stock

The principal trading market for our common stock is the Stock Market Division of the Korea Exchange. Our common stock, which is in registered form and has a par value of Won 5,000 per share, has been listed on the first section of the Stock Market Division of the Korea Exchange since June 1988 under the identifying code 005490. The table below shows the high and low trading prices and the average daily volume of trading activity on the Stock Market Division of the Korea Exchange for our common stock since January 1, 2001.

	Price		
	High	Low	Average Daily Trading Volume
			(number of shares)
	(in Won)		
2001			
First Quarter	104,000	76,500	343,509
Second Quarter	118,000	85,000	236,198
Third Quarter	104,000	74,000	176,544
Fourth Quarter	127,000	81,500	254,780
2002			
First Quarter	160,000	117,500	303,579

Second Quarter	154,000	121,500	323,772
Third Quarter	139,000	101,000	324,477
Fourth Quarter	130,500	103,500	269,624

	Price High	Price Low	Average Daily Trading Volume
	(in Won)		(number of shares)
2003			
First Quarter	133,000	92,400	336,187
Second Quarter	127,000	97,500	300,224
Third Quarter	152,500	123,500	310,936
Fourth Quarter	163,000	131,500	345,272
2004			
First Quarter	181,000	156,500	312,764
Second Quarter	177,000	131,000	413,523
Third Quarter	184,000	145,000	241,698
Fourth Quarter	203,000	163,000	287,632
2005			
First Quarter	225,500	176,500	293,360
Second Quarter	203,000	174,500	298,650
Third Quarter	240,500	182,000	295,458
Fourth Quarter	236,500	199,500	334,140
2006			
First Quarter	251,500	196,500	391,776
January	220,500	196,500	444,412
February	237,500	210,000	436,789
March	251,500	226,500	300,611
Second Quarter (through June 7)	290,000	234,500	319,731
April	277,000	239,500	324,095
May	290,000	241,000	403,990
June (through June 7)	250,000	234,500	340,241

ADSs

Our common stock is also listed on the New York Stock Exchange, the London Stock Exchange and the Tokyo Stock Exchange in the form of ADSs. The ADSs have been issued by The Bank of New York as ADR depositary and are listed on the New York Stock Exchange under the symbol PKX. One ADS represents one-fourth of one share of common stock. As of December 31, 2005, 23,869,739 ADSs were outstanding, representing 27.38% shares of common stock.

The table below shows the high and low trading prices and the average daily volume of trading activity on the New York Stock Exchange for our ADSs since January 1, 2001.

	Price High	Price Low	Average Daily Trading Volume
	(in US$)		(number of ADSs)
2001			
First Quarter	22.62	15.00	507,108

Second Quarter	22.80	16.97	378,273
Third Quarter	19.99	13.60	277,112
Fourth Quarter	24.21	15.84	260,475

	Price High	Price Low	Average Daily Trading Volume
	(in US$)		(number of ADSs)
2002			
First Quarter	29.25	22.41	372,788
Second Quarter	30.64	23.35	355,145
Third Quarter	29.52	21.30	354,089
Fourth Quarter	27.40	21.20	268,750
2003			
First Quarter	28.66	18.46	324,595
Second Quarter	26.55	19.26	333,511
Third Quarter	32.49	26.08	262,191
Fourth Quarter	33.97	28.98	477,580
2004			
First Quarter	38.43	33.55	578,963
Second Quarter	39.01	27.97	1,013,306
Third Quarter	40.14	32.47	729,723
Fourth Quarter	47.50	36.49	765,003
2005			
First Quarter	54.85	41.22	866,811
Second Quarter	49.70	43.75	790,208
Third Quarter	57.08	44.12	606,928
Fourth Quarter	56.01	47.85	671,024
2006			
First Quarter	63.08	48.97	812,089
January	57.65	48.97	973,995
February	60.22	52.75	770,821
March	63.80	58.31	705,391
Second Quarter (through June 6)	74.41	61.75	912,551
April	72.50	61.75	818,053
May	74.41	63.17	982,232
June (through June 6)	65.70	61.91	978,175

Item 9.B. ***Plan of Distribution***

Not applicable

Item 9.C. ***Markets***

The Korean Securities Market

The Korea Stock Exchange began its operations in 1956. On January 27, 2005, the Korea Exchange was established pursuant to the Korea Exchange Act through the consolidation of the Korea Stock Exchange, the Korea Futures Exchange, the KOSDAQ Stock Market, Inc. (the KOSDAQ) and the KOSDAQ Committee within the Korea Securities Dealers Association, which was in charge of the management of the KOSDAQ. The Stock Market Division of the Korea Exchange (formerly the Korea Stock Exchange) has a single trading floor located in Seoul. The Korea Exchange is a limited liability company, the shares of which are held by (i) securities companies and futures companies that were the members of the Korea Stock Exchange or the Korea Futures Exchange and (ii) the stockholders of the KOSDAQ.

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The Korea Exchange has the power in some circumstances to suspend trading in the shares of a given company or to de-list a security. The Korea Exchange also restricts share price movements. All listed companies are required to file accounting reports annually, semi-annually and quarterly and to release immediately all information that may affect trading in a security.

The Government has in the past exerted, and continues to exert, substantial influence over many aspects of the private sector business community which can have the intention or effect of depressing or boosting the market. In the past, the Government has informally both encouraged and restricted the declaration and payment of dividends, induced mergers to reduce what it considers excess capacity in a particular industry and induced private companies to offer publicly their securities.

The Korea Exchange publishes the Korea Composite Stock Price Index (KOSPI) every thirty seconds, which is an index of all equity securities listed on the Stock Market Division of the Korea Exchange. On January 1, 1983, the method of computing KOSPI was changed from the Dow Jones method to the aggregate value method. In the new method, the market capitalizations of all listed companies are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, January 4, 1980.

Movements in KOSPI are set out in the following table together with the associated dividend yields and price earnings ratios.

	Opening	**High**	**Low**	**Closing**	**Average Dividend Yield(1)(3)**	**Price Earnings Ratio(2)(3)**
					(percent)	
1979	131.28	131.28	104.38	118.97	17.8	3.8
1980	100.00	119.36	100.00	106.87	20.9	2.6
1981	97.95	165.95	93.14	131.37	13.2	3.1
1982	123.60	134.49	106.00	127.31	10.5	3.4
1983	122.52	134.46	115.59	121.21	6.9	3.8
1984	116.73	142.46	114.37	142.46	5.1	4.5
1985	139.53	163.37	131.40	163.37	5.3	5.2
1986	161.40	279.67	153.85	272.61	4.3	7.6
1987	264.82	525.11	264.82	525.11	2.6	10.9
1988	532.04	922.56	527.89	907.20	2.4	11.2
1989	919.61	1,007.77	844.75	909.72	2.0	13.9
1990	908.59	928.82	566.27	696.11	2.2	12.8
1991	679.75	763.10	586.51	610.92	2.6	11.2
1992	624.23	691.48	459.07	678.44	2.2	10.9
1993	697.41	874.10	605.93	866.18	1.6	12.7
1994	879.32	1,138.75	855.37	1,027.37	1.2	16.2
1995	1,013.57	1,016.77	847.09	882.94	1.2	16.4
1996	888.85	986.84	651.22	651.22	1.3	17.8
1997	653.79	792.29	350.68	376.31	1.5	17.0
1998	385.49	579.86	280.00	562.46	1.9	10.8
1999	587.57	1,028.07	498.42	1,028.07	1.1	13.5
2000	1,059.04	1,059.04	500.60	504.62	1.6	18.6
2001	520.95	704.50	468.76	693.70	2.0	14.2
2002	724.95	937.61	584.04	627.55	1.4	17.8
2003	635.17	822.16	515.24	810.71	2.2	10.9
2004	821.26	936.06	719.59	895.92	2.1	15.8

	Opening	High	Low	Closing	Average Dividend Yield(1)(3)	Price Earnings Ratio(2)(3)
					(percent)	
2005	893.71	1,379.37	870.84	1,379.37	1.5	12.0
2006 (through June 7)	1,389.27	1,464.70	1,266.84	1,266.84	N.A.	10.7

Source: The Stock Market Division of the Korea Exchange.

(1) Dividend yields are based on daily figures. Before 1983, dividend yields were calculated at the end of each month. Dividend yields after January 3, 1984 include cash dividends only.

(2) The price earnings ratio is based on figures for companies that record a profit in the preceding year.

(3) Starting in April 2000, dividend yield and price earnings ratio of KOSPI 200, an index of 200 equity securities listed on the Stock Market Division of the Korea Exchange. Excludes classified companies, companies which did not submit annual reports to the Stock Market Division of the Korea Exchange, and companies which received disqualified opinions from external auditors.

Shares are quoted ex-dividend on the first trading day of the relevant company s accounting period; since the calendar year is the accounting period for the majority of companies, this may account for the drop in KOSPI between its closing level at the end of one calendar year and its opening level at the beginning of the following calendar year.

With certain exceptions, principally to take account of a share being quoted ex-dividend and ex-rights, permitted upward and downward movements in share prices of any category of shares on any day are limited under the rules of the Stock Market Division of the Korea Exchange to 15% of the previous day s closing price of the shares, rounded down as set out below:

Previous Day s Closing Price (Won)	Rounded Down To (Won)
Less than 5,000	5
5,000 to less than 10,000	10
10,000 to less than 50,000	50
50,000 to less than 100,000	100
100,000 to less than 500,000	500
500,000 or more	1,000

As a consequence, if a particular closing price is the same as the price set by the fluctuation limit, the closing price may not reflect the price at which persons would have been prepared, or would be prepared to continue, if so permitted, to buy and sell shares. Orders are executed on an auction system with priority rules to deal with competing bids and offers.

Due to deregulation of restrictions on brokerage commission rates, the brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the Stock Market Division of the Korea Exchange by the securities companies. In addition, a securities transaction tax at the rate of 0.15% will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares. A special agricultural and fishery tax at the rate of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the Korea Exchange. See Item 10. Additional Information Item 10E. Taxation Korean

Taxation.

The number of companies listed on the Stock Market Division of the Korea Exchange, the corresponding total market capitalization at the end of the periods indicated and the average daily trading volume for those periods are set forth in the following table:

		Market Capitalization on the Last Day of Each Period		Average Daily Trading Volume, Value		
Year	Number of Listed Companies	(Millions of Won)	(Thousands of Dollars)(1)	Thousands of Shares	(Millions of Won)	(Thousands of Dollars)(1)
1979	355	2,609,414	5,391,351	5,382	4,579	4,641
1980	352	2,526,553	3,828,691	5,654	3,897	5,905
1981	343	2,959,057	4,224,207	10,565	8,708	12,433
1982	334	3,000,494	4,407,711	9,704	6,667	8,904
1983	328	3,489,654	4,386,743	9,325	5,941	7,468
1984	336	5,148,460	6,222,456	14,847	10,642	12,862
1985	342	6,570,404	7,380,818	18,925	12,315	13,834
1986	355	11,994,233	13,924,115	31,755	32,870	38,159
1987	389	26,172,174	33,033,162	20,353	70,185	88,584
1988	502	64,543,685	94,348,318	10,367	198,364	289,963
1989	626	95,476,774	140,489,660	11,757	280,967	414,431
1990	669	79,019,676	110,301,055	10,866	183,692	256,500
1991	686	73,117,833	96,182,364	14,022	214,263	281,850
1992	688	84,711,982	107,502,515	24,028	308,246	391,175
1993	693	112,665,260	139,419,948	35,130	574,048	676,954
1994	699	151,217,231	191,729,721	36,862	776,257	984,223
1995	721	141,151,399	182,201,367	26,130	487,762	629,614
1996	760	117,369,988	139,031,021	26,571	486,834	575,733
1997	776	70,988,897	50,161,742	41,525	555,759	392,707
1998	748	137,798,451	114,090,455	97,716	660,429	471,432
1999	725	349,503,966	305,137,040	278,551	3,481,620	3,039,654
2000	704	188,041,490	150,162,898	306,163	2,602,211	2,078,028
2001	689	255,850,070	194,784,979	473,241	1,997,420	1,506,685
2002	683	258,680,756	216,071,436	857,245	3,041,595	2,540,590
2003	684	355,362,626	298,123,294	385,852	2,026,774	1,700,314
2004	683	412,588,139	396,338,269	372,895	2,232,109	2,138,445
2005	702	655,251,489	647,737,731	463,749	3,150,407	3,114,281
2006 (through June 5)	715	634,904,940	673,210,624	353,187	4,206,907	4,232,225

Source: The Stock Market Division of the Korea Exchange.

(1) Converted at the Concentration Base Rate of The Bank of Korea or the Market Average Exchange Rate as announced by the Seoul Money Brokerage Services Limited, as the case may be, at the end of the periods indicated.

The Korean securities markets are principally regulated by the FSC and the Securities and Exchange Act. The Securities and Exchange Act was amended fundamentally numerous times in recent years to broaden the scope and improve the effectiveness of official supervision of the securities markets. As amended, the Securities and Exchange Act imposes restrictions on insider trading and price manipulation, requires specified information to be made available by listed companies to investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for shareholders holding substantial interests.

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Further Opening of the Korean Securities Market

A stock index futures market was opened on May 3, 1996 and a stock index option market was opened on July 7, 1997, in each case at the Stock Market Division of the Korea Exchange. Remittance and repatriation of funds in connection with investment in stock index futures and options are subject to regulations similar to those that govern remittance and repatriation in the context of foreign investment in Korean stocks.

Starting from May 1, 1996, foreign investors were permitted to invest in warrants representing the right to subscribe for shares of a company listed on the Stock Market Division of the Korea Exchange, subject to certain investment limitations. A foreign investor may not acquire such warrants with respect to shares of a class of a company for which the ceiling on aggregate investment by foreigners has been reached or exceeded.

As of December 30, 1997, foreign investors were permitted to invest in all types of corporate bonds, bonds issued by national or local governments and bonds issued in accordance with certain special laws without being subject to any aggregate or individual investment ceiling. The FSC sets forth procedural requirements for such investments. The Government announced on February 8, 1998 its plans for the liberalization of the money market with respect to investment in money market instruments by foreigners in 1998. According to the plan, foreigners have been permitted to invest in money market instruments issued by corporations, including commercial paper, starting February 16, 1998 with no restrictions as to the amount. Starting May 25, 1998, foreigners have been permitted to invest in certificates of deposit and repurchase agreements.

Currently, foreigners are permitted to invest in certain securities including shares of all Korean companies which are not listed on the Stock Market Division of the Korea Exchange and in bonds which are not listed.

Protection of Customer s Interest in Case of Insolvency of Securities Companies

Under Korean law, the relationship between a customer and a securities company in connection with a securities sell or buy order is deemed to be consignment and the securities acquired by a consignment agent (i.e., the securities company) through such sell or buy order are regarded as belonging to the customer in so far as the customer and the consignment agent s creditors are concerned. Therefore, in the event of a bankruptcy or reorganization procedure involving a securities company, the customer of the securities company is entitled to the proceeds of the securities sold by the securities company.

When a customer places a sell order with a securities company which is not a member of the Korea Exchange and this securities company places a sell order with another securities company which is a member of the Korea Exchange, the customer is still entitled to the proceeds of the securities sold received by the non-member company from the member company regardless of the bankruptcy or reorganization of the non-member company. Likewise, when a customer places a buy order with a non-member company and the non-member company places a buy order with a member company, the customer has the legal right to the securities received by the non-member company from the member company because the purchased securities are regarded as belonging to the customer in so far as the customer and the non-member company s creditors are concerned.

Under the Securities and Exchange Act, the Korea Exchange is obliged to indemnify any loss or damage incurred by a counterparty as a result of a breach by its members. If a securities company which is a member of the Korea Exchange breaches its obligation in connection with a buy order, the Korea Exchange is obliged to pay the purchase price on behalf of the breaching member.

As the cash deposited with a securities company is regarded as belonging to the securities company, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from the securities company if a bankruptcy or reorganization procedure is instituted against the securities company and, therefore, can suffer from loss or damage as a result. However, the Depositor Protection Act provides that Korea Deposit Insurance Corporation will, upon the request of the investors,

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pay investors up to Won 50 million per depositor per financial institution in case of the securities company s bankruptcy, liquidation, cancellation of securities business license or other insolvency events. Pursuant to the Securities and Exchange Act, as amended, securities companies are required to deposit the cash received from its customers to the extent the amount is not covered by the Depositor Protection Act with the Korea Securities Finance Corporation, a special entity established pursuant to the Securities and Exchange Act. Set-off or attachment of cash deposits by securities companies is prohibited. The premiums related to this insurance are paid by securities companies.

Item 9.D. ***Selling Shareholders***

Not applicable

Item 9.E. ***Dilution***

Not applicable

Item 9.F. ***Expenses of the Issuer***

Not applicable

Item 10. ***Additional Information***

Item 10.A. ***Share Capital***

Currently, our authorized share capital is 200,000,000 shares, which consists of shares of common stock, par value Won 5,000 per share (Common Shares) and shares of non-voting stock, par value Won 5,000 per share (Non-Voting Shares). Common Shares and Non-Voting Shares together are referred to as Shares. Under our articles of incorporation, we are authorized to issue Non-Voting Shares up to the limit prescribed by applicable law, the aggregate of which currently is one-half of our total issued and outstanding capital stock. As of December 31, 2005, 87,186,835 Common Shares were issued, of which 6,189,091 shares were held by us in treasury and an additional 906,974 shares were held by our treasury stock fund. We have never issued any Non-Voting Shares. All of the issued and outstanding Common Shares are fully-paid and non-assessable and are in registered form. We issue share certificates in denominations of 1, 3, 4, 5, 10, 50, 100, 500, 1,000 and 10,000 shares.

Item 10.B. ***Memorandum and Articles of Association***

This section provides information relating to our capital stock, including brief summaries of material provisions of our articles of incorporation, the Korean Securities and Exchange Act, the Commercial Code and related laws of Korea, all as currently in effect. The following summaries are subject to, and are qualified in their entirety by reference to, our articles of incorporation and the applicable provisions of the Securities and Exchange Act and the Commercial Code. We have filed copies of our articles of incorporation and these laws as exhibits to registration statements under the Securities Act or the Securities Exchange Act previously filed by us.

Dividends

We distribute dividends to our shareholders in proportion to the number of shares owned by each shareholder. The Common Shares represented by the ADSs have the same dividend rights as other outstanding Common Shares.

Holders of Non-Voting Shares are entitled to receive dividends in priority to the holders of Common Shares in an amount not less than 9% of the par value of the Non-Voting Shares as determined by the board of directors at the time of their issuance. If the amount available for dividends is less than the aggregate amount of such minimum dividend, we do not have to declare dividends on the Non-Voting Shares.

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We declare dividends annually at the annual general meeting of shareholders which is held within three months after the end of the fiscal year. We pay the annual dividend shortly after the annual general meeting to the shareholders of record as of the end of the preceding fiscal year. We may distribute the annual dividend in cash or in Shares. However, a dividend of Shares must be distributed at par value. If the market price of the Shares is less than their par value, dividends in Shares may not exceed one-half of the annual dividend. In addition, we may declare, and distribute in cash, interim dividends pursuant to a board resolution once a fiscal year. We have no obligation to pay any annual dividend unclaimed for five years from the payment date.

Under the Commercial Code, we may pay an annual dividend only out of the excess of our net assets, on a non-consolidated basis, over the sum of (1) our stated capital and (2) the total amount of our capital surplus reserve and legal reserve accumulated up to the end of the relevant dividend period. We may not pay an annual dividend unless we have set aside as legal reserve an amount equal to at least 10% of the cash portion of the annual dividend or unless we have accumulated a legal reserve of not less than one-half of our stated capital. In addition, we are required under the Securities and Exchange Act and the relevant regulations to set aside as reserve a certain amount every fiscal year until our capital ratio is at least 30%. We may not use legal reserve to pay cash dividends but may transfer amounts from legal reserve to capital stock or use legal reserve to reduce an accumulated deficit.

Distribution of Free Shares

In addition to paying dividends in Shares out of our retained or current earnings, we may also distribute to our shareholders an amount transferred from our capital surplus or legal reserve to our stated capital in the form of free shares. We must distribute such free shares to all our shareholders in proportion to their existing shareholdings.

Preemptive Rights and Issuance of Additional Shares

We may issue authorized but unissued shares at the times and, unless otherwise provided in the Commercial Code, on the terms our board of directors may determine. All our shareholders are generally entitled to subscribe for any newly issued Shares in proportion to their existing shareholdings. We must offer new Shares on uniform terms to all shareholders who have preemptive rights and are listed on our shareholders register as of the relevant record date. Under the Commercial Code, we may vary, without shareholders approval, the terms of these preemptive rights for different classes of shares. We must give public notice of the preemptive rights regarding new Shares and their transferability at least two weeks before the relevant record date. Our board of directors may determine how to distribute Shares for which preemptive rights have not been exercised or where fractions of Shares occur.

Under our articles of incorporation, we may issue new Shares pursuant to a board resolution to persons other than existing shareholders, who in these circumstances will not have preemptive rights, if the new Shares are:

- publicly offered pursuant to the Securities and Exchange Act;
- issued to members of our employee stock ownership association;
- represented by depositary receipts;
- issued through offering to public investors, the amount of which is no more than 10% of the outstanding Shares;
- issued to our creditors pursuant to a debt-equity swap;
- issued to domestic or foreign corporations pursuant to a joint venture agreement or technology inducement agreement; or
- issued to domestic or foreign financial institutions when necessary for raising funds in emergency cases.

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In addition, we may issue convertible bonds or bonds with warrants, each up to an aggregate principal amount of Won 1,000 billion, to persons other than existing shareholders.

Members of our employee stock ownership association, whether or not they are our shareholders, generally have a preemptive right to subscribe for up to 20% of the Shares publicly offered pursuant to the Securities and Exchange Act. This right is exercisable only to the extent that the total number of Shares so acquired and held by members of our employee stock ownership association does not exceed 20% of the total number of Shares then issued. As of December 31, 2005, approximately 2.1% of the outstanding Shares were held by members of our employee stock ownership association.

General Meeting of Shareholders

We hold the annual general meeting of shareholders within three months after the end of each fiscal year. Subject to a board resolution or court approval, we may hold an extraordinary general meeting of shareholders:

- as necessary;
- at the request of holders of an aggregate of 3% or more of our outstanding Shares;
- at the request of shareholders holding an aggregate of 1.5% or more of our outstanding Shares for at least six months; or
- at the request of our audit committee.

Holders of Non-Voting Shares may request a general meeting of shareholders only after the Non-Voting Shares or Convertible Shares become entitled to vote or enfranchised, as described under Voting Rights below.

We must give shareholders written notice setting out the date, place and agenda of the meeting at least two weeks before the date of the general meeting of shareholders. However, for holders of 1% or less of the total number of issued and outstanding voting Shares, we may give notice by placing at least two public notices in at least two daily newspapers at least two weeks in advance of the meeting. Currently, we use *The Seoul Shinmun* published in Seoul, *The Maeil Shinmun* published in Taegu and *The Kwangju Ilbo* published in Kwangju for this purpose. Shareholders not on the shareholders register as of the record date are not entitled to receive notice of the general meeting of shareholders or attend or vote at the meeting. Holders of Non-Voting Shares or Convertible Shares, unless enfranchised, are not entitled to receive notice of general meetings of shareholders, but may attend such meetings.

Our general meetings of shareholders are held either in Pohang or Seoul.

Voting Rights

Holders of our Common Shares are entitled to one vote for each Common Share, except that voting rights of Common Shares held by us, or by a corporate shareholder that is more than 10% owned by us either directly or indirectly, may not be exercised. A recent amendment to the Commercial Code permitted cumulative voting, under which voting method each shareholder would have multiple voting rights corresponding to the number of directors to be appointed in the voting and may exercise all voting rights cumulatively to elect one director.

Our shareholders may adopt resolutions at a general meeting by an affirmative majority vote of the voting Shares present or represented at the meeting, where the affirmative votes also represent at least one-fourth of our total voting Shares then issued and outstanding. However, under the Commercial Code and our articles of incorporation, the following matters, among others, require approval by the holders of at least two-thirds of the voting Shares present or represented at a meeting, where the affirmative votes also represent at least one-third of our total voting Shares then issued and outstanding:

- amending our articles of incorporation;
- removing a director;
- effecting any dissolution, merger or consolidation of us;
- transferring the whole or any significant part of our business;
- effecting our acquisition of all of the business of any other company;
- issuing any new Shares at a price lower than their par value; or
- approving matters required to be approved at a general meeting of shareholders, which have material effects on our assets, as determined by the Board of Directors.

In general, holders of Non-Voting Shares are not entitled to vote on any resolution or receive notice of any general meeting of shareholders. However, in the case of amendments to our articles of incorporation, or any merger or consolidation of us, or in some other cases which affect the rights or interests of the Non-Voting Shares, approval of the holders of Non-Voting Shares is required. We may obtain the approval by a resolution of holders of at least two-thirds of the Non-Voting Shares present or represented at a class meeting of the holders of Non-Voting Shares, where the affirmative votes also represent at least one-third of our total issued and outstanding Non-Voting Shares. In addition, if we are unable to pay dividends on Non-Voting Shares as provided in our articles of incorporation, the holders of Non-Voting Shares will become enfranchised and will be entitled to exercise voting rights until the dividends are paid. The holders of enfranchised Non-Voting Shares have the same rights as holders of Common Shares to request, receive notice of, attend and vote at a general meeting of shareholders.

Shareholders may exercise their voting rights by proxy. A shareholder may give proxies only to another shareholder, except that the Government may give proxies to a designated public official and a corporate shareholder may give proxies to its officers or employees.

Holders of ADRs exercise their voting rights through the ADR depositary, an agent of which is the record holder of the underlying Common Shares. Subject to the provisions of the deposit agreement, ADR holders are entitled to instruct the ADR depositary how to vote the Common Shares underlying their ADSs.

Rights of Dissenting Shareholders

In some limited circumstances, including the transfer of the whole or any significant part of our business and our merger or consolidation with another company, dissenting shareholders have the right to require us to purchase their Shares. To exercise this right, shareholders, including holders of Non-Voting Shares, must submit to us a written notice of their intention to dissent before the general meeting of shareholders. Within 20 days after the relevant resolution is passed at a meeting, the dissenting shareholders must request us in writing to purchase their Shares. We are obligated to purchase the Shares of dissenting shareholders within one month after the expiration of the 20-day period. The purchase price for the Shares is required to be determined through negotiation between the dissenting shareholders and us. If we cannot agree on a price through negotiation, the purchase price will be the average of (1) the weighted average of the daily Share prices on the Korea Exchange for the two-month period before the date of the adoption of the relevant board resolution, (2) the weighted average of the daily Share price on the Korea Exchange for the one month period before the date of the adoption of the relevant resolution and (3) the weighted average of the daily Share price on the Korea Exchange for the one week period before such date of the adoption of the relevant resolution. However, the FSC may adjust this price if we or holders of 30% or more of the Shares we are obligated to purchase do not accept the purchase price. Holders of ADSs will not be able to exercise dissenter s rights unless they have withdrawn the underlying common stock and become our direct shareholders.

Register of Shareholders and Record Dates

Our transfer agent, Kookmin Bank, maintains the register of our shareholders at its office in Seoul, Korea. It registers transfers of Shares on the register of shareholders on presentation of the Share certificates.

The record date for annual dividends is December 31. For the purpose of determining the shareholders entitled to annual dividends, the register of shareholders may be closed for the period from January 1 to January 31 of each year. Further, for the purpose of determining the shareholders entitled to some other rights pertaining to the Shares, we may, on at least two weeks public notice, set a record date and/or close the register of shareholders for not more than three months. The trading of Shares and the delivery of share certificates may continue while the register of shareholders is closed.

Annual Report

At least one week before the annual general meeting of shareholders, we must make our annual report and audited non-consolidated financial statements available for inspection at our principal office and at all of our branch offices. In addition, copies of annual reports, the audited non-consolidated financial statements and any resolutions adopted at the general meeting of shareholders will be available to our shareholders.

Under the Securities and Exchange Act, we must file with the FSC and the Korea Exchange (1) an annual securities report within 90 days after the end of our fiscal year, (2) a half-year report within 45 days after the end of the first six months of our fiscal year, and (3) quarterly reports within 45 days after the end of the third month and the ninth month of our fiscal year. Copies of these reports are or will be available for public inspection at the FSC and the Korea Exchange.

Transfer of Shares

Under the Commercial Code, the transfer of Shares is effected by delivery of share certificates. However, to assert shareholders rights against us, the transferee must have his name and address registered on our register of shareholders. For this purpose, a shareholder is required to file his name, address and seal with our transfer agent. A non-Korean shareholder may file a specimen signature in place of a seal, unless he is a citizen of a country with a sealing system similar to that of Korea. In addition, a non-resident shareholder must appoint an agent authorized to receive notices on his behalf in Korea and file a mailing address in Korea. The above requirements do not apply to the holders of ADSs.

Under current Korean regulations, Korean securities companies and banks, including licensed branches of non-Korean securities companies and banks, asset management companies, futures trading companies and internationally recognized foreign custodians and the Korea Securities Depository may act as agents and provide related services for foreign shareholders. Certain foreign exchange controls and securities regulations apply to the transfer of Shares by non-residents or non-Koreans. See Item 10. Additional Information Item 10.D. Exchange Controls.

Our transfer agent is Kookmin Bank, located at 24-3, Yoido-dong, Youngdungpo-gu, Seoul, Korea.

Acquisition of Shares by Us

We may not acquire our own Shares except in limited circumstances, such as a reduction in capital. In addition, we may acquire Shares through purchases on the Korea Exchange or through a tender-offer. In addition, we may acquire interests in our own Shares through agreements with trust companies and asset management companies. The aggregate purchase price for the Shares may not exceed the total amount available for distribution of dividends, subject to certain procedural requirements.

Under the Commercial Code, except in the case of a reduction in capital, we must resell or transfer any Shares acquired by us from a third party within a reasonable time. In general, corporate entities in which we own more than 50% equity interest may not acquire our Shares. Under the Securities and

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Exchange Act, we are subject to certain selling restrictions for the Shares acquired by us. In the case of a reduction in capital, we must immediately cancel the Shares acquired by us.

Liquidation Rights

In the event of our liquidation, after payment of all debts, liquidation expenses and taxes, our remaining assets will be distributed among shareholders in proportion to their shareholdings. Holders of Non-Voting Shares and Convertible Shares have no preference in liquidation.

Item 10.C. ***Material Contracts***

None.

Item 10.D. ***Exchange Controls***

Notes

Korean law does not limit the right of non-Koreans to hold notes denominated in foreign currencies outside Korea. In order for us to issue such notes outside Korea, we are required to submit a report to the Minister of Finance and Economy or our designated foreign exchange bank (depending on the aggregate issuance amount) with respect to the issuance of the notes. Furthermore, in order for us to make payments of principal of or interest on the notes and other amounts as provided in the indenture and the notes, each actual payment should be reviewed by a foreign exchange bank at the time of such actual payment. The purpose of this review is to ensure that the actual remittance amount is consistent with the amounts payable under the notes.

Under Korean law, if the Government deems that certain emergency circumstances, including, but not limited to, sudden fluctuations in interest rates, or exchange rates, extreme difficulty in stabilizing the balance of payments or a substantial disturbance in the Korean financial and capital markets, are likely to occur, it may impose any necessary restrictions such as suspending or restricting transactions involving foreign exchange or cross border payments (including payments of principal of an interest on the notes), requiring prior approval from the Minister of Finance and Economy for any such transactions or obligating a certain portion of the foreign investor s holdings to be deposited in Korea.

Shares and ADSs

The Foreign Exchange Transaction Act and the Presidential Decree and regulations under that Act and Decree (collectively the Foreign Exchange Transaction Laws) and the Foreign Investment Promotion Law regulate investment in Korean securities by non-residents and issuance of securities outside Korea by Korean companies. Under the Foreign Exchange Transaction Laws, non-residents may invest in Korean securities only to the extent specifically allowed by these laws. The FSC has also adopted, pursuant to its authority under the Korean Securities and Exchange Act, regulations that restrict investment by foreigners in Korean securities.

Under the Foreign Exchange Transaction Laws, if the Government deems that certain emergency circumstances, including, but not limited to, sudden fluctuations in interest rates or exchange rates, extreme difficulty in stabilizing the balance of payments or a substantial disturbance in the Korean financial and capital markets, are likely to occur, it may impose any necessary restrictions such as requiring foreign investors to obtain prior approval from the Minister of Finance and Economy or obligating a certain portion of the foreign investors holdings to be deposited in Korea.

Government Review of Issuance of ADRs

In order for us to issue shares represented by ADSs, we are required to file a prior report of the issuance with our designated foreign exchange bank or the MOFE, depending on the issuance amount. No further Korean governmental approval is necessary for the initial offering and issuance of the ADSs.

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Under current Korean laws and regulations, the depositary bank is required to obtain our prior consent for the number of shares to be deposited in any given proposed deposit which exceeds the difference between (1) the aggregate number of shares deposited by us for the issuance of ADSs (including deposits in connection with the initial and all subsequent offerings of ADSs and stock dividends or other distributions related to these ADSs) and (2) the number of shares on deposit with the depositary bank at the time of such proposed deposit. We can give no assurance that we would grant our consent, if our consent is required.

Reporting Requirements for Holders of Substantial Interests

Any person whose direct or beneficial ownership of shares, whether in the form of shares or ADSs, certificates representing the rights to subscribe for Shares and equity-related debt securities including convertible bonds and bonds with warrants (collectively, the Equity Securities) together with the Equity Securities beneficially owned by certain related persons or by any person acting in concert with the person accounts for 5% or more of the total outstanding Equity Securities is required to report the status and the purpose (whether or not to exert an influence on management control over the issuer) of the holdings to the FSC and the Korea Exchange within five business days after reaching the 5% ownership interest. In addition, any change in the purpose of holding such ownership interest or a change in the ownership interest subsequent to the report which equals or exceeds 1% of the total outstanding Equity Securities is required to be reported to the FSC and the Korea Exchange within five business days from the date of the change.

Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment and may result in a loss of voting rights with respect to the ownership of Equity Securities exceeding 5%. Furthermore, the FSC may issue an order to dispose of non-reported Equity Securities.

In addition to the reporting requirements described above, any person whose direct or beneficial ownership of a company s shares accounts for 10% or more of the total issued and outstanding shares (a major stockholder) must report the status of his or her shareholding to the Korea Securities Futures Commission and the Korea Exchange within ten days after he or she becomes a major stockholder. In addition, any change in the ownership interest subsequent to the report must be reported to the Korea Securities and Futures Commission and the Korea Exchange within the 10th day of the month following the month in which the change occurred. Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment.

Restrictions Applicable to ADSs

No Korean governmental approval is necessary for the sale and purchase of ADSs in the secondary market outside Korea or for the withdrawal of shares underlying ADSs and the delivery inside Korea of shares in connection with the withdrawal, provided that a foreigner who intends to acquire the shares must obtain an investment registration card from the Financial Supervisory Service (the FSS) as described below. The acquisition of the shares by a foreigner must be immediately reported by the foreigner or his standing proxy in Korea to the Governor of the FSS (the Governor).

Persons who have acquired shares as a result of the withdrawal of shares underlying the ADSs may exercise their preemptive rights for new shares, participate in free distributions and receive dividends on shares without any further governmental approval.

Restrictions Applicable to Shares

Under the Foreign Exchange Transaction Laws and FSC regulations (together, the Investment Rules), foreigners may invest, with limited exceptions and subject to procedural requirements, in all shares of Korean companies, whether listed on the Stock Market Division of the Korea Exchange, unless prohibited by specific laws. Foreign investors may trade shares listed on the Stock Market Division of the

Korea Exchange only through the Stock Market Division of the Korea Exchange, except in limited circumstances, including, among others:

- odd-lot trading of shares;
- acquisition of shares (Converted Shares) by exercise of warrant, conversion right under convertible bonds or withdrawal right under depositary receipts issued outside of Korea by a Korean company;
- acquisition of shares as a result of inheritance, donation, bequest or exercise of shareholders rights, including preemptive rights or rights to participate in free distributions and receive dividends;
- over-the-counter transactions between foreigners of a class of shares for which the ceiling on aggregate acquisition by foreigners, as explained below, has been reached or exceeded with certain exceptions; and
- direct investment as defined in the Foreign Investment Promotion Law.

For over-the-counter transactions of shares between foreigners outside the Korea Exchange with respect to which the limit on aggregate foreign ownership has been reached or exceeded, a securities company licensed in Korea must act as an intermediary. Odd-lot trading of shares outside the Korea Exchange must involve a licensed securities company in Korea as the other party. Foreign investors are prohibited from engaging in margin transactions with respect to shares which are subject to a foreign ownership limit.

The Investment Rules require a foreign investor who wishes to invest in shares on the Korea Exchange (including Converted Shares) to register its identity with the FSS prior to making any such investment; however, the registration requirement does not apply to foreign investors who acquire Converted Shares with the intention of selling such Converted Shares within three months from the date of acquisition of the Converted Shares. Upon registration, the FSS will issue to the foreign investor an investment registration card which must be presented each time the foreign investor opens a brokerage account with a securities company. Foreigners eligible to obtain an investment registration card include foreign nationals who are individuals residing abroad for more than six months, foreign governments, foreign municipal authorities, foreign public institutions, international financial institutions or similar international organizations, corporations incorporated under foreign laws and any person in any additional category designated by decree of the MOFE. All Korean offices of a foreign corporation as a group are treated as a separate foreigner from the offices of the corporation outside Korea. However, a foreign corporation or depositary issuing depositary receipts may obtain one or more investment registration cards in its name in certain circumstances as described in the relevant regulations.

Upon a foreign investor s purchase of shares through the Korea Exchange, no separate report by the investor is required because the investment registration card system is designed to control and oversee foreign investment through a computer system. However, a foreign investor s acquisition or sale of shares outside the Korea Exchange (as discussed above) must be reported by the foreign investor or his standing proxy to the Governor at the time of each such acquisition or sale; *provided, however,* that a foreign investor must ensure that any acquisition or sale by it of shares outside the Korea Exchange in the case of trades in connection with a tender offer, odd-lot trading of shares or trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, is reported to the Governor by the securities company engaged to facilitate such transaction. A foreign investor must appoint one or more standing proxies from among the Korea Securities Depository, foreign exchange banks, including domestic branches of foreign banks, securities companies, including domestic branches of foreign securities companies, asset management companies, futures trading companies and internationally recognized custodians which will act as a standing proxy to exercise shareholders rights or perform any matters related to the foregoing activities if the foreign investor does not perform these activities himself. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the Governor in cases deemed inevitable by reason of conflict between laws of Korea and those of the home country of the foreign investor.

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Certificates evidencing shares of Korean companies must be kept in custody with an eligible custodian in Korea. Only foreign exchange banks, including domestic branches of foreign banks, securities companies, including domestic branches of foreign securities companies, the Korea Securities Depository, asset management companies, futures trading companies and internationally recognized custodians are eligible to act as a custodian of shares for a non-resident or foreign investor. A foreign investor must ensure that his custodian deposits its shares with the Korea Securities Depository. However, a foreign investor may be exempted from complying with this deposit requirement with the approval of the Governor in circumstances where compliance with that requirement is made impracticable, including cases where compliance would contravene the laws of the home country of such foreign investor.

Under the Investment Rules, with certain exceptions, foreign investors may acquire shares of a Korean company without being subject to any foreign investment ceiling. As one such exception, designated public corporations are subject to a 40% ceiling on the acquisition of shares by foreigners in the aggregate. Designated public corporations may set a ceiling on the acquisition of shares by a single person according to its articles of incorporation. We set this ceiling at 3% until the discontinuation of our designation as a public corporation on September 28, 2000. As a result, we currently do not have any ceiling on the acquisition of shares by a single person or by foreigners in the aggregate. Furthermore, an investment by a foreign investor of not less than 10% of the outstanding shares with voting rights of a Korean company is defined as a direct foreign investment under the Foreign Investment Promotion Law, which is, in general, subject to the report to, and acceptance by, the Minister of Commerce, Industry and Energy. The acquisition of shares of a Korean company by a foreign investor may also be subject to certain foreign shareholding restrictions in the event that the restrictions are prescribed in each specific law which regulates the business of the Korean company.

Under the Foreign Exchange Transaction Laws, a foreign investor who intends to acquire shares must designate a foreign exchange bank at which he must open a foreign currency account and a Won account exclusively for stock investments. No approval is required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account at the time required to place a deposit for, or settle the purchase price of, a stock purchase transaction to a Won account opened in the name of a securities company. Funds in the foreign currency account may be remitted abroad without any governmental approval.

Dividends on Shares are paid in Won. No governmental approval is required for foreign investors to receive dividends on, or the Won proceeds of the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Won proceeds of the sale of, any shares held by a non-resident of Korea must be deposited either in a Won account with the investor s securities company or his Won Account. Funds in the investor s Won Account may be transferred to his foreign currency account or withdrawn for local living expenses up to certain limitations. Funds in the Won Account may also be used for future investment in shares or for payment of the subscription price of new shares obtained through the exercise of preemptive rights.

Securities companies and investment trust companies are allowed to open foreign currency accounts with foreign exchange banks exclusively for accommodating foreign investors stock investments in Korea. Through these accounts, these securities companies and investment trust companies may enter into foreign exchange transactions on a limited basis, such as conversion of foreign currency funds and Won funds, as a counterparty to foreign investors, without the investors having to open their own accounts with foreign exchange banks.

Item 10.E. ***Taxation***

The following summary is based upon tax laws of the United States and the Republic of Korea as in effect on the date of this annual report on Form 20-F, and is subject to any change in United States or Korean law that may come into effect after such date. Investors in the notes, shares of common stock or ADSs are advised to consult their own tax advisers as to the United States, Korean or other tax

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consequences of the purchase, ownership and disposition of such securities, including the effect of any national, state or local tax laws.

Korean Taxation

The following summary of Korean tax considerations applies to you so long as you are not:

- a resident of Korea;
- a corporation with registered office or main office is located in Korea or actual management of which takes place in Korea; or
- engaged in a trade or business in Korea through a permanent establishment or a fixed base to which the relevant income is attributable or with which the relevant income is effectively connected.

Note

Taxation of Interest

Under current Korean tax laws, when we make payments of interest to you on the notes, no amount will be withheld from such payments for, or on account of, any income taxes of any kind imposed, levied, withheld or assessed by Korea or any political subdivision or taxing authority thereof or therein.

Taxation of Capital Gains

Under specific exemptions granted under Korean tax law, you will not be subject to any Korean income or withholding taxes in connection with the capital gains from sale, exchange or other disposition of a note if (i) you transfer the note to another non-resident (other than to such transferee s permanent establishment in Korea) or (ii) you transfer the note to a resident or a non-resident of Korea outside Korea (regardless of whether the transferees have a permanent establishment in Korea) by virtue of the Special Tax Treatment Control Law of Korea (the STTCL), provided that the issuance of the note outside Korea is deemed to be an overseas issuance under the STTCL. If you sell or otherwise dispose of a note through other ways than those mentioned above, any gain realized on the transaction will be taxable at ordinary Korean withholding tax rates (the lesser of, subject to the production of satisfactory evidence of the acquisition cost of, and certain direct transaction costs attributable to the disposal of, the relevant notes, 27.5% of the net gain or 11% of the gross sale proceeds), unless an exemption is available under an applicable income tax treaty. See the discussion under Tax Treaties below for an additional explanation on treaty benefits.

Inheritance Tax and Gift Tax

If you die while you are the holder of a note, the subsequent transfer of the notes by way of succession will be subject to Korean inheritance tax. Similarly, if you transfer a note as a gift, the donee will be subject to Korean gift tax and you may be required to pay the gift tax if the donee fails to do so.

At present, Korea has not entered into any tax treaty relating to inheritance or gift taxes.

Shares or ADSs

Dividends on the Shares of Common Stock or ADSs

We will deduct Korean withholding tax from dividends paid to you at a rate of 27.5%. If you are a qualified resident in a country that has entered into a tax treaty with Korea, you may qualify for a reduced rate of Korean withholding tax. See the discussion under Tax Treaties below for an additional explanation on treaty benefits.

In order to obtain the benefits of a reduced withholding tax rate under a tax treaty, you must submit to us, prior to the dividend payment date, such evidence of tax residence as may be required by the

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Korean tax authorities. Evidence of tax residence may be submitted to us through the ADR depositary. If we distribute to you free shares representing a transfer of certain capital reserves or asset revaluation reserves into paid-in capital, that distribution may be subject to Korean tax.

Taxation of Capital Gains

As a general rule, capital gains earned by non-residents upon the transfer of the common shares or ADSs would be subject to Korean withholding tax at a rate equal to the lesser of (i) 11% of the gross proceeds realized or (ii) 27.5% of the net realized gain (subject to the production of satisfactory evidence of the acquisition costs and certain direct transaction costs arising out of the transfer of such common shares or ADSs), unless such non-resident is exempt from Korean income taxation under an applicable Korean tax treaty into which Korea has entered with the non-resident s country of tax residence. See the discussion under Tax Treaties below for an additional explanation on treaty benefits. Even if you do not qualify for any exemption under a tax treaty, you will not be subject to the foregoing withholding tax on capital gains if you qualify for the relevant Korean domestic tax law exemptions discussed in the following paragraphs.

With respect to shares of our common stock, you will not be subject to Korean income taxation on capital gains realized upon the transfer of such shares through the Korea Exchange if you (i) have no permanent establishment in Korea and (ii) did not own or have not owned (together with any shares owned by any entity with which you have a certain special relationship and possibly including the shares represented by the ADSs) 25% or more of our total issued and outstanding shares at any time during the calendar year in which the sale occurs and during the five calendar years prior to the calendar year in which the sale occurs.

Under a tax ruling issued by the Korean tax authority in 1995 (the 1995 tax ruling), ADSs are treated as securities separate from the underlying shares represented by such ADSs and, based on such ruling, (i) capital gains earned by you from the transfer of ADSs to another non-resident (other than to such transferee s permanent establishment in Korea) will not be subject to Korean income taxation and (ii) capital gains earned by you (regardless of whether you have a permanent establishment in Korea) from the transfer of ADSs outside Korea will be exempt from Korean income taxation by virtue of the STTCL, provided that the issuance of the ADSs is deemed to be an overseas issuance under the STTCL.

If you are subject to tax on capital gains with respect to the sale of ADSs, or of shares of common stock which you acquired as a result of a withdrawal, the purchaser or, in the case of the sale of shares of common stock on the Korea Exchange or through a licensed securities company in Korea, the licensed securities company, is required to withhold Korean tax from the sales price in an amount equal to 11% (including resident surtax) of the gross realization proceeds and to make payment of these amounts to the Korean tax authority, unless you establish your entitlement to an exemption under an applicable tax treaty or domestic tax law or produce satisfactory evidence of your acquisition cost and transaction costs for the shares of common stock or the ADSs. To obtain the benefit of an exemption from tax pursuant to a tax treaty, you must submit to the purchaser or the securities company, or through the ADR depositary, as the case may be, prior to or at the time of payment, such evidence of your tax residence as the Korean tax authorities may require in support of your claim for treaty benefits. See the discussion under Tax Treaties below for an additional explanation on claiming treaty benefits.

Tax Treaties

Korea has entered into a number of income tax treaties with other countries (including the United States), which would reduce or exempt Korean withholding tax on dividends on, and capital gains on transfer of, shares of our common stock or ADSs. For example, under the Korea-United States income tax treaty, reduced rates of Korean withholding tax of 16.5% or 11.0% (respectively, including resident surtax, depending on your shareholding ratio) on dividends and an exemption from Korean withholding tax on capital gains are available to residents of the United States that are beneficial owners of the relevant dividend income or capital gains. However, under Article 17 (Investment of Holding Companies) of the

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Korea-United States income tax treaty, such reduced rates and exemption do not apply if (i) you are a United States corporation, (ii) by reason of any special measures, the tax imposed on you by the United States with respect to such dividends or capital gains is substantially less than the tax generally imposed by the United States on corporate profits, and (iii) 25% or more of your capital is held of record or is otherwise determined, after consultation between competent authorities of the United States and Korea, to be owned directly or indirectly by one or more persons who are not individual residents of the United States. Also, under Article 16 (Capital Gains) of the Korea-United States income tax treaty, the exemption on capital gains does not apply if you are an individual, and (a) you maintain a fixed base in Korea for a period or periods aggregating 183 days or more during the taxable year and your ADSs or shares of common stock giving rise to capital gains are effectively connected with such fixed base or (b) you are present in Korea for a period or periods of 183 days or more during the taxable year.

You should inquire whether you are entitled to the benefit of an income tax treaty with Korea. It is the responsibility of the party claiming the benefits of an income tax treaty in respect of dividend payments or capital gains to submit to us, the purchaser or the securities company, as applicable, a certificate as to his or her tax residence. In the absence of sufficient proof, we, the purchaser or the securities company, as applicable, must withhold tax at the normal rates. In addition, effective starting July 1, 2002, in order for you to obtain the benefit of a tax exemption on certain Korean source income (e.g., dividends and capital gains) under an applicable tax treaty, Korean tax law requires you (or your agent) to submit the application for tax exemption along with a certificate of your tax residency issued by a competent authority of your country of tax residence, subject to certain exceptions. Such application should be submitted to the relevant district tax office by the ninth day of the month following the date of the first payment of such income.

Inheritance Tax and Gift Tax

If you die while holding an ADS or donate an ADS, it is unclear whether, for Korean inheritance and gift tax purposes, you will be treated as the owner of the shares of common stock underlying the ADSs. If the tax authority interprets depositary receipts as the underlying share certificates, you may be treated as the owner of the shares of common stock and your heir or the donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax presently at the rate of 10% to 50%; provided that the value of the ADSs or shares of common stock is greater than a specified amount.

If you die while holding a share of common stock or donate a share of common stock, your heir or donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax at the same rate as indicated above.

At present, Korea has not entered into any tax treaty relating to inheritance or gift taxes.

Securities Transaction Tax

If you transfer shares of common stock on the Korea Exchange, you will be subject to securities transaction tax at the rate of 0.15% and an agriculture and fishery special surtax at the rate of 0.15% of the sale price of the shares of common stock. If your transfer of the shares of common stock is not made on the Korea Exchange, subject to certain exceptions you will be subject to securities transaction tax at the rate of 0.5% and will not be subject to an agriculture and fishery special surtax.

With respect to transfer of ADRs, a tax ruling was issued in 2004 by the Korean tax authority (the 2004 tax ruling) to the effect that depositary receipts (which the ADRs fall under) constitute share certificates subject to the securities transaction tax; provided that, under the Securities Transaction Tax Law, the transfer of depositary receipts listed on the New York Stock Exchange, the Nasdaq National Market or other qualified foreign exchanges is exempt from the securities transaction tax. Based on the 2004 tax ruling and the relevant provisions of the Securities Transaction Tax Law, once the ADSs are listed on the New York Stock Exchange, your transfer of ADRs should not be subject to the securities transaction tax.

In principle, the securities transaction tax, if applicable, must be paid by the transferor of the shares or rights. When the transfer is effected through a securities settlement company, such settlement company is generally required to withhold and pay the tax to the tax authorities. When such transfer is made through a securities company only, such securities company is required to withhold and pay the tax. Where the transfer is effected by a non-resident without a permanent establishment in Korea, other than through a securities settlement company or a securities company, the transferee is required to withhold the securities transaction tax.

United States Taxation

This summary describes the material U.S. federal income tax consequences for a U.S. holder (as defined below) of owning our notes, shares of common stock or ADSs. This summary applies to you only if you hold notes, shares of common stock or ADSs as capital assets for tax purposes and, in the case of the notes, only if you purchased such notes in the applicable initial offering at their issue price. This summary does not apply to you if you are a member of a class of holders subject to special rules, such as:

- a dealer in securities or currencies;
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings;
- a bank;
- a life insurance company;
- a tax-exempt organization;
- a person that holds notes, shares of common stock or ADSs that are a hedge or that are hedged against interest rate or currency risks;
- a person that holds notes, shares of common stock or ADSs as part of a straddle or conversion transaction for tax purposes;
- a person whose functional currency for tax purposes is not the U.S. dollar; or
- a person that owns or is deemed to own 10% or more of any class of our stock.

This summary is based on laws, treaties and regulatory interpretations in effect on the date hereof, all of which are subject to change, possibly on a retroactive basis.

Please consult your own tax advisers concerning the U.S. federal, state, local and other national tax consequences of purchasing, owning and disposing of notes, shares of common stock or ADSs in your particular circumstances.

For purposes of this summary, you are a U.S. holder if you are a beneficial owner of a note, share of common stock or ADS that is:

- a citizen or resident of the United States;
- a U.S. domestic corporation; or
- subject to U.S. federal income tax on a net income basis with respect to income from the note, share of common stock or ADS.

Notes

Interest

Interest on the notes will be includible in your income at the time the interest is accrued or received, in accordance with your method of tax accounting.

Sale, Exchange or Retirement

Upon the sale, exchange or retirement of a note, you generally will recognize gain or loss equal to the difference between the amount realized (less any accrued interest, which will be taxable as interest income) and your tax basis in such note. Such gain or loss generally will be long-term capital gain or loss if you held the note for more than one year at the time of disposition. Your ability to offset capital losses against ordinary income is limited. Long-term capital gain recognized by an individual U.S. holder generally is subject to taxation at reduced rates of tax.

Shares of Common Stock and ADSs

In general, if you hold ADSs, you will be treated as the holder of the shares of common stock represented by those ADSs for U.S. federal income tax purposes, and no gain or loss will be recognized if you exchange an ADS for the shares of common stock represented by that ADS.

Dividends

The gross amount of cash dividends that you receive (prior to deduction of Korean taxes) generally will be subject to U.S. federal income taxation as foreign source dividend income. Dividends paid in Won will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of your (or, in the case of ADSs, the depositary s) receipt of the dividend, regardless of whether the payment is in fact converted into U.S. dollars. If such a dividend is converted into U.S. dollars on the date of receipt, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual prior to January 1, 2011 with respect to the ADSs will be subject to taxation at a maximum rate of 15% if the dividends are qualified dividends. Dividends paid on the ADSs will be treated as qualified dividends if (i) the ADSs are readily tradable on an established securities market in the United States and (ii) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company (PFIC). The ADSs are listed on the New York Stock Exchange, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on our audited financial statements and relevant market and shareholder data, we believe that we were not treated as a PFIC for U.S. federal income tax purposes with respect to our 2004 or 2005 taxable year. In addition, based on our audited financial statements and its current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market and shareholder data, we do not anticipate becoming a PFIC for our 2006 taxable year.

The U.S. Treasury has announced its intention to promulgate rules pursuant to which holders of ADSs or common stock and intermediaries through whom such securities are held will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because such procedures have not yet been issued, it is not clear whether we will be able to comply with them. Holders of ADSs and common shares should consult their own tax advisers regarding the availability of the reduced dividend tax rate in the light of their own particular circumstances.

Distributions of additional shares in respect of shares of common stock or ADSs that are made as part of a pro-rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax.

Sales and Other Dispositions

For U.S. federal income tax purposes, gain or loss you realize on the sale or other disposition of shares of common stock or ADSs will be capital gain or loss, and will be long-term capital gain or loss if the shares of common stock or ADSs were held for more than one year. Your ability to offset capital

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losses against ordinary income is limited. Long-term capital gain recognized by an individual U.S. holder generally is subject to taxation at a reduced rate.

Foreign Tax Credit Considerations

You should consult your own tax advisers to determine whether you are subject to any special rules that limit your ability to make effective use of foreign tax credits, including the possible adverse impact of failing to take advantage of benefits under the income tax treaty between the United States and Korea. If no such rules apply, you may claim a credit against your U.S. federal income tax liability for Korean taxes withheld from dividends on shares of common stock or ADSs, so long as you have owned the shares of common stock or ADSs (and not entered into specified kinds of hedging transactions) for at least a 16-day period that includes the ex-dividend date. Instead of claiming a credit, you may, at your election, deduct such Korean taxes in computing your taxable income, subject to generally applicable limitations under U.S. tax law. Korean taxes withheld from a distribution of additional shares that is not subject to U.S. tax will be treated for U.S. federal income tax purposes as imposed on general limitation income. Such treatment may affect your ability to utilize any available foreign tax credit in respect of such taxes.

Any Korean securities transaction tax or agriculture and fishery special tax that you pay will not be creditable for foreign tax credit purposes.

Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities and may not be allowed in respect of arrangements in which a U.S. holder s expected economic profit is insubstantial.

The calculation of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions involve the application of complex rules that depend on a U.S. holder s particular circumstances. You should consult your own tax advisers regarding the creditability or deductibility of such taxes.

U.S. Information Reporting and Backup Withholding Rules

Payments in respect of the notes, shares of common stock or ADSs that are made within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the holder (1) is a corporation or other exempt recipient or (2) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification of its non-U.S. status in connection with payments received within the United States or through a U.S.-related financial intermediary.

Item 10.F. ***Dividends and Paying Agents***

See Item 8.A. Consolidated Statements and Other Financial Information Dividends above for information concerning our dividend policies and our payment of dividends. See Item 10B. Memorandum and Articles of Association Dividends for a discussion of the process by which dividends are paid on shares of our common stock. See Item 12. Description of Securities Other than Equity Securities Dividends, Other Distributions and Rights for a discussion of the process by which dividends are paid on our ADSs. The paying agent for payment of our dividends on ADSs in the United States is Bank of New York.

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Item 10.G. ***Statements by Experts***

Not applicable

Item 10.H. ***Documents on Display***

We file reports, including annual reports on Form 20-F, and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. You may read and copy any materials filed with the SEC at the Public Reference Rooms in Washington, D.C., New York, New York and Chicago, Illinois. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Any filings we make electronically will be available to the public over the Internet at the SEC s web site at *http://www.sec.gov.*

Item 10.I. ***Subsidiary Information***

Not applicable

Item 11. ***Quantitative and Qualitative Disclosures about Market Risk***

We are exposed to foreign exchange rate and interest rate risk primarily associated with underlying liabilities, and to changes in the commodity prices of principal raw materials and the market value of our equity investments. Following evaluation of these positions, we selectively enter into derivative financial instruments to manage the related risk exposures. These contracts are entered into with major financial institutions, which minimizes the risk of credit loss. The activities of our finance division are subject to policies approved by our senior management. These policies address the use of derivative financial instruments, including the approval of counterparties, setting of limits and investment of excess liquidity. Our general policy is to hold or issue derivative financial instruments for hedging purposes. From time to time, we may also enter into derivative financial contracts for trading purposes.

Exchange Rate Risk

Korea is our most important market and, therefore, a substantial portion of our cash flow is denominated in Won. Most of our exports are denominated in Dollars. Japan is also an important market for us, and we derive significant cash flow denominated in Yen. We are exposed to foreign exchange risk related to foreign currency denominated liabilities and anticipated foreign exchange payments. Anticipated foreign exchange payments, which represent a substantial sum and are mostly denominated in Dollars, relate primarily to imported raw material costs and freight costs. Foreign currency denominated liabilities relate primarily to foreign currency denominated debt. We use, to a limited extent, cross-currency interest rate swaps to reduce our exchange rate exposure with respect to foreign currency denominated debt. Under cross-currency interest rate swaps, we typically agree with the other parties to exchange, at the maturity date, a fixed amount denominated in one currency with a fixed amount denominated in another currency. Until the maturity date, we agree to exchange interest payments, at specified intervals, calculated based on different interest rates for each currency. We also use, to a limited extent, currency forward contracts to purchase Dollars to reduce our exchange rate exposure. Under currency forward contracts, we typically agree with the other parties to exchange, at the maturity date, a fixed amount denominated in Dollars with an amount denominated in Yen or Won at a fixed exchange rate.

As of December 31, 2005, we had entered into six currency forward contracts and one option contract. Our aggregate net valuation loss of above contracts was approximately Won 19.7 billion and net transaction loss was Won 5.1 billion in 2005. We may incur losses under our existing contracts or any swap or other derivative product transactions entered into in the future. See Note 22 of Notes to Consolidated Financial Statements.

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Interest Rate Risk

We are also subject to market risk exposure arising from changing interest rates. A reduction of interest rates increases the fair value of our debt portfolio, which is primarily of a fixed interest nature. From time to time, we use, to a limited extent, interest rate swaps to reduce interest rate volatility on some of our debt and manage our interest expense by achieving a balanced mixture of floating and fixed rate debt. As of December 31, 2005, we did not have any outstanding interest rate swap contract.

The following table summarizes the carrying amounts, fair values, principal cash flows by maturity date and weighted average interest rates of our short-term and long-term liabilities as of December 31, 2005 which are sensitive to exchange rates and/or interest rates. The information is presented in Won, which is our reporting currency.

	Maturities						December 31, 2005		December 31, 2004	
	2006	2007	2008	2009	2010	Thereafter	Total	Fair Value	Total	Fair Value
	(In millions of Won except rates)									
Local currency:										
Fixed rate	712,931	155,170	62,319	43,475	12,115	5,091	991,100	1,017,635	1,568,148	1,613,304
Average weighted rate(1)	5.34%	4.80%	5.87%	5.76%	5.45%	3.12%	5.30%		6.27%	
Variable rate										
Average weighted rate(1)										
Sub-total	712,931	155,170	62,319	43,475	12,115	5,091	991,100	1,017,635	1,568,148	1,613,304
Foreign currency, principally Dollars and Yen:										
Fixed rate	1,194,149	49,394	493,800	137,301	18,174	128,074	2,020,892	2,035,777	2,116,505	2,152,279
Average weighted rate(1)	3.66%	3.48%	0.48%	3.02%	4.54%	3.30%	2.82%		2.70%	
Variable rate	8,301	8,301	8,301	8,301	4,151		37,357	37,357	76,941	76,941
Average weighted rate(1)	5.50%	5.50%	5.50%	5.50%	5.50%		5.50%		3.65%	

Sub-total	1,202,451	57,695	502,102	145,602	22,324	128,074	2,058,249	2,073,134	2,193,447	2,229,221
Total	1,915,382	212,865	564,420	189,078	34,439	133,164	3,049,348	3,090,768	3,761,595	3,842,525

(1) Weighted average rates of the portfolio at the period end.

Commodity Price Risk

We are exposed to market risk of price fluctuations related to the purchase of raw materials, especially iron ore and coal. To ensure adequate supply of raw materials, we enter into long-term supply contracts to purchase iron ore, coal, nickel, chrome, stainless steel scrap and liquefied natural gas. These contracts generally have terms of three to ten years and provide for periodic price adjustments to then-market prices. As of December 31, 2005, 500 million tons of iron ore and 113 million tons of coal remained to be purchased under long-term supply contracts. We generally do not use commodity derivatives to manage our commodity price risks. As of December 31, 2005, we had entered into one nickel forward contract, which recorded net transaction gain of Won 1.0 billion in 2005.

Equity Price Risk

We are exposed to equity price risk primarily from changes in the stock price of SK Telecom and Nippon Steel Corporation. We currently hold a 2.85% interest in SK Telecom (excluding shares placed as

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collateral for exchangeable bonds issued in August 2003) and a 2.2% interest in Nippon Steel Corporation. We have not entered into any derivative instruments or any other arrangements to manage our equity price risks.

Item 12. ***Description of Securities Other than Equity Securities***

Item 12.A. ***Debt Securities***

Not applicable

Item 12.B. ***Warrants and Rights***

Not applicable

Item 12.C. ***Other Securities***

Not applicable

Item 12.D. ***American Depositary Shares***

The following is a summary of the deposit agreement, dated as of September 26, 1994, among us, The Bank of New York as ADR depositary and all holders and beneficial owners of ADRs, as amended by amendment no. 1 dated as of June 25, 1997. The deposit agreement is governed by the laws of the State of New York. Because it is a summary, it does not contain all the information that may be important to you. For more complete information, you should read the entire deposit agreement and the ADR. The deposit agreement has been filed as an exhibit to the registration statement of which this prospectus forms a part. Additional copies of the deposit agreement are available for inspection at the Corporate Trust Office of the ADR depositary, located at 101 Barclay Street, New York, New York 10286. The principal executive office of the ADR depositary is located at One Wall Street, New York, New York 10286.

American Depositary Receipts

The ADR depositary will execute and deliver the ADRs evidencing the ADSs. Each ADS will represent one-fourth of one share of our common stock or the right to receive one-fourth of one share of our common stock. All shares of our common stock deposited or deemed deposited under the deposit agreement and any other securities, cash or other property held under the deposit agreement shall be referred to as Deposited Securities. We will deposit Deposited Securities with Korea Securities Depository in Seoul, Korea (the Custodian), an agent of the ADR depositary. An ADR may represent any number of ADSs. You may hold ADRs either directly or indirectly through your broker or other financial institution. If you hold ADRs directly, you are an ADR holder. This description assumes you hold your ADRs directly. If you hold the ADRs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADR holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

As an ADR holder, you will not be treated as one of our shareholders and you will not have shareholder rights, which are governed by Korean law. The ADR depositary will be the holder of the shares underlying your ADSs. You will have the rights of an ADR holder. Your rights as the ADR holder and the obligations of the ADR depositary are set out in the deposit agreement. As an ADR holder, you will not be able to exercise dissenters rights unless you have withdrawn the underlying common stock and become a direct shareholder.

Deposit and Withdrawal of Deposited Securities

Notwithstanding the provisions described below, under current Korean laws and regulations, the ADR depositary is required to obtain our prior consent for the number of shares to be deposited in any given proposed deposit which exceeds the difference between (1) the aggregate number of shares deposited by us for the issuance of ADSs (including deposits in connection with the initial and all subsequent offerings of ADSs and stock dividends or other distributions related to these ADSs) and (2) the number of shares on deposit with the ADR depositary at the time of such proposed deposit.

The shares of common stock underlying the ADRs will be held in scripless form. Accordingly, no share certificates will be issued for them, and the ADR depositary will hold the shares through the book-entry settlement system of the Custodian. The delivery of shares of common stock pursuant to the deposit agreement will take place through the facilities of the Custodian in accordance with its applicable settlement procedures. The ADR depositary will execute and deliver ADRs if you or your broker deposit shares or evidence of rights to receive shares of common stock with the Custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the ADR depositary will register the appropriate number of ADSs in the names you designate and will deliver an ADR or ADRs for those ADSs at its Corporate Trust Office to the persons you designate. The ADR depositary and the Custodian will refuse to accept shares of common stock for deposit whenever we restrict transfers of shares to comply with ownership restrictions under applicable law or our articles of incorporation, whenever the deposit would result in any violation of our articles of incorporation or applicable law, or whenever the deposit would cause the total number of shares of common stock deposited to exceed a level we determine from time to time. See Item 10. Additional Information Item 10D. Exchange Controls Restrictions Applicable to Common Stock.

You may surrender your ADRs at the Corporate Trust Office of the ADR depositary to withdraw the underlying shares of our common stock. Upon payment of the fees and any governmental charges and taxes provided in the deposit agreement, and subject to applicable laws and regulations of Korea and our articles of incorporation, the ADR depositary will deliver, at the principal office of the Custodian in Seoul, Korea, the amount of Deposited Securities underlying the surrendered ADRs. The ADR depositary may also deliver the amount of Deposited Securities then underlying the surrendered ADRs at its Corporate Trust Office. At your request, risk and expense, we will forward share certificates and other proper documents of title to the Corporate Trust Office of the ADR depositary for delivery to you. If you surrender an ADR evidencing a number of ADSs not evenly divisible by four, the ADR depositary will deliver the appropriate whole number of shares of common stock and other Deposited Securities represented by the surrendered ADSs, and will execute and deliver to you a new ADR evidencing ADSs representing any remaining fractional shares of common stock.

Neither the ADR depositary nor the Custodian will deliver shares of common stock in any manner or otherwise permit the shares to be withdrawn from the facility created by the deposit agreement, except upon the receipt and cancellation of ADRs. However, in certain circumstances, subject to the provisions of the deposit agreement, the ADR depositary may execute and deliver ADRs before deposit of the underlying shares of common stock. This is called a pre-release of the ADR. The ADR depositary may also deliver shares of common stock upon cancellation of pre-released ADRs (even if the cancellation occurs before the termination of the pre-release) or upon receipt of other ADRs. The ADR depositary may pre-release ADRs only under the following conditions: (1) before or at the time of the pre-release, the person to whom the pre-release is being made must represent to the ADR depositary in writing that it or its customer owns the shares of common stock or ADRs to be deposited; (2) the pre-release must be fully collateralized with cash or U.S. government securities; (3) the ADR depositary must be able to terminate the pre-release on not more than five business days notice; and (4) the pre-release is subject to further indemnities and credit regulations as the ADR depositary deems appropriate. In addition, the ADR depositary will limit the number of ADSs that may be outstanding at any time as a result of pre-release, although the ADR depositary may disregard the limit from time to time if it thinks it is appropriate to do so.

Dividends, Other Distributions and Rights

The ADR depositary has agreed to pay to you the cash dividends or other distributions it or the Custodian receives on Deposited Securities, after deducting its fees and expenses. You will receive these distributions in proportion to the number of shares your ADRs represent.

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The ADR depositary will convert any cash dividend or other cash distribution paid in Won on the shares of common stock into U.S. dollars, if it can do so on a reasonable basis and can transfer the U.S. dollars to the United States. If that is not possible or if any approval from the Korean Government is required and cannot be promptly obtained, the deposit agreement allows the ADR depositary to distribute the Won to ADR holders who have requested the distribution in writing and hold the remainder of the non-convertible Won for the account of those ADR holders who have not been paid. It will not invest the Won it holds and will not be liable for any interest.

Before making a distribution, the ADR depositary will deduct any withholding taxes that must be paid. See Item 10. Additional Information Item 10E. Taxation Korean Taxation. *If the exchange rates fluctuate during a time when the ADR depositary cannot convert the Won, you may lose some or all of the value of the distribution.*

The ADR depositary may distribute new ADRs representing any shares we distribute as a dividend or free distribution. The ADR depositary will only distribute whole ADSs. It will sell shares which would require it to deliver a fractional ADS and distribute the net proceeds in the same way as it does with cash. If the ADR depositary does not distribute additional ADRs, then each outstanding ADS will also represent the new shares so distributed.

If we offer holders of our securities any rights to subscribe for additional shares of common stock or any other rights, the ADR depositary may make these rights available to you. The ADR depositary must first determine whether it is lawful and feasible to do so. If the ADR depositary determines that it is not lawful or feasible to make these rights available to you, then at our request, the ADR depositary will use its best efforts to sell the rights and distribute the proceeds in the same way as it would do with cash. The ADR depositary may allow the rights that are not distributed or sold to lapse. *In that case, you will receive no value for them.*

If a registration statement under the Securities Act is required with respect to the securities to which any rights relate in order for us to offer the rights to you and to sell the securities represented by the rights, the ADR depositary will not offer such rights to you if you have an address in the United States (as defined in Regulation S under the Securities Act) unless and until such a registration statement is in effect, or unless the offering and sale of such securities and such rights to you are exempt from the registration requirements of the Securities Act. The ADR depositary will not be responsible for any failure to determine that it may be lawful or feasible to make the rights available to you.

We may decide not to register under the Securities Act securities to which the rights relate where registration under the Securities Act may be required. In this case, you would not be permitted to purchase the securities or otherwise exercise the rights and the ADR depositary would, to the extent possible, dispose of the rights for your account. Such a disposal of rights may reduce your equity interest in us.

If the ADR depositary determines that any distribution of property other than cash, shares of common stock or rights to subscribe for them cannot be made proportionally, or if for any other reason the ADR depositary deems the distribution not to be feasible, the ADR depositary may, after consultation with us, dispose of all or a portion of the property in such amounts and in such manner, including by public or private sale, as the ADR depositary deems equitable and practicable. The ADR depositary will distribute to you the net proceeds of any such sale, or the balance of any such property, after deduction of the fees of the ADR depositary.

In the case of a change in the par value, or a split-up, consolidation or any other reclassification of shares of our common stock or upon any recapitalization, reorganization, merger or consolidation or sale of assets affecting us, any securities received by the ADR depositary or the Custodian in exchange for, in conversion of or in respect of Deposited Securities will be treated as new Deposited Securities under the deposit agreement. In that case, ADSs will, subject to the terms of the deposit agreement and applicable laws and regulations, including any registration requirements under the Securities Act, represent the right to receive the new Deposited Securities, unless additional ADRs are issued, as in the case of a stock

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dividend, or unless the ADR depositary calls for the surrender of outstanding ADRs to be exchanged for new ADRs.

Record Dates

The ADR depositary will fix a record date in each of the following situations:

- any cash dividend or other cash distribution becomes payable;
- any distribution other than cash is made;
- rights are issued with respect to Deposited Securities;
- the ADR depositary receives notice of any shareholder meeting; and
- the ADR depositary causes a change in the number of shares of common stock that are represented by each ADS.

The record date will, to the extent practicable, either be the same date as the record date fixed by us, or if different from the record date fixed by us, be fixed after consultation with us. The record date will determine (1) the ADR holders who are entitled to receive the dividend, distribution or rights, or the net proceeds of the sale of the rights; (2) the ADR holders who are entitled to give instruction for the exercise of voting rights at a shareholders meeting or to attend (without voting at or speaking to) the meeting; or (3) the date on which each ADS will represent a changed number of shares of common stock.

Voting of the Underlying Deposited Securities

As soon as practicable after it receives our notice of any meeting or solicitation of shareholder proxies, and upon our written request, the ADR depositary will mail to you a notice that will contain the following:

- the information contained in our notice to the ADR depositary, or, if requested by us, a summary of the information provided by us;
- a statement that the ADR holders as of the close of business on a specified record date will be entitled to instruct the ADR depositary as to how to exercise their voting rights for the number of shares of common stock or other Deposited Securities represented by their ADSs, subject to the provisions of applicable Korean law and our articles of incorporation, which provisions, if any, will be summarized in the notice to the extent that they are material; and
- a statement as to the manner in which the ADR holders may give their instructions.

Upon your written request received on or before the date set by the ADR depositary for this purpose, the ADR depositary will endeavor, in so far as practicable, to vote or cause to be voted the shares of common stock or other Deposited Securities underlying your ADRs in accordance with the instructions set forth in your written request. The ADR depositary may not itself exercise any voting discretion over any Deposited Securities. You may only exercise the voting rights in respect of four ADSs or multiples of four ADSs.

Disclosure of Beneficial Ownership; Ownership Restrictions

We may from time to time request you to provide information as to the capacity in which you hold or held ADRs, the identity of any other persons then or previously interested in ADRs and the nature of the interest, and various other matters. You will agree in the deposit agreement to provide any such information reasonably requested by us or the ADR depositary whether or not you are still an ADR holder or beneficial owner at the time of the request.

We may restrict transfers of the shares of common stock where the transfer might result in ownership of shares of common stock exceeding the limits under our articles of incorporation and applicable law. See Item 10. Additional Information Item 10D. Exchange Controls Restrictions Applicable to Common Stock. We may also restrict transfers of the ADSs where the transfer may cause the total number of shares of common stock represented by the ADSs beneficially owned by a single ADR holder or beneficial owner of ADRs, taken together with all other shares of common stock beneficially owned by the ADR holder or beneficial owner, including shares of common stock beneficially owned by affiliated owners, to any limit under our articles of incorporation and applicable law with respect to which we may, from time to time, notify the ADR depositary. We may instruct the ADR depositary to take action with respect to the beneficial ownership of any ADR holder or beneficial owner of ADRs or common stock represented by the ADSs held by such ADR holder or beneficial owner in excess of the limitations, if and to the extent the disposition is permitted by applicable law. See Item 10. Additional Information Item 10D. Exchange Controls Restrictions Applicable to ADSs.

Reports and Notices

We will furnish to the ADR depositary English language versions of any reports, notices and other communications that we generally transmit to holders of our common stock or other Deposited Securities, including our annual reports, with annual audited consolidated financial statements prepared in conformity with Korean GAAP and, if prepared pursuant to the Exchange Act, a reconciliation of net earnings for the year and stockholders equity to U.S. GAAP, and unaudited non-consolidated semiannual financial statements prepared in conformity with Korean GAAP. The ADR depositary will arrange for the prompt mailing of copies of these documents, or, if we request, a summary of any such notice provided by us to you or, at our request, make notices, reports (other than the annual reports and semiannual financial statements) and other communications available to you on a basis similar to that for the holders of our common stock or other Deposited Securities or on such other basis as we may advise the ADR depositary according to any applicable law, regulation or stock exchange requirement.

Notices to you under the deposit agreement will be deemed to have been duly given if personally delivered or sent by mail or cable, telex or facsimile transmission, confirmed by letter, addressed to you at your address as it appears on the transfer books of the ADR depositary or at such other address as you have notified the ADR depositary.

In addition, the ADR depositary will make available for your inspection at its Corporate Trust Office any reports, notices and other communications received by it, the Custodian or a nominee of either as a holder of Deposited Securities and which we generally transmit to the holders of Deposited Securities.

Amendment and Termination of the Deposit Agreement

We may agree with the ADR depositary to amend the deposit agreement and the ADRs without your consent for any reason. If the amendment adds or increases fees or charges, except for taxes and other governmental charges or certain expenses of the ADR depositary, or prejudices a substantial right of ADR holders, it will only become effective 30 days after the ADR depositary notifies you of the amendment. *If you continue to hold your ADRs at the time an amendment becomes effective, you will be considered to have agreed to the amendment and to be bound by the deposit agreement as amended*. Except as otherwise required by any mandatory provisions of applicable law, no amendment may impair your right to surrender your ADRs and to receive the underlying Deposited Securities.

The ADR depositary will terminate the deposit agreement if we ask it to do so. The ADR depositary may also terminate the deposit agreement if the ADR depositary has notified us that it would like to resign and we have not appointed a new depositary within 90 days. In both cases, the ADR depositary must notify you at least 30 days before the termination date.

If any ADRs remain outstanding after the date of termination, the ADR depositary will stop performing any further acts under the deposit agreement, except:

- to collect dividends and other distributions pertaining to the Deposited Securities and any other property represented by the outstanding ADRs;
- to sell rights as provided in the deposit agreement; and

to deliver Deposited Securities, together with any dividends or other distributions received with respect to the Deposited Securities and the net proceeds of the sale of any rights or other property represented by those ADRs in exchange for surrendered ADRs after payment of fees and other charges of the ADR depositary.

On and after the date of termination, you will be entitled to receive the amount of Deposited Securities underlying an ADR upon (1) surrender of the ADR at the Corporate Trust Office of the ADR depositary, (2) payment of the fees of the ADR depositary for the surrender of the ADR and (3) payment of any applicable taxes or governmental charges.

At any time after the expiration of one year from the date of termination, the ADR depositary may sell any remaining Deposited Securities and hold uninvested the net proceeds in an unsegregated account, together with any other cash or property then held, without liability for interest, for the pro rata benefit of the holders of ADRs that have not been surrendered by then. After making the sale, the ADR depositary will be discharged from all obligations under the deposit agreement, except for some indemnification obligations and the obligation to account for the net proceeds of the sale and other cash or property (after deducting, in each case, the fee of the ADR depositary for surrendered ADRs, any expenses for the account of the holder of the ADRs in accordance with the terms and conditions of the deposit agreement, and any applicable taxes or governmental charges). Upon the termination of the deposit agreement, we will also be discharged from all obligations under deposit agreement except for some obligations to the ADR depositary.

Charges of the ADR Depositary

We will pay the fees and expenses of the ADR depositary as agreed between us and the ADR depositary.

You will not pay any fees in connection with the issuance of ADRs in the global offering. If you deposit or withdraw shares of common stock, or surrender ADRs, or receive newly issued ADRs, including issuance of ADRs pursuant to a stock dividend or stock split declared by us or an exchange of stock regarding the ADRs or Deposited Securities or a distribution of ADRs pursuant to the deposit agreement, you will incur the following charges, whichever applicable:

- taxes and other governmental charges;
- registration fees applicable to transfers of shares of common stock on our shareholders register, or that of any entity acting as registrar for the shares, to the name of the ADR depositary or its nominee, or the Custodian or its nominee, when making deposits or withdrawals under the deposit agreement;
- cable, telex and facsimile transmission expenses that are expressly provided in the deposit agreement;
- expenses incurred by the ADR depositary in the conversion of foreign currency under the deposit agreement;
- a fee of $5.00 or less per 100 ADSs, or portion thereof, for the execution and delivery of ADRs and the surrender of ADRs under the deposit agreement; and
- a fee for the distribution of proceeds of sales of securities or rights under the deposit agreement, the fee equaling the lesser of the proceeds of the sale and the fee for the execution and delivery of ADRs which would have been charged as a result of the deposit of the securities or shares received in exercise of rights but which securities or rights are instead sold and the proceeds distributed.

Liability of Holders for Taxes or Other Charges

You are liable for payment to the ADR depositary of any tax or other governmental charges or expenses payable by the Custodian, the ADR depositary or its nominee as the registered holder of any

Deposited Securities represented by your ADSs. The ADR depositary may refuse to effect any transfer or split-up or combination of your ADRs or any withdrawal of Deposited Securities underlying your ADRs until the payment is made. The ADR depositary may withhold any dividends or other distributions or sell any part or all of the Deposited Securities underlying your ADRs and apply the dividends or distributions or the proceeds of the sale to the payment of any tax or other governmental charges or expenses. You will remain liable for any deficiency.

Regardless of any provision in the deposit agreement, before making any distribution or other payment on any Deposited Securities, we will make deductions (if any) that we are required to make under Korean law in respect of any income tax, capital gains tax or other taxes, and we may also deduct the amount of any tax or governmental charges payable by us in respect of a distribution or other payment or any document signed in connection with such a distribution or payment. In making deductions, we will have no obligation to you to apply a rate under any treaty or other arrangement between Korea and the country in which you are resident unless you have timely provided to us evidence of your residency that is satisfactory to the relevant tax authorities of Korea.

Limitations on Execution, Transfer and Surrender of ADRs

The ADRs are transferable on the books of the ADR depositary. However, the ADR depositary may close the transfer books at any time it deems expedient in the performance of its duties or at our request. The ADR depositary may suspend or refuse the execution and delivery or transfer of ADRs during any period when the transfer books of the ADR depositary are closed, or at any time we or the ADR depositary consider the action necessary or advisable.

Before the execution and delivery, registration of transfer, split-up, combination or surrender of any ADR, the delivery of any distribution on the ADR, or withdrawal of Deposited Securities represented by the ADR, we, the ADR depositary, the Custodian or any registrar of ADRs may require the person presenting the ADR or depositing the shares of common stock to pay a sum sufficient to reimburse us or them for any tax or other governmental charges, any stock transfer or registration fee and other applicable fees payable by the ADR holder.

The ADR depositary will refuse to register any transfer of ADSs if the transfer would cause the total number of shares of common stock represented by the ADSs beneficially owned by you, when aggregated with all other shares of common stock beneficially owned by you and certain of your affiliates, to exceed any limit under our articles of incorporation or applicable law of which we may, from time to time, notify the ADR depositary. The ADR depositary may also refuse to deliver ADRs, register the transfer of any ADR or make any distribution of Deposited Securities until it has received such proof of citizenship, residence, exchange control approval, payment of applicable taxes or other governmental charges, legal or beneficial ownership or other information as it may reasonably deem necessary or proper or as we may require.

Regardless of any provision in the deposit agreement or the ADRs, the surrender of outstanding ADRs and withdrawal of shares of common stock may not be suspended except when required in connection with: (1) temporary delays caused by closing the transfer books of the ADR depositary or us or the deposit of shares of common stock in connection with voting at a meeting of shareholders or payment of dividends, (2) the payment of fees, taxes and similar charges, or (3) compliance with any U.S. or foreign laws or governmental regulations relating to the ADRs or the withdrawal of shares of common stock.

ADR holders may inspect the transfer books of the ADR depositary at any reasonable time. However, the inspection may not be for the purpose of communicating with other ADR holders in the interest of a business or object other than our business, including any matter related to the deposit agreement or the ADRs.

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General

Neither we nor the ADR depositary will be liable to you if prevented from or delayed in performing our or their obligations under the deposit agreement by the law of any country, by any governmental authority or stock exchange, by any provision of our articles of incorporation or by any circumstances beyond our or their control. Our obligations and the obligations of the ADR depositary to the holders and beneficial owners of ADRs are expressly limited to performing our and their respective duties specified in the deposit agreement without negligence or bad faith.

So long as any ADRs or ADSs evidenced by ADRs are listed on one or more stock exchanges, the ADR depositary will act as registrar or, with our approval, appoint a registrar or one or more co-registrars, for registration of the ADRs in accordance with any requirements of these stock exchanges.

PART II

Item 13. ***Defaults, Dividend Arrearages and Delinquencies***

Not applicable

Item 14. ***Material Modifications to the Rights of Security Holders and Use of Proceeds***

Not applicable

Item 15. ***Controls and Procedures***

We have evaluated, with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2005. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of December 31, 2005 were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in our internal control over financial reporting during 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 16A. ***Audit Committee Financial Expert***

At our annual general meeting of shareholders in February 2006, our shareholders elected the following four members of the audit committee: E. Han Kim (committee chair), Jeffrey D. Jones, Yoon-Suk Suh and Wook Sun. In addition, they determined and designated that Yoon-Suk Suh is an audit committee financial expert within the meaning of this Item 16A. The board of directors have approved this newly elected audit committee, and reaffirmed the determination by our shareholders that Yoon-Suk Suh is an audit committee financial expert and further determined that he is independent within the meaning of applicable SEC rules.

Item 16B. ***Code of Ethics***

We have adopted a code of business conduct and ethics, as defined in Item 16B of Form 20-F under the Securities Exchange Act of 1934, as amended. Our code of business conduct and ethics, called Code of Conduct, applies to our chief executive officer and chief financial officer, as well as to our directors, other officers and employees. Our Code of Conduct is available on our web site at *www.posco.co.kr.* If we amend the provisions of our Code of Conduct that apply to our chief executive officer or chief financial officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our web site at the same address.

Item 16C. ***Principal Accountant Fees and Services***

Audit and Non-Audit Fees

The following table sets forth the fees billed to us by our independent auditors, Samil Pricewaterhouse Coopers, during the fiscal years ended December 31, 2004 and 2005:

	Year Ended December 31,			
		2004		2005
	(in millions of Won)			
Audit fees	W	1,006	W	1,064
Audit-related fees		46		846
Tax fees		72		59
Other fees				
Total fees	W	1,124	W	1,969

Audit fees in the above table are the aggregate fees billed by Samil PricewaterhouseCoopers, the Korean member firm of PricewaterhouseCoopers, in connection with the audit of our annual financial statements and the annual financial statements of POSCO Canada Ltd. and POSCO Terminal Co., Ltd. and review of interim financial statements. PricewaterhouseCoopers refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Audit-related fees in the above table are the aggregate fees billed by Samil PricewaterhouseCoopers for due diligence service related to an acquisition project, accounting advisory service on consolidation and general consultation on financial accounting and reporting standards.

Tax fees in the above table are fees billed by Samil PricewaterhouseCoopers for our tax compliance and tax planning, as well as tax planning and preparation of Canadian tax returns for POSCO Canada Ltd.

Other fees in the above table are fees billed by Samil PricewaterhouseCoopers primarily related to review of financial information on potential investment projects.

Audit Committee Pre-Approval Policies and Procedures

Our audit committee has not established pre-approval policies and procedures for the engagement of our independent auditors for services. Our audit committee expressly approves on a case-by-case basis any engagement of our independent auditors for audit and non-audit services provided to our subsidiaries or us.

Item 16D. ***Exemptions from the Listing Standards for Audit Committees***

Not applicable

Item 16E. ***Purchases of Equity Securities by the Issuer and Affiliated Purchasers***

The following table sets forth the repurchases of common shares by us or any affiliated purchasers during the fiscal year ended December 31, 2005:

Period	Total Number of Shares Purchased	Average Price Paid Per Share (in Won)	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet Be Purchased Under the Plans
January 1 to January 31				
February 1 to February 29	292,870	W201,401	292,870	1,450,860
March 1 to March 31	964,528	209,369	964,528	486,332
April 1 to April 30	486,332	196,831	486,332	
May 1 to May 31				
June 1 to June 30				
July 1 to July 31	640,719	201,699	640,719	2,859,281
August 1 to August 31	1,547,236	211,822	1,547,236	1,312,045
September 1 to September 30	836,117	220,818	836,117	475,928
October 1 to October 31	475,928	227,522	475,928	
November 1 to November 30	536,750(1)	212,223		
December 1 to December 31	370,224(1)	201,737		
Total	6,150,704	W210,567	5,243,730	

(1) Stocks purchased through the treasury stock fund.

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PART III

Item 17. ***Financial Statements***

Not applicable

Item 18. ***Financial Statements***

Item 19. ***Exhibits***

1.1	Articles of incorporation of POSCO (English translation)
2.1	Form of Common Stock Certificate (including English translation) (incorporated by reference to Exhibit 4.3 to the Registrant s Registration Statement No. 33-81554)*
2.2	Form of Deposit Agreement (including Form of American Depositary Receipts) (incorporated by reference to the Registrant s Registration Statement (File No. 33-84318) on Form F-6)*
2.3	Letter from ADR Depositary to the Registrant relating to the Pre-release of American Depositary Receipts (incorporated by reference to the Registrant s Registration Statement (File No. 33-84318) on Form F-6)*
7.1	Computation of ratio of earnings to fixed charges
8.1	List of subsidiaries of POSCO
12.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Consent of Samil PricewaterhouseCoopers, the Korean member firm of PricewaterhouseCoopers

* Filed previously

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of POSCO

We have audited the accompanying consolidated balance sheets of POSCO and its subsidiaries (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of income, of changes in shareholders equity, and of cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the Republic of Korea.

Accounting principles generally accepted in the Republic of Korea vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 33 to the consolidated financial statements.

Seoul, Republic of Korea
April 21, 2006

Samil PricewaterhouseCoopers is the Korean member firm of PricewaterhouseCoopers. PricewaterhouseCoopers refers to the network of members firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

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POSCO and Subsidiaries
Consolidated Balance Sheets
December 31, 2005 and 2004

	2005	2004	2005
			(Note 2)
	(In millions of Korean Won and thousands of US Dollar)		
ASSETS			
Current assets			
Cash and cash equivalents, net of government grants (Notes 3 and 27)	W 653,364	W 480,130	$ 646,895
Short-term financial instruments (Notes 3, 13 and 27)	760,371	647,228	752,843
Trading securities (Note 4)	2,610,502	2,689,593	2,584,655
Current portion of available-for-sales securities (Note 7)	90,889	141,573	89,989
Current portion of held-to-maturity securities (Note 7)	2,688	13,769	2,661
Trade accounts and notes receivable, net of allowance for doubtful accounts (Notes 5, 13, 27 and 28)	3,044,720	3,093,511	3,014,574
Other accounts and notes receivable, net of allowance for doubtful accounts and present value discount (Notes 5, 17, 27 and 28)	241,587	163,118	239,195
Inventories (Notes 6, 13 and 29)	3,792,594	3,065,521	3,755,044
Deferred income tax assets (Note 25)	131,790		130,485
Other current assets, net of allowance for doubtful accounts (Note 11)	311,831	193,373	308,744
Total current assets	11,640,336	10,487,816	11,525,085
Property, plant and equipment, net (Notes 8, 13, 14 and 29)	12,271,710	10,440,291	12,150,208
Investment securities (Notes 7, 13, 27 and 29)	2,815,741	2,345,076	2,787,862
Intangible assets, net (Notes 9 and 29)	453,709	496,315	449,217
Long-term loans receivable, net of allowance for doubtful accounts and present value discount (Notes 5, 27, 28 and 29)	42,040	81,496	41,624
Long-term trade accounts and notes receivable, net of allowance for doubtful accounts and present value discount (Notes 5, 27 and 29)	41,390	36,094	40,980
Deferred income tax assets (Notes 25 and 29)	39,922	54,157	39,527
Guarantee deposits (Notes 27 and 29)	49,081	41,424	48,595
Long-term financial instruments (Notes 3, 13, 27 and 29)	19,506	1,706	19,313
Other long-term assets, net of allowance for doubtful accounts and present value discount (Notes 5, 11 and 29)	133,875	144,585	132,549
Total assets	W 27,507,310	W 24,128,960	$ 27,234,960

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POSCO and Subsidiaries
Consolidated Balance Sheets (Continued)
December 31, 2005 and 2004

	2005	2004	2005
			(Note 2)
	(In millions of Korean Won and thousands of US Dollar)		
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities			
Trade accounts and notes payable (Notes 27 and 28)	W 1,145,729	W 1,082,299	$ 1,134,385
Short-term borrowings (Notes 12, 27 and 28)	859,774	657,541	851,261
Current portion of long-term debts, net of discount on debentures issued (Notes 13 and 27)	1,057,200	1,046,699	1,046,733
Accrued expenses (Note 27)	698,062	391,900	691,150
Other accounts and notes payable (Notes 27 and 28)	194,486	225,680	192,560
Withholdings (Note 27)	101,956	94,285	100,947
Income tax payable	1,366,847	1,086,971	1,353,314
Deferred income tax liabilities (Note 25)	645		639
Other current liabilities (Note 16)	456,864	409,643	452,341
Total current liabilities	5,881,563	4,995,018	5,823,330
Long-term debts, net of current portion and discount on debentures issued (Notes 13, 27 and 28)	1,131,270	2,050,801	1,120,069
Accrued severance benefits, net (Note 15)	274,812	230,367	272,091
Deferred income tax liabilities (Note 25)	220,628	270,641	218,444
Other long-term liabilities (Notes 14, 16 and 21)	132,121	196,077	130,813
Total liabilities	7,640,394	7,742,904	7,564,747
Commitments and contingencies (Note 17)			
Shareholders equity			
Common stock (Note 1)	482,403	482,403	477,627
Capital surplus (Note 18)	3,991,409	3,895,378	3,951,890
Retained earnings (Note 19)	16,157,947	12,851,118	15,997,967
(Net income: W4,011,546 million in 2005 and W3,814,225 million in 2004			
Losses in excess of minority interest: W22,448 million in 2005 and W13,205 million in 2004)			
Capital adjustments, net (Note 20)	(1,151,609)	(1,150,734)	(1,140,207)
	19,480,150	16,078,165	19,287,277
Minority interest			
Common stock	174,457	147,917	172,730
Capital surplus and retained earnings	212,309	159,974	210,206
	386,766	307,891	382,936

Total shareholders equity	19,866,916	16,386,056	19,670,213
Total liabilities and shareholders equity	W 27,507,310	W 24,128,960	$ 27,234,960

The accompanying notes are an integral part of these consolidated financial statements.

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POSCO and Subsidiaries
Consolidated Statements of Income
Years Ended December 31, 2005, 2004 and 2003

				(Note 2)
	2005	2004	2003	2005
	(in millions of Korean Won and thousands of US dollar, except per share amounts)			
Sales (Notes 28 and 29)	W 26,301,788	W 23,973,053	W 17,789,237	$ 26,041,374
Cost of goods sold (Note 28)	18,767,195	17,360,706	13,450,786	18,581,381
Gross profit	7,534,593	6,612,347	4,338,451	7,459,993
Selling and administrative expenses (Note 23)	1,451,317	1,292,928	1,075,470	1,436,948
Operating income	6,083,276	5,319,419	3,262,981	6,023,045
Non-operating income				
Interest and dividend income (Note 28)	161,135	141,054	97,233	159,540
Gain on foreign currency transactions	114,615	130,915	84,459	113,480
Gain on foreign currency translation	148,857	177,889	6,415	147,383
Gain on valuation of trading securities	15,357	22,497	6,387	15,205
Gain on disposal of trading securities	59,436	43,012	35,993	58,848
Gain on disposal of property, plant and equipment	24,225	13,769	8,061	23,985
Gain on valuation of derivatives (Note 22)	1,671	9,594	2,849	1,654
Gain on derivative transactions (Note 22)	3,857	12,452	2,481	3,819
Equity in earnings of investees (Note 7)	26,095	3,505		25,837
Gain on recovery of allowance for doubtful accounts	18,591	126,861	12,798	18,407
Gain on disposal of investments	2,973	7,304	11,099	2,944
Others	210,853	139,967	91,602	208,764
	787,665	828,819	359,377	779,866
Non-operating expenses				
Interest expense (Note 28)	149,337	192,030	250,319	147,858
Other bad debt expense	30,146	16,229		29,848
Loss on foreign currency transactions	95,646	112,343	77,979	94,699
Loss on foreign currency translation	9,091	17,407	118,231	9,001
Equity in losses of investees (Note 7)	6,371		4,523	6,308
Donations (Note 24)	153,018	169,546	103,191	151,503
Loss on disposal of property, plant and equipment	42,815	29,086	43,217	42,391
Loss on valuation of derivatives (Note 22)	21,393	2,646	30,781	21,181
Loss on derivative transactions (Note 22)	9,000	9,332	1,660	8,911
Loss on impairment of investments	11,846	94,824	11,516	11,729

Others	854,089	165,273	233,671	845,632
	1,382,752	808,716	875,088	1,369,061
Extraordinary income		3,388		
Net income before income tax expense and minority interest	5,488,189	5,342,910	2,747,270	5,433,850
Income tax expense (Note 25)	1,482,439	1,501,646	730,270	1,467,761
Net income before minority interest	4,005,750	3,841,264	2,017,000	3,966,089
Minority interest in income of consolidated subsidiaries	5,796	(27,039)	(21,017)	5,739
Net income	W 4,011,546	W 3,814,225	W 1,995,983	$ 3,971,828
Per share data (Note 26) (in Korean won and US dollar)				
Basic and diluted ordinary income per share	W 50,652	W 47,155	W 24,496	$ 50.15
Basic and diluted earnings per share	50,652	47,185	24,496	50.15

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POSCO and Subsidiaries
Consolidated Statements of Changes in Shareholders Equity
Years Ended December 31, 2005, 2004 and 2003

	Common Stock						
	Stock	**Amount**	**Capital Surplus**	**Retained Earnings**	**Capital Adjustments**	**Minority Interest**	**Total**
	(In millions of Korean Won and thousands of US Dollar)						
Balance as of January 1, 2003	90,781,795	W 482,403	W 3,797,737	W 8,464,715	W (1,204,374)	W 279,165	W 11,819,646
Net income for 2003				1,995,983			1,995,983
Effect of change in percentage of ownership of investees			(7,345)				(4,097)
Dividends				(326,865)			(334,403)
Loss on prior period unadjusted equity method				(16,124)			(16,124)
Change in losses in excess of minority interest (Note 19)				(668)		668	
Retirement of treasury stock	(1,815,640)			(253,381)	253,381		
Change in treasury stock			21,635		(175,555)		(153,920)
Overseas operations translation adjustment (Note 20)					44,496		43,490
Changes in valuation gain and loss on investment securities (Note 20)					(152,089)		(157,246)
Effect of change in percentage of minority interest						(7,551)	

Minority interest in income consolidated subsidiaries						21,017	21,017
Others			16,746	11,420	4,153		35,221
Balance as of December 31, 2003	88,966,155	W 482,403	W 3,828,773	W 9,875,080	W (1,229,988)	W 293,299	W 13,249,567
Balance as of January 1, 2004	88,966,155	W 482,403	W 3,828,773	W 9,875,080	W (1,229,988)	W 293,299	W 13,249,567
Net income for 2004				3,814,225			3,814,225
Effect of change in percentage of ownership of investees			1,527	1,167			(622)
Dividends				(524,602)			(531,709)
Change in losses in excess of minority interest (Note 19)				(10,042)		10,041	
Retirement of treasury stock	(1,779,320)			(304,711)			(304,711)
Change in treasury stock			63,695		158,025		221,720
Overseas operations translation adjustment (Note 20)					(126,552)		(138,457)
Changes in valuation gain and loss on investment securities (Note 20)					51,933		52,030
Effect of change in percentage of minority interest						(22,488)	
Minority interest in income						27,039	27,039

consolidated subsidiaries							
Others			1,383	1	(4,152)		(3,026)
Balance as of December 31, 2004	87,186,835	W 482,403	W 3,895,378	W 12,851,118	W (1,150,734)	W 307,891	W 16,386,056

The accompanying notes are an integral part of these consolidated financial statements.

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POSCO and Subsidiaries
Consolidated Statements of Changes in Shareholders Equity
Years Ended December 31, 2005, 2004 and 2003

	Common Stock						
	Stock	**Amount**	**Capital Surplus**	**Retained Earnings**	**Capital Adjustments**	**Minority Interest**	**Total**
	(In millions of Korean Won and thousands of US Dollar)						
Balance as of January 1, 2005	87,186,835	W 482,403	W 3,895,378	W 12,851,118	W (1,150,734)	W 307,891	W 16,386,056
Net income for 2005				4,011,547			4,011,547
Effect of change in scope of consolidation (Note 1)			167	3,981			4,148
Effect of change in percentage of ownership of investees			(12,893)	598			(12,295)
Dividends				(680,794)			(680,794)
Change in losses in excess of minority interest (Note 19)				(22,448)		22,448	
Change in treasury stock			108,018		(279,061)		(171,043)
Overseas operations translation adjustment (Note 20)					(11,524)		(11,524)
Changes in valuation gain and loss on investment securities (Note 20)					290,143		290,143
Effect of change in percentage of minority interest						62,223	62,223
Minority interest in						(5,796)	(5,796)

income of consolidated subsidiaries							
Others			739	(6,056)	(433)		(5,749)
Balance as of December 31, 2005	87,186,835	W 482,403	W 3,991,409	W 16,157,946	W (1,151,609)	W 386,766	W 19,866,916

Balance as of January 1, 2005	87,186,835	$ 477,627	$ 3,856,810	$ 12,723,879	$ (1,139,341)	$ 304,843	$ 16,223,818
Net income for 2005				3,971,829			3,971,829
Effect of change in scope of consolidation (Note 1)			165	3,942			4,107
Effect of change in percentage of ownership of investees			(12,765)	592			(12,173)
Dividends				(674,053)			(674,053)
Change in losses in excess of minority interest (Note 19)				(22,226)		22,226	
Change in treasury stock			106,948		(276,298)		(169,350)
Overseas operations translation adjustment (Note 20)					(11,410)		(11,410)
Changes in valuation gain and loss on investment securities (Note 20)					287,270		287,270
Effect of change in percentage of minority interest						61,607	61,607
Minority interest in income of consolidated subsidiaries						(5,739)	(5,739)
Others			732	(5,996)	(428)		(5,692)
Balance as of December 31, 2005	87,186,835	$ 477,627	$ 3,951,890	$ 15,997,967	$ (1,140,207)	$ 382,937	$ 19,670,214

The accompanying notes are an integral part of these consolidated financial statements.

POSCO and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2005, 2004 and 2003

	2005	2004	2003	(Note 2) 2005
	(In millions of Korean Won and thousands of US Dollar)			
Cash flows from operating activities				
Net income	W 4,011,546	W 3,814,225	W 1,995,983	$ 3,971,828
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization	1,612,556	1,565,361	1,568,057	1,596,590
Accrual of severance benefits	213,082	192,648	165,018	210,972
Provision (reversal) for doubtful accounts	115,865	(56,961)	(3,843)	114,718
Gain on foreign currency translation, net	(138,296)	(165,136)	111,736	(136,927)
Gain on valuation of trading securities, net	(14,786)	(21,644)	(5,756)	(14,640)
Loss (gain) on valuation of derivatives, net	19,722	(6,948)	27,932	19,527
Loss (gain) on derivatives transaction, net	5,143	(3,120)	(821)	5,092
Gain on disposal of trading securities and investments, net	(59,203)	(43,012)	(39,738)	(58,617)
Loss on disposal of property, plant and equipment, net	18,590	15,317	35,156	18,406
Equity in earnings of investees, net	(19,724)	(3,505)	4,523	(19,529)
Minority interest in income of consolidated subsidiaries	(5,796)	27,039	21,017	(5,739)
Others	391,779	382,045	276,289	387,901
	2,138,932	1,882,084	2,159,570	2,117,754
Changes in operating assets and liabilities				
Decrease (increase) in trade accounts and notes receivable	45,112	(869,353)	(502,944)	44,665
Increase in inventories	(706,528)	(903,532)	(392,255)	(699,533)
Increase in other accounts and notes receivable	(94,499)	(63,329)	(23,233)	(93,563)
Decrease (increase) in accrued income	(19,757)	33,906	(20,580)	(19,561)
Decrease (increase) in advance payments	(83,702)	1,076	(61,442)	(82,873)
Increase in prepaid expenses	(1,360)	(1,565)	(2,156)	(1,347)
Increase (decrease) in trade accounts and notes payable	(170,131)	317,983	89,220	(168,447)
Increase (decrease) in other accounts and notes payable	(7,571)	73,813	83,506	(7,496)
Increase (decrease) in advances received	(7,888)	104,073	(13,375)	(7,810)
Decrease in accrued expenses	493,376	52,874	120,087	488,491
Decrease in income tax payable	281,240	486,198	149,376	278,455
Deferred income tax, net	(144,841)	137,986	(2,164)	(143,407)
Payment of severance benefits	(84,049)	(28,346)	(25,045)	(83,217)

Increase in group severance insurance deposits	(98,790)	(95,848)	(83,024)	(97,812)
Increase (decrease) in other current liabilities	(30,479)	(4,598)	30,612	(30,177)
Others	(58,375)	8,247	(3,539)	(57,796)
	(688,242)	(750,415)	(656,956)	(681,428)
Net cash provided by operating activities	5,462,236	4,945,894	3,498,597	5,408,154

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POSCO and Subsidiaries
Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2005, 2004 and 2003

	2005	2004	2003	2005
				(Note 2)
	(In millions of Korean Won and thousands of US Dollar)			
Cash flows from investing activities				
Disposal of trading securities	W 12,758,304	W 10,482,755	W 10,800,373	$ 12,631,984
Acquisition of trading securities	(12,536,599)	(10,546,422)	(10,881,694)	(12,412,474)
Disposal of investment securities	347,987	27,558	234,038	344,542
Acquisition of investment securities	(618,598)	(194,344)	(726,766)	(612,473)
Disposal of short-term financial instruments	1,322,222	1,416,087	1,940,605	1,309,131
Acquisition of short-term financial instruments	(1,434,935)	(1,354,342)	(2,365,200)	(1,420,728)
Acquisition of long-term financial instruments	(13,343)	(928)	(13,454)	(13,211)
Acquisition of property, plant and equipment	(3,360,537)	(2,265,074)	(1,298,848)	(3,327,264)
Disposal of property, plant and equipment	66,273	74,041	69,886	65,617
Proceeds from short-term loans	107,484	100,983	45,512	106,420
Short-term loans provided	(119,033)	(39,864)	(52,401)	(117,854)
Long-term loans provided	(33,406)	(4,665)	(30,192)	(33,075)
Acquisition of intangible assets	(81,605)	(89,739)	(103,828)	(80,797)
Acquisition of other investment assets	(239,211)	(1,083,445)	(50,986)	(236,843)
Others	92,668	91,257	297,686	91,749
Net cash used in investing activities	(3,742,329)	(3,386,142)	(2,135,269)	(3,705,276)
Cash flows from financing activities				
Proceeds from short-term borrowings	4,828,860	5,847,951	6,168,032	4,781,050
Proceeds from long-term debt	594,312	280,038	600,112	588,428
Proceeds from other long-term liabilities	497,193	72,136	185,792	492,270
Disposal of treasury stock	931,664	81,724	43,885	922,440
Repayment of current portion of long-term debt	(1,040,410)	(1,018,064)	(1,314,762)	(1,030,109)
Repayment of short-term borrowings	(4,715,293)	(5,861,889)	(6,065,901)	(4,668,607)
Repayment of long-term debt	(328,037)	(106,558)	(2,129)	(324,789)
Payment of cash dividends	(680,794)	(524,570)	(325,961)	(674,053)
Acquisition of treasury stock	(1,295,163)	(304,712)	(263,351)	(1,282,340)
Repayment of other long-term liabilities	(398,998)	(76,300)	(138,151)	(395,048)
Others	29,024	(39,477)	66,270	28,737
Net cash used in financing activities	(1,577,642)	(1,649,721)	(1,046,164)	(1,562,021)
	(4,425)	(22,267)	9,107	(4,381)

Effect of exchange rate changes on cash and cash equivalents								
Net increase in cash and cash equivalents from changes in consolidated subsidiaries		33,939		382				33,603
Net increase (decrease) in cash and cash equivalents		171,779		(111,854)		326,271		170,079
Cash and cash equivalents								
Beginning of the period		482,092		593,946		267,675		477,319
End of the period	W	653,871	W	482,092	W	593,946	$	647,398

Supplemental cash flow information for the years ended December 31 is as follows:

	2005	2004	2003	2005
		(In millions of Korean Won)		
Cash paid during the year for interest	W 154,240	W 214,845	W 255,762	$ 152,713
Cash paid during the year for Income tax	W 1,443,439	W 854,899	W 589,052	$ 1,429,147

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POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2005 and 2004

1. Consolidated Companies

General descriptions of POSCO, the controlling company, and its controlled subsidiaries (the Company), including POSCO Engineering & Construction Co., Ltd. (POSCO E & C) and 16 other domestic subsidiaries and 29 overseas subsidiaries, whose accounts are included in the consolidated financial statements, and 16 equity-method investees, which are excluded from the consolidation, are as follows:

The Controlling Company

POSCO, the controlling company, was incorporated on April 1, 1968, under the Commercial Code of the Republic of Korea, to manufacture and distribute steel rolled products and plates in the domestic and overseas markets. Annual production capacity is 30,000 thousand tons: 13,300 thousand tons at the Pohang mill and 16,700 thousand tons at the Gwangyang mill. The shares of POSCO have been listed on the Korea Stock Exchange since 1988. POSCO operates two plants and one office in Korea, and six liaison offices overseas. The principal market for POSCO s products is the domestic market in Korea, while export and overseas sales are concentrated in Japan, China and other countries in the Asia Pacific region.

As of December 31, 2005, POSCO s shareholders are as follows:

	Number of Shares	Percentage of Ownership (%)
SK Telecom Co., Ltd.	2,487,809	2.85
Pohang University of Science and Technology	2,418,000	2.77
National Pension Corporation	2,407,509	2.76
Others	79,873,517	91.62
	87,186,835	100.00

As of December 31, 2005, the shares of POSCO are listed on the Korea Stock Exchange, and its depository receipts are listed on the New York, London and Tokyo Stock Exchanges.

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POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

Consolidated Subsidiaries

The consolidated financial statements include the accounts of POSCO and its controlled subsidiaries. The following table sets forth certain information with regard to consolidated subsidiaries as of December 31, 2005:

ıbsidiaries	Primary Business	Net Assets (in millions of Korean Won)(1)	Number of Outstanding Shares	Number of Shares POSCO	Number of Shares Subsidiaries	Number of Shares Total	Percentage of Ownership (%)	Location	Percentage (Ownership i Subsidiaries (
mestic									
SCO E & C	Engineering and construction	W 929,785	30,000,000	27,281,080		27,281,080	90.94	Pohang	
teel Co., .	Steel sales and service	287,206	18,000,000	17,155,000		17,155,000	95.31	Pohang	
SCON Co., .	Electronic control devices manufacturing	103,758	3,519,740	3,098,610		3,098,610	88.04	Pohang	
ıang Coated el Co., Ltd.	Coated steel manufacturing	273,308	6,000,000	4,000,000		4,000,000	66.67	Pohang	
SCO chinery & gineering , Ltd.	Steel work maintenance	43,355	1,700,000	1,700,000		1,700,000	100.00	Pohang	
SDATA , Ltd.	Computer hardware and software distribution	152,209	8,155,160	5,044,072		5,044,072	61.85	Sungnam	
SCO earch itute	Economic research and consulting	22,836	3,800,000	3,800,000		3,800,000	100.00	Seoul	
ng Kwang , Ltd.	Athletic facilities operation	45,260	3,945,000	2,737,000	1,208,000	3,945,000	100.00	Suncheon	POSCO E & (30.62)
S-AC Co., .	Architecture and consulting	16,577	130,000	130,000		130,000	100.00	Seoul	
ıngwon cialty Steel , Ltd.	Specialty steel manufacturing	388,867	26,000,000	26,000,000		26,000,000	100.00	Changwon	
SCO chinery Co., .	Machinery installation	32,045	1,000,000	1,000,000		1,000,000	100.00	Gwangyang	

STECH nture pital Co., .	Investment in venture companies	32,963	6,000,000	5,700,000		5,700,000	95.00	Pohang	
SCO ractories & vironment mpany Ltd. OSREC)	Manufacturing	110,518	5,907,000	3,544,200		3,544,200	60.00	Pohang	
D MUEUN velopment	Real estate, rental and construction	(39,773)	30,000				0.00	Busan	(2)
SCO minal Co., .	Distribution and warehousing	31,261	5,000,000	2,550,000		2,550,000	51.00	Gwangyang	(4)
ngwoosa vice Inc.	Facilities management	28,564	714,286	214,286		214,286	30.00	Seoul	(4)
njung king & minum Co., .	Packing materials manufacturing	61,577	3,000,000	270,000	831,756	1,101,756	36.73	Pohang	Dongwoosa Service Inc.((27.73)

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POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

Subsidiaries	Primary Business	Net Assets (in millions of Korean Won)(1)	Number of Outstanding Shares	Number of Shares			Percentage of Ownership (%)	Location	Percentage of Ownership in Subsidiaries (%
				POSCO	Subsidiaries	Total			
oreign									
OSCO America orporation POSAM)	Steel trading	117,379	308,610	306,855	1,755	308,610	100.00	U.S.A.	POSCAN (0.57
OSCO Australia y. Ltd. (POSA)	Steel trading	59,467	761,775	761,775		761,775	100.00	Australia	
OSCO Canada d. (POSCAN)	Coal trading	73,260	1,099,885		1,099,885	1,099,885	100.00	Canada	Posteel (100.00
OSCO Asia o.,Ltd. (POA)	Steel trading	19,184	9,360,000	9,360,000		9,360,000	100.00	Hongkong	
SC POSCO Steel orporation (VPS)	Steel manufacturing	9,948	N/A	N/A	N/A	N/A	40.00	Vietnam	Posteel (5.00)(3
ALIAN OSCO CFM oated Steel Co., d.	Coated steel manufacturing	27,048	N/A	N/A	N/A	N/A	55.00	China	Posteel (15.00) POSCO-China Holding Corp. (10.00)(3)
OS-Tianjin Coil enter Co., Ltd.	Steel service center	11,446	N/A	N/A	N/A	N/A	70.00	China	Posteel (60.00)(
OSMETAL Co., d.	Steel service center	6,686	6,000		3,000	3,000	50.00	Japan	Posteel (50.00)
hanghai Real state evelopment Co., d.	Real estate rental	73,302	N/A	N/A	N/A	N/A	100.00	China	POSCO E & C (100.00)(3)
C Corporation	Real estate rental	19,311	N/A	N/A	N/A	N/A	60.00	Vietnam	POSCO E & C (60.00)(3)
OSLILAMA eel Structure o., Ltd.	Steel structure fabrication and sales	(7,063)	N/A	N/A	N/A	N/A	70.00	Vietnam	POSCO E & C (60.00), Postee (10.00)(3)
hangjiagang ohang Stainless eel Co., Ltd.	Stainless steel manufacturing	332,190	N/A	N/A	N/A	N/A	91.53	China	POSCO-China Holding Corp., (33.58)(3)
uangdong ohang Coated eel Co., Ltd.	Coated steel manufacturing	26,803	N/A	N/A	N/A	N/A	95.19	China	POSCO-China Holding Corp. (11.52)(3)
OS-THAI Steel ervice Center	Steel service center	13,898	5,941,570	2,327,288	2,136,208	4,463,496	75.12	Thailand	Posteel (35.95)

o., Ltd.									
ingdao Pohang tainless Steel Co., td.	Stainless steel manufacturing	39,198	N/A	N/A	N/A	N/A	80.00	China	POSCO-China Holding Corp. (10.00)(3)
Iyanmar-POSCO o., Ltd.	Steel manufacturing	5,126	19,200	13,440		13,440	70.00	Myanmar	
hangjiagang OSHA Steel Port o., Ltd.	Depot service	11,316	N/A	N/A	N/A	N/A	90.00	China	POSCO E & C (25.00), Zhangjiagang Pohang Stainles Steel (65.00)(3

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POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

bsidiaries	Primary Business	Net Assets (in millions of Korean Won)(1)	Number of Outstanding Shares	Number of Shares POSCO	Number of Shares Subsidiaries	Number of Shares Total	Percentage of Ownership (%)	Location	Percentage Ownership Subsidiaries
CO stment Ltd.	Finance	66,312	5,000,000	5,000,000		5,000,000	100.00	Hongkong	
CO ZHOU) motive essing er Co., Ltd.	Steel service center	21,203	N/A	N/A	N/A	N/A	100.00	China	POSCO-Ch Holding Co (10.00)(3
-Qingdao Center Co.,	Steel service center	7,479	N/A	N/A	N/A	N/A	100.00	China	Posteel (100.00)(3
CO-China ing Corp.	Investment	142,560	N/A	N/A	N/A	N/A	100.00	China	(3)
-ORE Pty.	Soft coal	23,492	17,500,001		17,500,001	17,500,001	100.00	Australia	POSA (100
CO-JAPAN Ltd.	Steel trading	47,853	90,438	90,438		90,438	100.00	Japan	
EC-Hawaii	Construction	17,571	24,400		24,400	24,400	100.00	U.S.A.	POSCO E & (100.00)(4
CO E&C ngjiagang) neering & ulting Co.,	Facilities manufacturing	341	N/A	N/A	N/A	N/A	100.00	China	POSCO E & (100.00)(3)
-CD Pty.	Soft coal	9,575	12,550,000		12,550,000	12,550,000	100.00	Australia	POSA (100.00)(4
-GC Pty.	Soft coal	8,472	11,050,000		11,050,000	11,050,000	100.00	Australia	POSA (100.00)(4
CO India te Ltd.	Steel manufacturing and mine	50,343	225,000,000	224,999,999		224,999,999	100.00	India	(4)
-IPC	Steel service center	7,400	33,328,787	21,663,712		21,663,712	65.00	India	(4)

(1) Net assets of the Company s overseas subsidiaries are translated at the exchange rate as of the balance sheet date.

(2) The Company does not have any equity interest in SEO MUEUN Development Inc. However, in accordance with the contract terms, the Company has the power to manage, control or direct the operations. In addition, all the members of SEO MUEUN Development Inc. s Board of Directors are composed of employees of POSCO E & C.

(3) No shares have been issued in accordance with the local laws and regulations.

(4) These subsidiaries are newly included in the consolidation.

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POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

Equity-Method Investees

The following table sets forth certain information with regard to equity-method investees as of December 31, 2005:

nvestees	Primary Business	Net Assets (in millions of Korean Won)(1)	Number of Shares POSCO	Number of Shares Subsidiaries	Total	Percentage of Ownership (%)	Location	Percentage of Ownership in Subsidiaries (%
stic								
3 ration	E-business	W 20,162	560,000	180,000	740,000	23.13	Seoul	POSDATA and ot (5.63)
AS nation ology Co.,	Engineering	12,672		866,190	866,190	25.46	Seoul	POSCO E & C (25
lo New City opment	Real estate rental	(106,282)		78,338	78,338	29.90	Seoul	POSCO E&C (29.
O Power	Thermal power plant	448,904	20,000,000		20,000,000	50.00	Incheon	
gn								
RASCO	Pellet manufacturing	80,806	2,010,719,185		2,010,719,185	50.00	Brazil	
a Butsuryu r Co., Ltd.	Warehousing	2,801		600	600	30.00	Japan	POSCO-JAPAN (3
POSCO ries (UPI)	Material processing	150,358	N/A	N/A	N/A	50.00	U.S.A.	POSAM (50.00)(2
HROME	Fe-Cr manufacturing	29,697	21,675		21,675	25.00	Republic of South Africa	
gdong u Steel r Co., Ltd.	Metal processing	14,217	N/A	N/A	N/A	21.00	China	Posteel (10.50)(
HYUNDAI	Metal processing	7,556	2,345,558	4,573,838	6,919,396	29.50	India	Posteel (19.50)
O ntures LP	Investment in companies in the bio-tech industry	35,462	N/A	N/A	N/A	100.00	U.S.A.	POSAM (100.00)(
OSMI Steel esia MI)	Steel service center	4,035	743	2,229	2,972	36.69	Indonesia	Posteel (27.52)(
		11,756	4,200,000		4,200,000	30.00	Malaysia	

MMIT Steel e SDN MMIT)	Steel service center							
VINA Co.,	Steel manufacturing	5,075	N/A	N/A	N/A	50.00	Vietnam	
L rces Pty.	Raw material production and trading	40,883				33.34	Australia	POSA (33.34)(2
Huaerliang O silicon e & ology Co.,	Raw material production and trading	11,352	N/A	N/A	N/A	30.00	China	POSCO- China(30.0

(1) Net assets of the Company s overseas subsidiaries are translated at the exchange rate as of the balance sheet date.

(2) The Company owns over 30% of equity interest in KOBRASCO, UPI, POSMI, POSVINA Co., Ltd and CAML Resources Pty. Ltd.. However, the Company is not the major shareholder of these companies. Therefore, these companies were excluded from consolidation. As of December 31, 2005, POSVEN is in the process of liquidation and is accordingly excluded from consolidation.

(3) No shares have been issued in accordance with the local laws and regulations.

(4) The Company owns 100% of equity interest in POSCO Bioventures LP. However, due to an agreement with POSCO Bioventures LP., which prohibits the Company to engage in management activities, POSCO Bioventures LP. was excluded from consolidation.

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Subsidiaries Excluded from the Consolidated Financial Statements

Investees	Primary Business	Net Assets (in millions of Korean Won)(1)	Number of Shares POSCO	Subsidiaries	Total	Percentage of Ownership (%)	Location	Percentage of Ownership in Subsidiaries (%)
omestic								
etapolis Co., d.	Construction	W 3,086		400,500	400,500	40.00	Hwasung	POSCO E & C (40.00)(2)
reign								
'. POSNESIA ainless Steel dustry	STS/CR	12,474	29,610,000		29,610,000	70.00	Indonesia	
alian Poscon ongbang tomatic Co., d.	Facilities manufacturing	1,268	N/A	N/A	N/A	70.00	China	POSCON (70.00)(2
ngdao Posco eel Processing ., Ltd.	Steel service center	1,055	N/A	N/A	N/A	100.00	China	POA (100.00)(2)
ECTUS Ltd.	Transportation (transportation system, PRT)	4,633		3,250,000	3,250,000	100.00	England	Posteel (76.93) POSCON (7.69) POSDATA (7.69) POSCO Machinery Engineering (7.69)(
OSCO-FOSHAN eel Processing nter Co., Ltd.	Steel service center	12,100	N/A	N/A	N/A	100.00	China	POA (40.00) POSCO-CHINA (60.00)(2)
OS-NPC	Steel service center	1,855		19,000	19,000	95.00	Japan	POSCO-JAPAN (95.00)(4)
OSCO E&C eijing)Co. Ltd.	Construction and Engineering	2,507	N/A	N/A	N/A	100.00	China	POSCO E & C (100.00)(4)

(1) The net assets of the Company s overseas subsidiaries are translated at the exchange rate as of the balance sheet date.

(2) Total assets were less than W7,000 million as of December 31, 2004.

(3) As of December 31, 2005, this company is in the process of liquidation.

(4) The capital investment was less than W7,000 million as of December 31, 2005.

Change in Scope of Consolidation

The consolidated financial statements now include the accounts of POSCO Terminal Co., Ltd. and POSCO E&C (Zhangjiagang) Engineering & Consulting Co., Ltd. as their total assets exceeded W7,000 million as of December 31, 2004. In addition, POSEC-Hawaii Inc. had been excluded from the consolidation scope until prior year due to suspension of operation for more than one year. However, it changed its business plan, increased paid-in capital and resumed its operations during the year ended December 31, 2005. As a result, the accounts of POSEC-Hawaii Inc. were included in the consolidated financial statements as of December 31, 2005. As of December 31, 2005, POSCO entered into an agreement with Dongwoosa Service Inc. that enables POSCO to appoint the management members of Dongwoosa Service Inc. Accordingly, as POSCO is able to exercise control over Dongwoosa Service Inc., the accounts of Dongwoosa Service Inc. were included in the consolidated financial statements. The accounts of Samjung Packing & Aluminum Co., Ltd. were included in the consolidated financial statements as POSCO and Dongwoosa Service Inc. own over 30% of equity interest and are able to exercise control over Samjung Packing & Aluminum Co. as of December 31, 2005. The accounts of

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POS-GC Pty. Ltd., POS-CD Pty. Ltd., POSCO-India Private Ltd. and POS-IPC were included in the consolidated financial statements as POSCO made an investment to establish POS-GC Pty. Ltd., POS-CD Pty. Ltd. and POSCO-India Private Ltd. and POS-IPC during December 31, 2005. As a result of such change in scope of consolidation, the total assets, sales and shareholders equity of the consolidated financial statements as of December 31, 2005, increased by W343,577 million, W65,409 million, and W86,549 million, respectively, and consolidated net income for the year then ended decreased by W161,374 million.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Company in the preparation of its consolidated financial statements for December 31, 2005, are summarized below:

Basis of Consolidated Financial Statements Presentation

POSCO and its domestic subsidiaries maintain their accounting records in Korean won and prepare statutory financial statements in the Korean language (Hangul) in conformity with accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these consolidated financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language consolidated financial statements. Certain information attached to the Korean language consolidated financial statements, but not required for a fair presentation of POSCO and its domestic subsidiaries financial position, results of operations or cash flows, is not presented in the accompanying consolidated financial statements.

Accounting Estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect amounts reported therein. Although these estimates are based on management s best knowledge of current events and actions that the Company may undertake in the future, actual results may differ from those estimates.

Application of the Statements of Korean Financial Accounting Standards

The Korean Accounting Standards Board has published a series of Statements of Korean Financial Accounting Standards (SKFAS), which will gradually replace the existing financial accounting standards established by the Korean Financial Supervisory Commission. As SKFAS Nos. 10, 12 and 13 became applicable to the Company on January 1, 2004, the Company adopted these Standards in its financial statements covering periods beginning January 1, 2004. The provisions of these standards are adopted prospectively.

In addition, as SKFAS Nos. 15 through 17 became effective for the Company on January 1, 2005, the Company adopted these Standards in its financial statements for December 31, 2005. The provisions of these standards are adopted prospectively.

In accordance with SKFAS No. 15, *Equity Method,* equity in earnings and losses of the investees are shown in the income statement as a gross amount. Likewise, positive and negative capital adjustments are shown in the balance sheets as a gross amount. In addition, in accordance with SKFAS No. 16, *Deferred Income Tax,* deferred tax assets and liabilities are classified into current and non-current and within each

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classification deferred tax assets and liabilities are offset and recorded as a net amount. Deferred tax effects applicable to items in shareholders equity are directly reflected in the shareholders equity account.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of POSCO and its controlled subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

The Company records differences between the investment account and corresponding capital account of subsidiaries as a goodwill or a negative goodwill, and such differences are amortized over the estimated useful lives using the straight-line method. However, differences which occur from additional investments acquired in consolidated subsidiaries are reported in a separate component of shareholders equity, and are not included in the determination of the results of operations. The Company records the equity of the consolidated subsidiaries, which is not included in the equity of the controlling company, as a minority interest in consolidated subsidiaries. In addition, if losses of the consolidated subsidiaries, included in minority interest, are in excess of minority interest is charged to the retained earnings of the controlling company. Until losses charged to the equity of the controlling company are recovered, all gains on related consolidated subsidiaries are recognized in equity of the controlling company.

Cash and Cash Equivalents, and Financial Instruments

Cash and cash equivalents include cash on hand, cash in banks, and highly liquid temporary cash investments with original maturities of three months or less. Investments which are readily convertible into cash within four months or more of purchase are classified in the balance sheet as financial instruments. The carrying amount of short-term financial instruments approximates fair value.

Revenue Recognition

Revenue from the sale of products is recognized when title and the significant risks and rewards of ownership have been transferred to the buyer, which is generally upon physical delivery. The Company deems delivery to have occurred upon shipment or upon delivery, depending upon shipping terms of the transaction. No revenue is recognized if there are significant uncertainties regarding collectibility of the amount due, associated costs or the possible return of goods.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts due for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Revenue from construction and other services are generally recognized using the percentage-of-completion method.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based on management s estimate of the collectibility of individual accounts and historical collection experience.

Inventories

The quantity of inventory on hand is verified using the perpetual inventory system, which continuously updates the quantity of the inventory during the period, and by physical count as of the balance sheet date. Inventories are stated at the lower of cost or market, with cost being determined using the moving-average

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method, except for materials-in-transit, which are stated at actual cost using the specific identification method. If the net realizable value of inventories (current replacement cost for raw materials) is lower than its cost, the carrying amount is reduced to the net realizable value and the difference between the cost and revalued amount is charged to current operations. If, however, the circumstances which caused the valuation loss ceased to exist, causing the market value to rise above the carrying amount, the valuation loss is reversed limited to the original carrying amount before valuation. The said reversal is a deduction from cost of sales.

For certain other subsidiaries, inventories are stated at the lower of cost or market, generally with cost being determined using the gross average method, moving-average method or first-in, first-out (FIFO) method. Individual accounting policies on inventories of POSCO and each subsidiary are enumerated on page 29 and 30.

Investments in Securities

The Company accounts for equity and debt securities under the provision of SKFAS No. 8, *Investments in Securities*. This statement requires investments in equity and debt securities to be classified into three categories: trading, available-for-sale and held-to-maturity.

Securities that are bought and held principally for near-term sale to generate profits from short-term price differences are classified as trading. Trading generally involves active and frequent buying and selling. Debt securities that have fixed or determinable payments and fixed maturity shall be classified as held-to-maturity only if the reporting entity has both the positive intent and ability to hold those securities to maturity. Securities that are not classified as either held-to-maturity securities or trading securities are classified into available-for-sale.

Securities are initially carried at cost, including incidental expenses, with cost being determined using the gross average method or moving-average method. Debt securities, which the Company has the intent and ability to hold to maturity, are generally carried at cost, adjusted for the amortization of discounts or premiums. Premiums and discounts on debt securities are amortized over the term of the debt using the effective interest rate method. Trading and available-for-sale securities are carried at fair value, except for non-marketable securities classified as available-for-sale securities, which are carried at cost. Non-marketable debt securities are carried at a value using the present value of future cash flows, discounted at a reasonable interest rate determined considering the credit ratings by the independent credit rating agencies.

Unrealized valuation gains or losses on trading securities are charged to current operations, and those resulting from available-for-sale securities are recorded as a capital adjustment, the accumulated amount of which shall be charged to current operations when the related securities are sold, or when an impairment loss on the securities is recognized. Impairment losses are recognized in the statement of income when the recoverable amounts are less than the acquisition costs of securities or adjusted costs of debt securities for the amortization of discounts or premiums.

Investments in Affiliates

Investments in equity securities of companies, over which the Company exercises a significant influence, are recorded using the equity method of accounting. Under the equity method, the Company records changes in its proportionate ownership in the book value of the investee in current operations, as capital adjustment or as adjustments to retained earnings, depending on the nature of the underlying change in the book value of the investee. The Company discontinues the equity method of accounting for investments in equity method investees when the Company s share in the accumulated losses equals the

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cost of the investments, and until the subsequent cumulative changes in its proportionate net income of the investees equals its cumulative proportionate net losses not recognized during the periods when the equity method was suspended. If the book value of the investee has changed due to the capital increase of the investee, net losses not recognized in the prior periods are reflected in equity method investment securities as an adjustment to retained earnings.

Differences between the initial purchase price and the Company s initial proportionate ownership in the net book value of the investee are amortized over the period, not to exceed 20 years, using the straight-line method. However, in case of the investee which is also a subsidiary of the Company, if the additional investment results in the change in the ownership percentage, the difference between the change in the proportionate ownership in the book value of the investee and additional investment is recorded as capital adjustment.

The Company s proportionate unrealized profit arising from sales by the Company to equity method investee, sales by the equity method investees to the Company or sales between equity method investees are eliminated to the extent of the Controlling Company s ownership. Only unrealized profit arising from sales by the Company to subsidiaries is fully eliminated.

Foreign currency financial statements of equity method investees are translated into Korean won using the exchange rates in effect as of the balance sheet date for assets and liabilities (the exchange rates on the acquisition date for capital accounts), and annual average exchange rates for income and expenses. Any resulting translation gain or loss is included in the capital adjustments account, a component of shareholders equity.

The equity method of accounting is applied based on the most recent available unreviewed financial statements of subsidiaries and affiliates. The Company believes that if the financial statements were reviewed, differences between unreviewed and reviewed financial statements would not have a material effect on the financial statements of the Company.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation, except for certain assets subject to upward revaluations in accordance with the Asset Revaluation Law. Individual depreciation methods for property, plant and equipment of POSCO and each subsidiary are enumerated on page 29 and 30. Depreciation is computed using the straight-line method or declining-balance method over the estimated useful lives of the assets, as follows:

	Estimated Useful Lives
Buildings and structures	20-40 years
Machinery and equipment	3-25 years
Tools	4-10 years
Vehicles	3-10 years
Furniture and fixtures	3-10 years

The acquisition cost of an asset consists of its purchase price and any directly attributable cost of bringing the asset to working condition for its intended use. When the estimated cost of dismantling and removing the asset and restoring the site, after the termination of the asset s useful life, meets the criteria for the recognition of provisions, the present value of the estimated expenditure shall be included in the cost of the asset.

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Subsequent expenditure on property, plant and equipment shall be capitalized only when it increases future economic benefits beyond its most recently assessed standard of performance; all other subsequent expenditures shall be recognized as an expense in the period in which they are incurred.

Intangible Assets

Intangible assets are stated at acquisition cost, including incidental expenses, net of accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives as described below.

	Estimated Useful Lives
Intellectual property rights	5-10 years
Port facilities usage rights	2-33 years(2)
Land usage rights	20-50 years(2)
Deferred development expenses	(1)
Other intangible assets	2-25 years

(1) The costs incurred in relation to the development of new products and new technologies, including the development cost of internally used software and related costs, are recognized and recorded as development costs only if it is probable that future economic benefits that are attributable to the asset will flow into the entity and the cost of the asset can be measured reliably. The useful life of development costs is based on its estimated useful life, not to exceed 20 years from the date when the asset is available for use.

(2) Port facilities usage rights and land usage rights with estimated useful lives of 20 years or more, and which represent the rights to use certain port facilities and land, are amortized over the term of exclusive rights.

As of December 31, 2005, port facilities usage rights are related to the quay and inventory yard donated by POSCO in April 1987 to the local bureaus of the Maritime Affairs and Fisheries in Gwangyang, Pohang, Pyoungtaek and Masan.

Impairment of Assets

The Company assesses the potential impairment of assets which are not recorded at fair value when there is evidence that events or changes in circumstances have made the recovery of an asset s carrying value to be unlikely. The carrying value of the assets is reduced to the estimated realizable value, and an impairment loss is recorded as a reduction in the carrying value of the related asset and charged to current operations. However, the recovery of the impaired assets would be recorded in current operations up to the cost of the asset, net of accumulated depreciation or amortization, if any, before impairment, when the estimated value of the assets exceeds the carrying value after impairment.

Discounts on Debentures

Discounts on debentures are amortized over the term of the debenture using the effective interest rate method. The discount is reported on the balance sheet as a direct deduction from the face amount of the debenture. Amortization of the discount is treated as an interest expense.

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Government Grants

POSCO and domestic subsidiaries accounted for the government grants intended to be used for the acquisition of certain assets as deduction from the cost of the acquired assets. Before the acquisition of the assets specified by the grant, the amounts are recognized as a deduction from the account under which the asset to be acquired is to be recorded, or from the other assets acquired as a temporary investment of the grant received.

The government grants, contributed to compensate for specific expenses, are offset against the related expenses. Other government grants, for which the use or purpose is not specified, are recorded as gains from assets contributed, and are recognized in current operations.

Valuation of Assets and Liabilities at Present Value

POSCO and domestic subsidiaries value long-term loans receivable and long-term trade accounts and notes receivable at their present value as discounted at an appropriate discount rate. Discounts are amortized using the effective interest rate method and recognized as an interest income over the life of the related assets.

Income Taxes

Income taxes are accounted for under the asset and liability method. In accordance with the applicable tax laws, POSCO and POSCO E & C and 16 other domestic subsidiaries, and POSA and four other overseas subsidiaries, recognize the temporary differences between the amount reported for financial reporting and income tax purposes as deferred income tax assets and liabilities. POSAM and 22 other overseas subsidiaries record taxes payable as income tax expense in accordance with the applicable tax laws.

Accrued Severance Benefits

Employees and directors with at least one year of service are entitled to receive a lump-sum payment upon termination of their employment, based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment as of the balance sheet date. In addition, in accordance with the applicable laws and regulations, POSAM and 28 other overseas subsidiaries recorded the amount, which would be payable to employees at the time of termination, as accrued severance benefits.

POSCO and domestic subsidiaries have partially funded the accrued severance benefits through group severance insurance deposits with Samsung Life Insurance Company and others. The amounts funded under these insurance deposits are classified as a deduction from the accrued severance benefits liability. Subsequent accruals are to be funded at the discretion of the companies.

The Company made deposits to the National Pension Fund in accordance with the National Pension Act of the Republic of Korea. The use of the deposit is restricted to the payment of severance benefits. Accordingly, accrued severance benefits in the accompanying balance sheet are presented net of this deposit.

Derivative Instruments

The Company enters into derivative transactions to hedge against financial risks. Derivatives are required to be recorded on the balance sheets at fair value and classified into: cash flow hedges, fair

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market value hedges and transactions entered into for nontrading purposes that do not qualify for hedge accounting treatment or otherwise hedge accounting treatment is not applied. When derivatives qualify for cash flow hedges, unrealized holding gains and losses of the derivatives are recorded as capital adjustments in the balance sheet and recognized in the statement of earnings when the hedged item affects earnings. When derivatives qualify for fair market value hedge, unrealized holding gains and losses of the derivatives as well as the changes in the fair value of the hedged items are recorded in the statement of income. If the contract expires, the gains and losses from fair value hedge transactions are charged to earnings and the gains and losses from cash flow hedged are offset against the purchasing price of inventories.

Lease Transactions

The Company accounts for lease transactions as either operating leases or capital leases, depending on the terms of the underlying lease agreement. Machinery and equipment, acquired under capital lease agreements, are recorded at cost as property, plant and equipment, and depreciated using the straight-line method over their estimated useful lives. In addition, the aggregate lease payments are recorded as obligations under capital leases, net of accrued interest. Accrued interest is amortized over the lease period using the effective interest rate method.

Machinery and equipment acquired under operating lease agreements are not included in property, plant and equipment. The related lease rentals are charged to expense when incurred.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the exchange rates in effect at the balance sheet date, and resulting translation gains and losses are recognized in current operations.

Translation of Foreign Operations

Foreign currency assets and liabilities of the Company s overseas business branches and offices are translated at the exchange rate as of the balance sheet date, and income and expenses are translated at the weighted-average exchange rate of the reporting period. Gains or losses on translation are offsetted, and the net amount is recognized as an overseas operations translation debit or credit in the capital adjustments account. Overseas operations translation credit or debit is treated as an extraordinary gain or loss upon closing the foreign branch or office.

Stock Appreciation Rights

Compensation expense for stock appreciation rights, either partially or fully vested, is recorded based on the difference between the base unit price at the date of grant and the moving weighted average of quoted market price at the end of the period proportionally recognized over the vesting period and adjusted for previous recognized expense (Note 21).

Capitalization of Financing Expenses

Financing expense on borrowings associated with certain qualifying assets during the construction period that meet certain criteria for capitalization can be either capitalized or expensed as incurred. The Company chooses to expense as a financing expense the cost of manufacturing, acquisition, and construction of property, plant, and equipment that require more than one year from the initial date of manufacture, acquisition, and construction to the date of the estimated completion of the manufacture, acquisition and construction.

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Basic Earnings Per Share and Basic Ordinary Income Per Share

Basic earnings per share is computed by dividing net income allocated to common stock by the weighted average number of common shares outstanding during the year. Basic ordinary income per share is computed by dividing ordinary income allocated to common stock as adjusted by extraordinary gains or losses and net of related income taxes, by the weighted average number of common shares outstanding during the year.

Contingent liabilities

At the balance sheet date, if it is probable that an outflow of economic benefits will be required due to a present obligation as a result of a past event and a reliable estimate can be made of the amount of the obligation, then the corresponding amount should be recognized as a provision. If the present obligation is expected, however, the outflow of economic benefits and reliable estimate can not be made of the amount, then the contingent liability is not recognized, but is disclosed.

Treasury Stock

In accordance with the cost method, the acquisition cost of the Company s treasury stocks are recorded as an adjustment to shareholders equity. Gain on disposition of treasury stock is recorded as other capital surplus and loss on disposition of treasury stock is first deducted from gain on disposition of treasury stock recorded in other capital surplus, recording the balance as capital adjustments and then offset against retained earnings in accordance with the manner of disposing deficit.

United States Dollar Amounts

The Company operates primarily in Korean won and its accounting records are maintained in Korean won. The U.S. dollars amounts, provided herein, represent supplementary information, solely for the convenience of the reader. All won amounts are expressed in U.S. dollars at US$1:W1,010.00, the US Federal Reserve Bank of New York noon buying exchange rate in effect on December 30, 2005. The U.S. dollar amounts are unaudited and are not presented in accordance with accounting principles generally accepted in either the Republic of Korea or the United States, and should not be construed as a representation that the won amounts shown could be readily converted, realized or settled in U.S. dollars at this or any other rate.

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Cost determination methods for Inventories and Depreciation methods for Property, Plant and Equipment of POSCO and its Controlled Subsidiaries follow:

Company	Inventories(1)	Depreciation of property, plant and equipment
POSCO	Moving-average method	Straight-line method
POSCO E & C		
Posteel Co., Ltd.		
POSCON Co., Ltd.		Straight-line method, Declining-balance method
Pohang Coated Steel Co., Ltd.	Gross average method	Straight-line method
POSCO Machinery & Engineering Co., Ltd.	Moving-average method	
POSDATA Co., Ltd.		
POSCO Research Institute	N/A	
Seung Kwang Co., Ltd.	Gross average method	Straight-line method, Declining-balance method
POS-AC Co., Ltd.	N/A	
Changwon Specialty Steel Co., Ltd.	Moving-average method	Straight-line method
POSCO Machinery Co., Ltd.		
POSTECH Venture Capital Co., Ltd.	N/A	Declining-balance method
POSCO Refractories & Environment Company Ltd. (POSREC)	Moving-average method	Straight-line method, Declining-balance method
SEO MUEUN Development Inc.	Specific identification method	Straight-line method
POSCO Terminal Co., Ltd.	N/A	
Samjung Packing & Aluminum Co., Ltd.		Straight-line method, Declining-balance method
Dongwoosa Service Inc.		Declining-balance method
POSCO America Corp. (POSAM)	Moving-average method	
POSCO Australia Pty. Ltd. (POSA)	Gross average method	
POSCO Canada Ltd. (POSCAN)		Straight-line method, unit of production method
POSCO Asia Co., Ltd. (POA)	N/A	Declining-balance method
VSC POSCO Steel Corporation (VPS)	Moving-average method	Straight-line method
DALIAN POSCO CFM Coated Steel Co., Ltd.		
POS-Tianjin Coil Center Co., Ltd.		
POSMETAL Co., Ltd.		
Shanghai Real Estate Development Co., Ltd.	N/A	
IBC Corporation	Specific identification method	
POSLILAMA Steel Structure Co., Ltd.	Moving-average method	
Zhangjiagang Pohang Stainless Steel Co., Ltd.		
Guangdong Pohang Coated Steel Co., Ltd.		

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Company	Inventories(1)	Depreciation of property, plant and equipment
POS-THAI Steel Service Center Co., Ltd.		
Qingdao Pohang Stainless Steel Co., Ltd.		
Myanmar-POSCO Co., Ltd.		
Zhangjiagang POSHA Steel Port Co., Ltd.		
POSCO Investment Co., Ltd.	N/A	
POSCO (SUZHOU) Automotive Processing Center Co., Ltd.	Moving-average method	
POS-Qingdao Coil Center Co., Ltd.		
POSCO-China Holding Corp.	N/A	
POS-ORE Pty. Ltd.		
POSCO-Japan Co., Ltd.	Gross average method	
POSEC-Hawaii Inc.	N/A	
POSCO E&C (Zhangjiagang) Engineering & Consulting Co., Ltd.		
POS-GC Pty. Ltd.	Gross average method	
POS-CD Pty. Ltd.		

(1) Specific identification method is used for materials-in-transit.

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3. Cash and Cash Equivalents, and Financial Instruments

Cash and cash equivalents, and short-term and long-term financial instruments as of December 31, 2005 and December 31, 2004, consist of the following:

	Annual interest rate (%) as of December 31, 2005		2005		2004
			(in millions of Korean Won)		
Cash and cash equivalents					
Cash on hand and bank deposits	0.00 - 1.00	W	13,498	W	9,866
Checking accounts			5,801		2,927
Corporate bank deposits	0.00 - 4.00		10,470		20,655
Time deposits in foreign currency and others	0.00 - 4.00		348,844		246,891
Maintained by overseas affiliates	0.00 - 6.00		275,258		201,753
			653,871		482,092
Less: Government grants			(507)		(1,962)
		W	653,364	W	480,130
Short-term financial instruments					
Time deposits in won	3.00 - 5.00	W	266,750	W	113,000
Time deposits in foreign currency	4.59 - 4.69		263,380		
Installment accounts	4.00 - 5.00		1,169		656
Specified money in trust			23,753		2,140
Certificates of deposit	3.00 - 5.00		129,500		185,000
Commercial papers	4.00 - 5.00		34,805		43,893
Securities savings of trust funds	4.00		20,000		270,000
Others	3.00 - 5.00		12,051		16,149
Maintained by overseas affiliates	3.00 - 5.00		8,963		16,390
		W	760,371	W	647,228
Long-term financial instruments					
Installment accounts	4.00 - 5.00	W	12,041	W	1,307
Guarantee deposits for opening accounts			104		108
Others	0.00 - 4.00		7,361		291
		W	19,506	W	1,706

As of December 31, 2005, the Company s financial assets amounting to W17,037 million (2004: W13,889 million) are pledged as collateral and accordingly, withdrawal of such financial assets is restricted. The financial assets pledged as collateral include short-term financial instruments and long-term financial instruments amounting to W9,172 million (2004: W7,000 million) and W2,921 million (2004: W541 million), respectively, in relation to performance guarantee deposits, short-term borrowings and long-term debts, and others; short-term financial instruments amounting to W4,840 million (2004: W6,240 million) in relation to government-appropriated projects; and long-term financial instruments amounting to W104 million in relation to collateral deposits for opening checking accounts (Note 13).

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Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

4. Trading Securities

Trading securities as of December 31, 2005 and December 31, 2004, are as follows:

		2005		2004
	(in millions of Korean Won)			
Beneficiary certificates	W	2,161,453	W	2,356,562
Money market fund		449,049		302,194
Mutual fund				30,837
	W	2,610,502	W	2,689,593

5. Accounts and Notes Receivable, and Others

Accounts and notes receivable, and their allowance for doubtful accounts and present value discounts as of December 31, 2005 and December 31, 2004, are as follows:

		2005		2004
	(in millions of Korean Won)			
Trade accounts and notes receivable	W	3,188,928	W	3,163,644
Less: Allowance for doubtful accounts		(144,060)		(70,068)
Present value discount		(148)		(64)
	W	3,044,720	W	3,093,512
Other accounts and notes receivable	W	312,218	W	226,236
Less: Allowance for doubtful accounts		(70,556)		(63,032)
Present value discount		(75)		(86)
	W	241,587	W	163,118
Long-term trade accounts and notes	W	55,771	W	50,267
Less: Allowance for doubtful accounts		(12,134)		(13,683)
Present value discount		(2,247)		(490)
	W	41,390	W	36,094
Long-term loans receivable	W	42,332	W	82,296
Less: Allowance for doubtful accounts		(263)		(746)
Present value discount		(29)		(54)
	W	42,040	W	81,496

POSCO AND SUBSIDIARIES
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Accounts stated at present value under long-term deferred payment and others included as part of accounts and notes receivable, and others are as follows:

	Face value	Present value discount	Book value	Maturity date	Discount rate (%)
		(in millions of Korean Won)			
Long-term trade accounts receivable					
BNG Steel Co., Ltd.	W 44,897	W 8,733	W 36,164	2008-2009	8.6
Pohang woobang APT	17,579	1,885	15,694	2014	3.0
Others	1,773	510	1,263	2006-2014	4.9-13.0
	W 64,249	W 11,128	W 53,121		
Long-term loans receivable					
Employees	W 166	W 29	W 137	2017	7.5
Others	260	17	243	2006	8.4
	W 426	W 46	W 380		
Other long-term assets					
Tawryu Construction Co., Ltd.	W 21,900	W 1,619	W 20,281	2007	5.0
Others	768	112	656	2005-2018	6.5-7.5
	W 22,668	W 1,731	W 20,937		

The Company computed discount on account receivable using the Company s weighted-average borrowing rate incurred as of the date nearest to the Company s year end and accounted them as allowance for doubtful accounts in accordance with SKFAS No. 13, *Troubled Debt Restructuring*.

Valuation and qualifying accounts for allowance for doubtful accounts for the years ended December 31, 2005, 2004 and 2003 are as follows:

Description	Balance at beginning of period	Additions: Charged to costs and expenses	Additions: Change in scope of consolidation	Deductions(1)	Balance at the end of period
			(in millions of Korean Won)		
Year ended December 31, 2005:					
Reserves deducted in the balance sheet from the assets to which the					

apply:					
Allowance for doubtful accounts	W 158,944	W 115,865	W 11	W 11,709	W 263,111
Year ended December 31, 2004:					
Reserves deducted in the balance sheet from the assets to which the apply:					
Allowance for doubtful accounts	325,187	(56,961)		109,282	158,944
Year ended December 31, 2003:					
Reserves deducted in the balance sheet from the assets to which the apply:					
Allowance for doubtful accounts	321,534	(3,843)		(7,496)	325,187

(1) Deduction for allowance for doubtful accounts includes amount written off as uncollectible and others.

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

6. Inventories

Inventories as of December 31, 2005 and December 31, 2004, consist of the following:

	2005	2004
	(in millions of Korean Won)	
Finished goods	W 724,930	W 448,659
By-products	3,326	2,842
Semi-finished goods	790,251	640,672
Raw materials	1,399,817	1,215,136
Materials-in-transit	645,441	563,469
Others	228,829	194,743
	W 3,792,594	W 3,065,521

7. Investment Securities

Long-term portion of investment securities as of December 31, 2005 and December 31, 2004, consists of the following:

	2005	2004
	(in millions of Korean Won)	
Available-for-sale securities	W 2,090,079	W 2,164,129
Held-to-maturity securities	241,474	38,741
Equity-method investments	484,188	142,206
	W 2,815,741	W 2,345,076

Available-For-Sale Securities

Available for sale securities as of December 31, 2005 and December 31, 2004, consist of the following:

	2005	2004
	(in millions of Korean Won)	
Current portion of available-for-sale securities		
Investments in bonds	W 90,889	W 141,573
Available-for-sale securities		
Marketable equity securities	1,647,770	1,682,772
Non-marketable equity securities	384,466	321,000
Investments in bonds	41,292	145,640
Equity investments	16,551	14,717

		2,090,079		2,164,129
	W	2,180,968	W	2,305,702

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POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
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Investments in marketable equity securities as of December 31, 2005 and December 31, 2004, are as follows:

	2005				2004
	Number of shares	Percentage of ownership (%)	Acquisition cost	Book value(1)	Book value
			(in millions of Korean Won)		
Hanil Iron Steel Co., Ltd.	206,798	10.14	W 2,413	W 3,846	W 3,102
HISTEEL Co., Ltd.	135,357	9.95	1,609	2,166	1,747
MunBae Steel Co., Ltd.	1,849,380	9.02	3,588	2,904	2,367
Hana Bank	4,617,600	2.26	29,998	213,333	119,134
Korea Investment Corporation					135
SK Telecom Co., Ltd.(2)	4,793,630	5.83	1,361,599	874,827	1,170,222
Samjung P&A Co., Ltd.(3)					1,944
DongYang Steel Pipe Co., Ltd.	1,564,250	2.46	3,911	1,095	501
Nippon Steel Corporation	147,876,000	2.17	285,102	534,152	375,649
Korea Line Corporation	217,373	2.17	8,067	5,608	7,695
Others			5,987	9,839	276
			W 1,702,274	W 1,647,770	W 1,682,772

(1) Marketable equity securities are stated at fair market value and the difference between the acquisition cost and the fair market value is accounted for in the capital adjustments and minority interest accounts in the consolidated balance sheets.

(2) The 1,802,132 SK Telecom Co., Ltd. shares classified as available-for-sale securities have been placed as a collateral for exchangeable bonds (Note 13).

(3) As of December 31, 2005, Samjung P&A Co., Ltd. is included in the consolidation.

Investments in non-marketable equity securities as of December 31, 2005 and December 31, 2004, are as follows:

	2005					2004
	Number of shares	Percentage of ownership (%)	Acquisition cost	Net asset value(1)	Book value	Book value
			(in millions of Korean Won)			

Dae Kyeong Special Steel Co., Ltd.	1,786,000	19.00	W	8,930	W	6,335	W	8,930	W	8,930
Kihyup Corporation	600,000	10.34		3,000		3,754		3,000		3,000
Powercomm(2)	7,500,000	5.00		246,000		86,258		86,258		76,125
POSCO Terminal Co., Ltd.(4)										5,916
The Seoul Shinmun(2)	1,614,000	19.40		7,479						9,551
The Siam United Steel	9,000,000	10.00		26,640		14,832		26,640		26,640
PT-POSNESIA Stainless Steel Industry(3)	29,610,000	70.00		9,474		8,732		1,567		1,567
BX Steel Posco Cold Rolled Sheet Co., Ltd.(5)		10.00		26,803		24,099		26,803		26,803

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

	2005					2004
	Number of shares	Percentage of ownership (%)	Acquisition cost	Net asset value(1)	Book value	Book value
			(in millions of Korean Won)			
Incheon Int l Airport Railroad Co., Ltd.	20,609,665	12.00	103,048	99,181	103,048	74,330
POSEC-HAWAII Inc.(4)						5,343
Busan-Gimhae Light Rail Transit Co., Ltd.(3)	1,911,000	49.00	9,555	7,269	9,555	9,065
Vectus Ltd.(3)	3,250,000	100.00	6,241	4,633	4,633	
Seoul Metro Line Nine Corporation(6)	3,032,090	20.00	15,160	12,571	15,160	
Hankuk Leisure Co., Ltd.	839,964	16.42	8,627	9,451	8,476	8,476
POSCO-FOSHAN Steel Processing Center Co., Ltd.(3)(5)		40.00	5,001	4,117	5,001	4,175
Others			110,904	82,729	85,395	61,079
			W 586,862	W 363,961	W 384,466	W 321,000

(1) The net asset value of the non-marketable equity securities is determined based on the investee companies most recent available December 31, 2005 financial information, which has not been reviewed or audited. However, the net asset value of PT-POSNESIA Stainless Steel Industry, Vectus Ltd., Seoul Metro Line Nine Corporation, POSCO-FOSHAN Steel Processing Center Co., Ltd. are based on their unaudited financial statements as of September 30, 2005. And the net asset value of Hankuk Leisure Co., Ltd. is based on its audited financial statements as of December 31, 2004

(2) Powercomm Inc. and Seoul Shinmun shares are carried at fair value determined by the independent credit rating agencies. The difference between the fair value and the book value (acquisition cost) of Powercomm amounting to W159,742 million (W115,813 million, net of deferred income tax) was accounted for as a capital adjustment and minority interest. The difference between the fair value and the book value of the Seoul Shinmun amounting to W7,479 million was charged to current operations as loss on impairment of investments based on the conclusion that the recoverable amounts are less than the acquisition costs. Except for Powercomm and Seoul Shinmun, shares without an objective market value were based on acquisition costs.

(3) PT-POSNESIA Stainless Steel Industry, which is in the process of liquidation as of December 31, 2005, has been excluded from the equity method investments. Busan-Gimhae Light Rail Transit Co., Ltd., Vectus Ltd. and POSCO-FOSHAN Steel Processing Center Co., Ltd., have been excluded from the equity-method investments, as

the total assets of each investee were less than W7,000 million as of December 31, 2004.

(4) POSCO Terminal Co., Ltd., whose total assets exceed W7,000 million as of December 31, 2004, are included in the consolidation. In addition, POSEC-Hawaii Inc. was included in the consolidated financial statements, as POSEC-Hawaii Inc. resumed its operations during December 31, 2005.

(5) No shares have been issued in accordance with the local laws or regulations.

(6) Seoul Metro Line Nine Corporation has been excluded from the equity-method investments as the Company is unable to exercise significant control or influence resulting from the disproportional increase in paid-in capital.

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Available-for-sale securities are stated at fair market value, and the difference between the acquisition cost and fair market value is accounted for in the capital adjustment account. The movements of such differences for December 31, 2005 and 2004 are as follows:

	2005			2004		
	Beginning balance	Increase (decrease)	Ending balance	Beginning balance	Increase (decrease)	Ending balance
	(in millions of Korean Won)					
Marketable equity securities						
Hanil Iron & Steel Co., Ltd.	W 689	W 350	W 1,039	W (75)	W 764	W 689
HISTEEL Co., Ltd.	139	265	404	(555)	694	139
Moonbae Steel Co., Ltd.	(1,221)	725	(496)	(1,748)	527	(1,221)
Chohung Bank				(3,228)	3,228	
Hana Bank	89,136	43,782	132,918	71,589	17,547	89,136
Korea Investment Corporation	(453)	453		(403)	(50)	(453)
SK Telecom, Co., Ltd.	(495,027)	142,117	(352,910)	(504,158)	9,131	(495,027)
Samjung P & A Co., Ltd.	(770)	770		(848)	78	(770)
Dongyang Steel Pipe Co., Ltd.	(3,410)	1,369	(2,041)	(3,403)	(7)	(3,410)
Nippon Steel Corporation	90,547	90,015	180,562	95,692	(5,145)	90,547
Korea Line Corporation	(372)	(1,411)	(1,783)		(372)	(372)
Others	10	3,211	3,221	364	(354)	10
	(320,732)	281,646	(39,086)	(346,773)	26,041	(320,732)
Non-marketable equity securities						
Powercomm	(169,875)	54,062	(115,813)	(177,593)	7,718	(169,875)
Others	8,102	(7,432)	670	(5,411)	13,513	8,102
	(161,773)	46,630	(115,143)	(183,004)	21,231	(161,773)
	W (482,505)	W 328,276	W (154,229)	W (529,777)	W 47,272	W (482,505)

Investments in bonds as of December 31, 2005 and 2004, are as follows:

	2005	2004

	Maturity		Acquisition cost		Book value		Book value
			(in millions of Korean Won)				
Government bonds	Less than 1 year	W	90,889	W	90,889	W	132,478
	1-5 years		62		63		92,807
	5-10 years						8
Others	Less than 1 year						9,095
	1-5 years		42,313		41,229		52,825
			133,264		132,181		287,213
Less: Current portion			(90,889)		(90,889)		(141,573)
		W	42,375	W	41,292	W	145,640

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POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

Equity investments as of December 31, 2005 and 2004, are as follows:

	2005		2004
	Acquisition cost	Book value(1)	Book value
	(in millions of Korean Won)		
Contractor financial fund	W 12,167	W 12,167	W 12,589
Software financial fund and others	4,384	4,384	2,128
	W 16,551	W 16,551	W 14,717

(1) As of December 31, 2005, equity investments with no readily determinable fair value are carried at acquisition cost.

Details of gross unrealized gains and losses on available-for-sale securities for the years ended December 31, 2005 and 2004 are as follows:

	2005				2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions of Korean Won)							
Government and municipal bonds	W 93,024	W	W 2,072	W 90,952	W 220,150	W 5,146	W 3	W 225,293
Other bonds	41,786		557	41,229	61,034	886		61,920
	134,810		2,629	132,181	281,184	6,032	3	287,213
Marketable equity securities	1,459,796	189,383	1,409	1,647,770	1,659,684	28,747	5,659	1,682,772
Non-marketable equity securities	335,764	54,062	5,360	384,466	304,621	16,379		321,000
	W 1,930,370	W 243,445	W 9,398	W 2,164,417	W 2,245,489	W 51,158	W 5,662	W 2,290,985

For the years ended December 31, 2005, 2004 and 2003, proceeds from sales of available-for-sale securities amounted to W347,987 million, W27,558 million and W234,038 million, respectively. Gross realized gains and losses amounted to W92,904 million and W2,074 million, respectively, for the year ended December 31, 2005.

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Held-To-Maturity Securities

Held-to-maturity securities as of December 31, 2005 and 2004, are as follows:

		2005		2004
	Maturity	**Acquisition cost**	**Book value**	**Book value**
		(in millions of Korean Won)		
Current portion of held-to-maturity securities				
Government and municipal bonds	Less than 1 year	W 2,688	W 2,688	W 2,711
Finance debentures	,,			10,010
Corporate bond in foreign currency	,,			1,048
		2,688	2,688	13,769
Held-to-maturity securities				
Government and municipal bonds	1-5 years	211,949	211,051	37,961
	5-10 years	30,333	30,423	780
		242,282	241,474	38,741
		W 244,970	W 244,162	52,510

The Company provided national treasury bonds, amounting to W29,514 million, and certain government and municipal bonds, amounting to W1,724 million, to the Gyeongsangbuk-do provincial office as a performance guarantee in relation to the development of a waste disposal area (Note 11).

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Equity-Method Investments

Equity-method investees as of December 31, 2005 and 2004, are as follows:

	2005					2004
	Number of shares	Percentage of ownership (%)	Acquisition cost	Net asset value(1)	Book value	Book value
	(in millions of Korean Won)					
KOBRASCO	2,010,719,185	50.00	W 32,950	W 40,403	W 30,268	W 11,203
Fujiura Butsuryu Center Co., Ltd.	600	30.00	632	840	824	648
USS-POSCO Industries(2)		50.00	234,293	74,269	61,707	65,084
POSCHROME	21,675	25.00	4,859	7,424	6,153	7,000
Guangdong Xingpu Steel Center Co., Ltd.(2)		21.00	1,852	2,986	2,985	3,094
POS-HYUNDAI Steel	6,919,396	29.50	3,136	2,229	2,229	2,276
eNtoB Corporation	740,000	23.13	3,700	4,663	4,188	3,762
POSVINA Co., Ltd.(2)		50.00	1,527	2,538	1,593	3,145
POSMMIT Steel Centre SDN BHD	4,200,000	30.00	2,308	3,527	3,212	3,015
PT POSMI Steel Indonesia	2,972	36.69	1,467	1,480	1,746	1,599
MIDAS Information Technology Co., Ltd.	866,190	25.46	433	3,226	3,226	2,646
POSCO Power Corp.(5)	20,000,000	50.00	291,041	224,452	290,255	
CAML Resources Pty. Ltd.	3,239	33.34	40,388	13,631	38,673	
POSCO Bioventures LP.(2)		100.00	43,691	33,717	33,717	33,221
SONGDO New City Development Inc.(3)	1,332,344	29.90	6,674			
Huaerliang POSCO Silicon Science &Technology Co.Ltd(2)		30.00	3,236	3,412	3,412	
Suzhou Dongshin Color Metal Sheet Co., Ltd.(2)						3,361
Seoul Metro Line Nine Corporation(4)						2,152
			W 672,187	W 418,797	W 484,188	W 142,206

(1) Due to the delay in the closing of December 31, 2005 accounts and the settlement of closing differences, the equity method of accounting is applied based on the most recent available December 31, 2005 financial

information, which has not been audited or reviewed.

(2) No shares have been issued in accordance with the local laws and regulations.

(3) Unrecorded changes in equity interest in SONGDO New City Development Inc. amounted to a negative W40,525 million.

(4) Seoul Metro Line Nine Corporation has been excluded from the equity-method investments as the Company is unable to exercise significant control or influence resulting from the disproportional increase in paid-in capital.

(5) In accordance with the resolution of the Board of Directors meeting on May 24, 2005, the Company acquired 50% equity interest in POSCO Power Corporation.

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Details of equity method valuation for December 31, 2005 and 2004, are as follows:

	January 1, 2005	Earnings (losses) of equity method investees	Other increase (decrease)(1)	December 31, 2005
		(in millions of Korean Won)		
KOBRASCO	W 11,203	W 17,663	W 1,402	W 30,268
Fujiura Butsuryu Center Co., Ltd.	648	296	(120)	824
USS-POSCO Industries	65,084	(517)	(2,860)	61,707
Suzhou Dongshin Color Metal Sheet Co., Ltd.	3,361	(60)	(3,301)	
POSCHROME	7,000	1,303	(2,150)	6,153
Guangdong Xingpu Steel Center Co., Ltd.	3,094	(89)	(20)	2,985
POS-HYUNDAI Steel	2,276	357	(404)	2,229
eNtoB Corporation	3,762	426		4,188
POSVINA Co., Ltd.	3,145	(789)	(763)	1,593
POSMMIT Steel Centre SDN BHD	3,015	317	(120)	3,212
PT POSMI Steel Indonesia	1,599	173	(26)	1,746
POSCO Bioventures LP.	33,221	(4,103)	4,598	33,716
MIDAS Information Technology Co., Ltd.	2,646	667	(86)	3,227
Seoul Metro Line Nine Corporation	2,152		(2,152)	
POSCO Power Corp.		(811)	291,066	290,255
CAML Resources Pty. Ltd.		4,863	33,810	38,673
Huaerliang POSCO Silicon Science & Technology Co. Ltd		28	3,384	3,412
	W 142,206	W 19,724	W 322,258	W 484,188

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Notes to Consolidated Financial Statements (Continued)
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	January 1, 2004	Earnings (losses) of equity method investees	Other increase (decrease)(1)	December 31, 2004
	(in millions of Korean Won)			
KOBRASCO	W 562	W 10,539	W 102	W 11,203
Fujiura Butsuryu Center Co., Ltd.	538	207	(97)	648
USS-POSCO Industries	98,653	(8,011)	(25,558)	65,084
Suzhou Dongshin Color Metal Sheet Co., Ltd.	4,066	86	(791)	3,361
POSCHROME	6,711	766	(477)	7,000
Guangdong Xingpu Steel Center Co., Ltd.	3,291	248	(445)	3,094
POS-HYUNDAI Steel	1,883	746	(353)	2,276
eNtoB Corporation	3,295	467		3,762
POSVINA Co., Ltd.	3,970	485	(1,310)	3,145
POSMMIT Steel Centre SDN BHD	2,625	808	(418)	3,015
PT POSMI Steel Indonesia	1,572	191	(164)	1,599
MIDAS Information Technology Co., Ltd.	2,281	433	(68)	2,646
POSCO Bioventures LP.	24,889	(3,056)	11,388	33,221
SONGDO New City Development Inc.		(404)	404	
Seoul Metro Line Nine Corporation			2,152	2,152
	W 154,336	W 3,505	W (15,635)	W 142,206

(1) Other increase or decrease represents the changes in investment securities due to acquisitions (disposals), dividends received, valuation gain or loss on investment securities, changes in retained earnings and others.

POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
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Details on the elimination of unrealized gain or loss from inter-company transactions for December 31, 2005 and 2004, are as follows:

	2005			2004		
	Current assets	Property, plant and equipment, and intangible assets	Total	Current assets	Property, plant and equipment, and intangible assets	Total
	(in millions of Korean Won)					
KOBRASCO	W 7,997	W	W 7,997	W 1,358	W	W 1,358
Fujiura Butsuryu Center Co., Ltd.	6		6	12		12
USS-POSCO Industries	12,562		12,562	18,303		18,303
Suzhou Dongshin Color Metal Sheet Co., Ltd.				79		79
POSCHROME	371		371	908		908
Guangdong Xingpu Steel Center Co., Ltd.	(39)		(39)	39		39
eNtoB Corporation	149	65	214	213	22	235
POSVINA Co., Ltd.	531		531	332		332
POSMMIT Steel Centre SDN BHD	143		143	211		211
PT POSMI Steel Indonesia	(115)		(115)	182		182
	W 21,605	W 65	W 21,670	W 21,637	W 22	W 21,659

Details of differences between the initial purchase price and the Company s initial proportionate ownership in the book value of the investee are as follows:

	January 1, 2005	Increase (decrease)	Amortization (recovery)	December 31, 2005
	(in millions of Korean Won)			
POSMMIT Steel Centre SDN BHD	W 59	W	W 20	W 39
PT POSMI Steel Indonesia	531		177	354
CAML Resources Pty. Ltd.		28,819	3,777	25,042
POSCO Power Corp.		73,115	7,311	65,804
	W 590	W 101,934	W 11,285	W 91,239

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Notes to Consolidated Financial Statements (Continued)
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Summary of financial information on equity-method investees as of and for December 31, 2005, follows:

	Total assets	Total liabilities	Sales	Net income (loss)
		(in millions of Korean Won)		
KOBRASCO	W 170,450	W 89,644	W 319,869	W 62,863
Fujiura Butsuryu Center Co., Ltd.	19,317	16,516	20,133	1,007
USS-POSCO Industries	454,171	305,634	874,633	(24,992)
POSCHROME	35,846	6,149	44,105	6,695
Guangdong Xingpu Steel Center Co., Ltd.	36,078	21,861	89,128	(611)
POS-HYUNDAI Steel	18,925	11,369	67,023	1,338
eNtoB Corporation	61,059	40,896	362,373	4,197
POSVINA Co., Ltd.	9,510	4,435	17,360	(189)
POSMMIT Steel Centre SDN BHD	39,678	27,922	54,395	1,282
PT POSMI Steel Indonesia	52,932	48,898	59,236	479
MIDAS Information Technology Co., Ltd.	15,287	2,615	14,802	2,475
POSCO Power Corp.	896,824	447,921	400,677	35,839
CAML Resources Pty. Ltd.	85,547	44,664	117,530	31,672
SONGDO New City Development Inc.	625,023	692,450	142,767	(63,508)
POSCO Bioventures LP.	33,717			
Huaerliang POSCO Silicon Science & Technology Co. Ltd.	21,683	10,351	3,453	50
	W 2,576,047	W 1,771,325	W 2,587,484	W 58,597

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8. Property, Plant and Equipment

Property, plant and equipment as of December 31, 2005 and December 31, 2004, consist of the following:

	2005	2004
	(in millions of Korean Won)	
Buildings and structures	W 5,755,154	W 5,096,042
Machinery and equipment	21,333,817	19,544,990
Tools	404,094	380,744
Vehicles	176,715	173,847
Furniture and fixtures	231,263	207,288
	27,901,043	25,402,911
Less: Accumulated depreciation	(19,312,121)	(18,268,530)
Less: Accumulated impairment loss	(2,786)	(2,786)
	8,586,136	7,131,595
Land	1,203,300	1,109,382
Less: Accumulated impairment loss	(565)	(565)
	1,202,735	1,108,817
Construction-in-progress	2,566,456	2,283,496
Less: Accumulated impairment loss	(83,617)	(83,617)
	2,482,839	2,199,879
	W 12,271,710	W 10,440,291

The value of land based on the posted price issued by the Korean tax authority amounted to W3,087,656 million as of December 31, 2005 (December 31, 2004: W2,860,565 million).

As of December 31, 2005, property, plant and equipment are insured against fire and other casualty losses up to W4,783,546 million (December 31, 2004: W4,755,080 million). In addition, the Company carries general insurance for vehicles and accident compensation insurance for its employees.

In accordance with the Asset Revaluation Law, POSCO and certain subsidiaries revalued a substantial portion of their property, plant and equipment and increased the related amount of assets by W6,184 billion as of December 31, 2000, the latest revaluation date. The revaluation surplus amounting to W4,144 billion, net of related tax and transfers to capital stock, was credited to capital surplus, a component of shareholders equity (Note 18).

Construction-in-progress includes capital investments in Gwangyang No. 2 Minimill. By a resolution of the Board of Directors in May 1998, the construction on the Minimill has been temporarily suspended due to the economic situation in the Republic of Korea and the Asia Pacific region. The continuing unstable economic condition and related decrease in the selling price of products, resulting in the deterioration in profitability, drove the management s operations committee s decision in April 2002 to cease the construction on the No. 2 Minimill. The Company previously recognized impairment losses on the construction-in-progress in Gwangyang No. 2 Minimill amounting to

W469,581 million and reclassified related machinery held to be disposed of in the future as other investment assets as of December 31, 2004.

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The changes in the carrying value of property, plant and equipment for December 31, 2005, are as follows:

	Beginning balance	Acquisition	Disposal	Depreciation	Others(1)	Elimination of intercompany transactions	Ending balance
	(in millions of Korean Won)						
Land	W 1,108,817	W 95,381	W 14,110	W	W 12,655	W (9)	W 1,202,734
Buildings	2,199,308	261,371	27,150	161,172	(8,578)	5,055	2,268,834
Structures	889,437	425,886	5,666	89,966	26,178	421	1,246,290
Machinery and equipment	3,851,869	2,274,621	28,596	1,235,562	(12,228)	16,736	4,866,840
Vehicles	35,624	9,554	1,120	13,997	425	(57)	30,429
Tools	98,294	50,999	304	48,055	697	(63)	101,568
Furniture and fixtures	57,064	38,328	1,113	23,197	261	833	72,176
Construction-in-progress	2,199,878	3,618,271	131,909		(2,945,299)	(258,102)	2,482,839
	W 10,440,291	W 6,774,411	W 209,968	W 1,571,949	W (2,925,889)	W (235,186)	W 12,271,710

(1) Includes foreign currency translation adjustments, asset transfers and adjustments resulting from the effect of changes in the scope of consolidation.

The changes in the carrying value of property, plant and equipment for December 31, 2004, were as follows:

	Beginning balance	Acquisition	Disposal	Depreciation	Others(1)	Elimination of intercompany transactions	Ending balance
	(in millions of Korean Won)						
Land	W 1,212,284	W 7,723	W 73,091	W	W (38,044)	W (55)	W 1,108,817
Buildings	2,314,058	91,189	29,597	152,276	106,106	(130,172)	2,199,308
Structures	913,564	58,499	4,401	78,759	53,107	(52,573)	889,437
Machinery and equipment	4,178,717	894,562	22,435	1,209,030	265,772	(255,717)	3,851,869
Vehicles	33,867	15,194	865	12,098	(137)	(337)	35,624
Tools	101,172	49,483	868	51,317	67	(243)	98,294
Furniture and fixtures	53,754	25,928	2,491	20,921	4,810	(4,016)	57,064
Construction-in-progress	1,038,360	2,206,870	145,758		(777,173)	(122,421)	2,199,878
	W 9,845,776	W 3,349,448	W 279,506	W 1,524,401	W (385,492)	W (565,534)	W 10,440,291

(1) Includes foreign currency translation adjustments, asset transfers and adjustments resulting from the effect of changes in the scope of consolidation.

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9. Intangible Assets

Intangible assets, net of accumulated amortization, as of December 31, 2005 and December 31, 2004, consist of the following:

		2005		2004
	(in millions of Korean Won)			
Intellectual property rights	W	1,394	W	485
Land usage rights		43,422		32,416
Deferred development costs		47,299		32,591
Port facilities usage rights		127,258		146,396
Other intangible assets(1)		234,336		284,427
	W	453,709	W	496,315

(1) The Company capitalized costs directly related to the Enterprise Resource Planning (ERP) system and the process innovation as other intangible assets.

The changes in the carrying value of intangible assets for December 31, 2005, are as follows:

	Beginning Balance	Acquisition	Disposal	Amortization	Others(1)	Elimination of intercompany transactions	Ending balance
	(in millions of Korean Won)						
Intellectual property rights	W 485	W 1,159	W	W 186	W (64)	W	W 1,394
Land usage rights	32,416	10,053	192	(2,653)	(1,508)		43,422
Development costs	32,591	29,381		13,021	(1,770)	118	47,299
Port facilities usage rights	146,396	595		19,732	(1)		127,258
Other intangible assets	284,427	43,429	386	95,151	(857)	2,874	234,336
	W 496,315	W 84,617	W 578	W 125,437	W (4,200)	W 2,992	W 453,709

(1) Includes impairment loss, transfers of an asset, adjustments arising from foreign currency translations and changes in consolidation scope, and others.

The changes in the carrying value of intangible assets for December 31, 2004, were as follows:

Elimination of

	Beginning balance	Acquisition	Disposal	Amortization	Others(1)	intercompany transactions	Ending balance
	(in millions of Korean Won)						
Goodwill	W 234	W	W	W	W (234)	W	W
Intellectual property rights	523	22		131	71		485
Land usage rights	12,750	9,291		2,270	12,645		32,416
Development costs	32,646	16,854	2,260	13,042	(1,607)		32,591
Port facilities usage rights	129,698	39,300	86	22,602	485	(399)	146,396
Other intangible assets	298,645	78,357	9,325	76,629	4,993	(11,614)	284,427
	W 474,496	W 143,824	W 11,671	W 114,674	W 16,353	W (12,013)	W 496,315

(1) Includes impairment loss, transfers of an asset, adjustments arising from foreign currency translations and changes in consolidation scope, and others.

POSCO AND SUBSIDIARIES
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The estimated aggregated amortization expenses for each of the next five fiscal years are as follows:

		(in millions of Korean Won)
2006	W	93,884
2007		73,184
2008		56,253
2009		20,512
2010		17,355
	W	261,188

10. Research and Development Costs, and Others

For the year ended December 31, 2005, the Company expensed research and development costs amounting to W225,615 million (December 31, 2004: W277,149 million), charging W173,070 million to cost of goods sold, and W52,545 million to selling and administrative expenses.

11. Other Assets

Other assets as of December 31, 2005 and 2004 consist of the following:

		2005		2004
		(in millions of Korean Won)		
Other current assets				
Short-term loans receivable (Notes 27 and 28)	W	42,665	W	23,622
Accrued income		45,517		25,032
Advance payments		199,580		120,374
Prepaid expenses		15,724		15,121
Others		40,728		19,903
		344,214		204,052
Less: Allowance for doubtful accounts		(32,383)		(10,681)
	W	311,831	W	193,371
Other long-term assets				
Other investment assets (Notes 5, 8 and 29)	W	139,320	W	145,778
Less: Allowance for doubtful accounts		(3,714)		(733)
Present value discount		(1,731)		(459)
	W	133,875	W	144,586

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Notes to Consolidated Financial Statements (Continued)
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12. Short-Term Borrowings

Short-term borrowings as of December 31, 2005 and December 31, 2004, consist of the following:

Financial institutions	Annual interest rate (%)	2005	2004
		(in millions of Korean Won)	
Won currency borrowings			
Shinhan Bank and others	3.83-5.00	W 216,150	W 121,374
Foreign currency borrowings			
Yamaguchi Bank and others	1.00-5.00	13,716	29,575
Choheung Bank and others	1.00-6.00	629,908	506,592
		643,624	536,167
		W 859,774	W 657,541

13. Long-Term Debts

Current portion of long-term debts as of December 31, 2005 and December 31, 2004, consist of the following:

Financial institutions	Annual interest rate (%)	2005	2004
		(in millions of Korean Won)	
Debentures			
Domestic and foreign debenture	1.84-8.00	W 991,609	W 961,607
Less: Discount on debentures issued		(1,083)	(1,347)
		990,526	960,260
Won currency borrowings			
Korea Exchange Bank and other	1.00-5.70	26,731	31,511
Foreign currency borrowings			
Development Bank of Japan and others	1.00-4.60	28,202	42,730
		54,933	74,241
Loans from foreign financial institutions			
Sumitomo Bank and others	2.00 LIBOR + 0.80	9,065	10,078
Lease obligation			

HP Financial Services	5.00		2,676		2,103
Unearned revenue					17
		W	1,057,200	W	1,046,699

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Long-term debts as of December 31, 2005 and December 31, 2004, are as follows:

Financial institutions	Annual interest rate (%)	2005	2004
		(in millions of Korean Won)	
Won currency borrowings			
The Korea Development Bank and others	1.00-6.00	W 212,890	W 170,715
Less: Current portion		(26,731)	(31,511)
		186,159	139,204
Foreign currency borrowings			
Development Bank of Japan and others	1.00-7.00	403,926	288,625
Less: Current portion		(28,202)	(42,730)
		375,724	245,895
Loans from foreign financial institutions			
Sumitomo Bank and others	2.00 LIBOR + 0.80	45,169	60,644
Less: Current portion		(9,065)	(10,078)
		36,104	50,566
Debentures			
Domestic debentures	3.60-8.00	562,060	1,276,060
Foreign bonds(1)	0.00-7.13	965,529	1,308,010
		1,527,589	2,584,070
Less: Current portion		(991,609)	(961,607)
Discount on debentures issued		(2,697)	(7,327)
		533,283	1,615,136
		W 1,131,270	W 2,050,801

Certain current assets, inventories, investments and property, plant and equipment are pledged as collateral for the above borrowings.

(1) POSCO issued exchangeable bonds on August 20, 2003. They are exchangeable with 15,267,837 SK Telecom Co., Ltd. American Depository Receipts (ADRs).

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Details of exchangeable bonds as of December 31, 2005, are as follows:

Issuance date:	August 20, 2003
Maturity date:	August 20, 2008 (full amount of principal is repaid if not exercised)
Rate:	Interest rate of zero percent
Face value:	JPY 51,622,000,000
Issuance price:	JPY 51,880,110,000
Exchangeable price:	JPY 3,183/ADR
Exercise call period:	Commencing ten business days following the issuance date until ten business days prior to maturity date
Exercise put period:	Exactly three years following the payment date

On August 20, 2003, POSCO sold its 15,267,837 SK Telecom Co., Ltd. ADRs to Zeus (Cayman), a tax-exempted subsidiary formed under the laws of Cayman Islands. Zeus then issued zero-coupon, guaranteed and exchangeable bonds amounting to JPY51,622 million which are due in 2008, and are fully and unconditionally guaranteed by POSCO. POSCO may elect to pay the holder cash in lieu of delivering SK Telecom Co., Ltd. ADRs (the Cash Settlement Option). The number of ADRs such holder is entitled to receive will be calculated by dividing the aggregate principal amount of the Notes to be exchanged by the exchangeable price. Under the Cash Settlement Option, such holder is entitled to receive the cash equivalent of the market value of ADRs upon the exercise. These bonds are non-interest bearing and are exchangeable with SK Telecom Co., Ltd. ADRs at the option of the bondholder. The transaction between the POSCO and Zeus is deemed a borrowing transaction under the Korean generally accepted accounting principles. In 2004 and 2005, in compliance with the terms of the exchangeable bonds, the dividends earned by Zeus from the SK Telecom Co., Ltd. ADRs were used to purchase additional 951,350 ADRs which brought down the exchangeable bond price to JPY3,183/ADR.

Contractual maturities of long-term debts outstanding as of December 31, 2005, are as follows:

Period	**Debentures**	**Won currency borrowings**	**Foreign currency borrowings**	**Loans from foreign financial institutions**	**Total**
			(in millions of Korean Won)		
2006	W 991,609	W 26,731	W 28,202	W 9,065	W 1,055,607
2007	92,000	63,170	48,630	9,065	212,865
2008	443,970	62,319	49,067	9,065	564,421
2009	10	43,465	136,538	9,065	189,078
2010		12,115	17,410	4,915	34,440
2011		5,090	124,079	3,994	133,163
	W 1,527,589	W 212,890	W 403,926	W 45,169	W 2,189,574

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Details of assets pledged as collaterals for short-term borrowings and long-term debts, as well as for performance guarantee, as of December 31, 2005 and December 31, 2004, are as follows:

	Beneficiaries	2005	2004
		(in millions of Korean Won)	
Land	Shinhan Bank and others	W 43,005	W 35,541
Buildings and structures	The Korea Development Bank and others	42,304	55,120
Machinery and equipment	Mizuho Bank and others	28	54,918
Cash and cash equivalents	Mizuho Bank and others	12,041	6,555
Short-term and long-term financial instruments	Kyongnam Bank and others	4,650	4,050
Inventories	Korea First Bank and others	195,000	155,000
Trade accounts and notes receivable	Mizuho Bank and others	40,630	62,900
Available-for-sale securities	Exchangeable bond creditor	333,366	358,768
Held-to-maturity securities	Gyeongsangbuk-do provincial office	31,298	32,000
		W 702,322	W 764,852

Details of loans from foreign financial institutions covered by guarantees provided by financial institutions as of December 31, 2005 and December 31, 2004, are as follows:

	2005		2004	
Financial institutions	Foreign currency	Won equivalent	Foreign currency	Won equivalent
		(in millions of Korean Won)		
Korea Development Bank	EUR6,389,136	W7,668	EUR7,255,009	W10,324

14. Capital Lease and Operating Lease Agreements

Capital Lease

As of December 31, 2005, the Company acquired certain tools and vehicles under capital lease agreements, with acquisition cost amounting to W7,758 million. The assets and liabilities under the capital leases are recognized at the present value of the minimum lease payments over the lease terms. The Company s depreciation expense, with respect to the above lease agreements, for December 31, 2005, amounted to W2,417 million.

Future minimum lease payments under capital lease agreements are as follows:

Period	Principal	Interest	Total
	(in millions of Korean Won)		
2006	W 2,676	W 74	W 2,750
2007	331	4	335

	W	3,007	W	78	W	3,085

Operating Lease

As of December 31, 2005, the Company acquired certain tools and equipment under operating lease agreements from Macquarie Capital Korea Co., Ltd. The Company s rent expenses, with respect to the

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above lease agreements, amounted to W15,840 million for December 31, 2005. Future lease payments under the above lease agreements are as follows:

Period	Amount (in millions of Korean Won)
2006	W 6,737
2007	3,051
2008	698
2009	24
	W 10,510

15. Accrued Severance Benefits

The changes in accrued severance benefits for December 31, 2005, are as follows:

	Beginning balance	Increase	Decrease	Adjustments(1)	Ending balance
	(in millions of Korean Won)				
Accrued severance benefits	W 561,980	W 216,344	W 84,623	W 30,253	W 723,954
National Pension Fund	(1,825)		(399)	(1,089)	(2,515)
Group severance insurance deposits	(329,788)	(123,676)	(22,726)	(15,889)	(446,627)
	W 230,367	W 92,668	W 61,498	W 13,275	W 274,812

(1) Includes foreign currency adjustments, changes in consolidation scope and others.

The Company expects to pay the following future benefits to its employees upon their normal retirement age:

	(in millions of Korean Won)
2006	W 11,550
2007	17,042
2008	27,067
2009	33,623
2010-2014	325,938
	W 415,220

The above amounts were determined based on the employee current salary rates and the number of service years that will be accumulated upon their retirement date. These amounts do not include amounts that might be paid to employees that will cease working with the Company before their normal retirement age.

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16. Other Liabilities

Other liabilities as of December 31, 2005 and December 31, 2004, consist of the following:

		2005		2004
		(in millions of Korean Won)		
Other current liabilities				
Advances received	W	334,166	W	316,778
Unearned revenue		3,164		2,397
Others		119,533		90,468
	W	456,863	W	409,643
Other long-term liabilities				
Reserve for allowance	W	17,524	W	10,667
Others (Notes 14 and 21)		114,597		185,410
	W	132,121	W	196,077

17. Commitments and Contingencies

As of December 31, 2005, contingent liabilities for outstanding guarantees provided for the repayment of loans of affiliated companies are as follows:

Grantors	Entity being guaranteed	Financial institution		Amount guaranteed(1)		Won equivalent
						(in millions)
POSCO	POSINVEST	Bank of America and others	US$	56,373,465	W	57,106
	Zhangjiagang Pohang Stainless Steel Co., Ltd.	Bank of China and others		253,320,000		256,613
POSCO E & C	IBC Corporation	The Korea Development Bank and others		58,180,000		58,936
	Shanghai Real Estate Development Co., Ltd.	Woori Bank and others		25,000,000		25,325
	POSLILAMA Steel Structure Co., Ltd.	The Export-Import Bank of Korea and others		28,000,000		28,364
Posteel Co., Ltd.	POS-THAI Steel Service Center Co., Ltd.	Sumitomo Bank and others		6,210,405		6,200
	POS-Qingdao Coil Center Co., Ltd.	Industrial Bank of Korea and others		4,000,000		4,052
	PT POSMI Steel Indonesia	Korea Exchange Bank		5,400,000		5,470
POSCO Investment Co.,	Qingdao Pohang Stainless Steel Co., Ltd.	Bank of Tokyo-Mitsubishi		72,500,000		73,443

Ltd.				
POS-ORE	POSA	ANZ Bank	18,311,204	18,549
POSCO-Japan Co., Ltd.	Fujiura Butsuryu Center Co., Ltd.	Korea Exchange Bank and others	JPY1,190,000,000	10,234
	POS-NPC	Mizuho Bank and others	2,000,000,000	17,201
				W 561,493

(1) Currencies other than US$ or JPY are translated into US$ amounts.

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As of December 31, 2004, contingent liabilities for outstanding guarantees provided for the payment of loans of affiliated companies amounted to W443,154 million.

As of December 31, 2005, contingent liabilities for outstanding guarantees provided to non-affiliated companies for the repayment of loans are as follows:

Grantors	Entity being guaranteed	Financial institution	Amount guaranteed(1)		Won equivalent	
					(in millions)	
POSCO	Dae Kyeong Special Steel Co., Ltd.	The Korea Development Bank	W	2,591	W	2,591
			US$	1,948,800		1,974
	DC Chemical Co., Ltd.	E1 Co., Ltd.	W	1,281		1,281
	The Siam United Steel Co., Ltd.	Japan Bank for International Cooperation	US$	6,006,582		6,085
	Zeus	Related creditors		JPY51,622,000,000		443,970
POSCO E&C	Daejeon Energy System Co., Ltd.	Woori Bank	W	12,000		12,000
	Baek Song Construction Co., Ltd.	Shinsegae Merchant Bank Corp.		7,500		7,500
	Pan Pacific and others	Korea Exchange Bank and others		7,384		7,384
POSCO Machinery & Engineering Co.,	S-Tank Engineering Ltd. Co, Ltd.	SK Engineering & Construction Co., Ltd.		1,252		1,252
Samjung Packing & Aluminum Co., Ltd.	Pyungsan SI Ltd.	Shinhan Bank and others		24,800		24,800
					W	508,837

In addition to the guarantee described above, POSCO E&C provides performance guarantee to Samsung Corporation amounting to W1,365,717 million as of December 31, 2005. In relation to private businesses, POSCO E&C also provides debt undertaking guarantee to 33 companies, which amounts to W1,085,666 million.

As of December 31, 2004, contingent liabilities for outstanding guarantees provided to non-affiliated companies for the repayment for loans amounted to W720,361 million.

POSCO entered into long-term contracts to purchase iron ore, coal, nickel, chrome and stainless steel scrap. These contracts generally have terms of five to ten years and provide for periodic price adjustments to the market price. As of December 31, 2005, 500 million tons of iron ore and 113 million tons of coal remained to be purchased under such long-term contracts.

The Company paid US$159,600,000 on behalf of POSVEN on June 21, 2001, an affiliate which is 60% owned by the Company. On July 20, 2001, an additional payment of US$53,200,000 was due, representing a long-term debt guaranteed by Raytheon Company (Raytheon), a shareholder of POSVEN and a joint venture partner with the Company in the construction of a facility in Venezuela. Both companies agreed that each would pay half of the amount. The Company, therefore, made a payment of US$26,600,000.

During the year ended December 31, 2004, due to the settlement of liquidation dividends from POSVEN, the Company recorded recovery of allowance for doubtful accounts amounting to W108 billion. As of December 31, 2005, the Company received the residuals of liquidation dividends amounting to W16.7 billion and finished the liquidation of POSVEN during the year ended December 31, 2005.

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POSCO entered into a contract on the usage of bulk carriers with Keo Yang Shipping Co., Ltd. and others in order to ensure the transportation of raw materials through 2011.

On July 1, 2004, POSCO entered into an agreement with Tangguh Liquefied Natural Gas (LNG) Consortium in Indonesia regarding the commitment to purchase 550 thousand tons of LNG annually for 20 years commencing in May 2005. The Company completed the construction of Gwangyang LNG terminal on July 4, 2005.

As of December 31, 2005, POSCO has bank overdraft agreements of up to W210,000 million with Woori Bank and other seven banks. In addition, the Company entered into a credit purchase loan agreement with Hana Bank and eight other banks for credit lines up to W325,000 million and to borrow W20,000 million in short-term borrowings. POSCO has 44 promissory notes, including a blank promissory note, with The Korea Development Bank, as collaterals for loans from foreign financial institutions. The Company has an agreement with Woori Bank and others to open letters of credit, documents against acceptance and documents against payment amounting to US$886,500 thousand and to borrow US$70 million in foreign short-term borrowings. The accounts receivables in foreign currency sold to financial institutions and outstanding as of December 31, 2005, amount to US$80,603,041, for which the Company is contingently liable upon the issuers default.

As of December 31, 2005, POSCO E & C has bank overdraft agreements of up to W40,000 million with Woori Bank and other banks. In addition, POSCO E & C has a revolving loan agreements of up to W334,200 million with Suhyup Bank and other banks. In addition, POSCO E & C has provided seven blank promissory notes and 18 other notes, with amounts equivalent to approximately W232,013 million, to other financial institutions as collateral for agreements and outstanding loans. POSCO E&C has provided seven blank checks and one other check, with amounts equivalent to approximately W2,500 million as collaterals for agreements and outstanding loans as of December 31, 2005.

As of December 31, 2005, Posteel Co., Ltd. has entered into local and foreign credit agreements, of up to W554,290 million and with Hana Bank and other banks of which 406,498 million remain unused, respectively. In addition, Posteel Co., Ltd. has an unsettled document against acceptance amounting to JPY 909 million and US$69 million, and an unsettled document against payment balances in relation to exports amounting to US$302,006.

As of December 31, 2005, POSCON Co., Ltd. has credit purchase loan agreements with Shinhan Bank and other banks for credit lines of up to W6,000 million and revolving loan agreements of up to W40,854 million and US$4.7 million. In addition, POSCON Co., Ltd. has entered into agreements with Shinhan Bank and other banks for opening letters of credit in relation to trade of up to US$14 million.

As of December 31, 2005, Pohang Coated Steel Co., Ltd. has provided a blank promissory note to Korea Zinc Company Ltd. as a guarantee for the repayment of loan. In addition, Pohang Coated Steel Co., Ltd. has entered into agreements to discount its trade accounts receivable with Shinhan Bank and other banks for amount of up to W15,000 million. In addition, Pohang Coated Steel Co., Ltd. has local credit loan agreements and credit purchase loan agreements of up to W40 million, letters of credit in relation to trade of up to US$1,500 million and W2,000 million with Shinhan Bank.

As of December 31, 2005, POSCO Machinery & Engineering Co., Ltd. has entered into a bank overdraft agreement of up to W2,000 million with Shinhan Bank, local credit loan agreements of up to W6,000 million and credit purchase loan agreements of up to W9,000 million with Shinhan Bank and other banks. In addition, POSCO Machinery & Engineering Co., Ltd. has entered into an agreement with Shinhan Bank for opening letters of credit in relation to trade of up to US$3 million and a loan agreement.

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As of December 31, 2005, POSDATA Co., Ltd. has provided a note to HP Financial Services for an outstanding lease agreement. In addition, POSDATA Co., Ltd. entered into loan on bills agreements of up to W111,800 million with Shinhan Bank and other banks as of December 31, 2005.

As of December 31, 2005, POS-AC Co., Ltd. has a bank overdraft agreement with Woori Bank amounting to W1,000 million and a loan agreement, secured by trade accounts receivables, amounting to W3,000 million. In addition, POS-AC Co., Ltd. has entered into an agreement with Woori Bank amounting to W1,000 million in relation to discount of trade accounts receivables.

As of December 31, 2005, Changwon Specialty Steel Co., Ltd. has a loan agreement, secured by trade accounts receivable, of up to W90,000 million with Woori Bank. In addition, Changwon Specialty Steel Co., Ltd. has agreements with Korea First Bank and six other banks for opening letters of credit of up to US$68 million and W31,000 million, respectively.

As of December 31, 2005, POSCO Machinery Co., Ltd. has a loan agreement, secured by trade accounts receivables, of up to W10,000 million with Woori Bank and other banks. In addition, POSCO Machinery Co., Ltd. has entered into an agreement with Korea Exchange Bank for opening letters of credit of up to US$3 million. POSCO Machinery Co., Ltd. also has entered into a performance guarantee contract of up to W10,000 million with Kwangju bank.

As of December 31, 2005, POSCO America Corp. has a loan agreement to borrow up to US$50 million with Bank of America.

As of December 31, 2005, POSCO Canada Ltd. has a loan agreement to borrow up to CAD15 million with Korea Exchange Bank of Canada.

As of December 31, 2005, POSCO Asia Co., Ltd. has loan agreements to borrow up to US$140 million with Bank of America and other banks.

As of December 31, 2005, POSMETAL Co., Ltd. has loan agreements to borrow up to JPY 3,100 million with the Bank of Fukuoka and other banks.

As of December 31, 2005, Zhangjiagang Pohang Stainless Steel Co., Ltd. has loan agreements to borrow up to US$400 million with Bank of China and other banks.

As of December 31, 2005, POSCO Refractories & Environment Company Ltd. (POSREC) has a bank overdraft agreement of up to W3,000 million and credit purchase loan agreements of up to W12,000 million with Pusan Bank and other banks. In addition, POSREC has entered into agreements to borrow up to US$5 million and W5,000 million with Pusan Bank and Citibank Korea, respectively, for opening letters of credit.

As of December 31, 2005, Dongwoosa Service Inc. has provided a blank promissory note to Hyundai Motor Service as a guarantee for the maintenance of vehicles. In addition, Dongwoosa Service Inc. has a bank overdraft agreements of up to W3,000 million with Korea Exchange Bank

As of December 31, 2005, Samjung Packing & Aluminum Co., Ltd. has a bank overdraft agreement of up to W2,000 million with Woori Bank and purchase loan agreements of up to W43,000 million with Woori Bank and other banks. In addition, Samjung Packing & Aluminum Co., Ltd. has entered into agreements to borrow up to US$23 million with Woori Bank and other banks for opening letters of credit in relation to trade. The accounts receivables in foreign currency sold to financial institutions and outstanding as of December 31, 2005, amount to W4,063 million, for which the Company is contingently liable upon the issuers default.

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As of December 31, 2005, POSCO Terminal has a loan agreement, secured by trade accounts receivable, of up to W1,000 million with Woori Bank. POSCO Terminal also entered into US$10 million-limit forward currency contract with the Korea Exchange Bank.

On June 22, 2005, POSCO entered into a memorandum of understanding with the Orissa State Government of India for the construction of an integrated steel mill and the development of a mine in Bhubaneswar, the capital of Orissa.

The Company is a defendant in various domestic and foreign legal actions arising during the normal course of business. As of December 31, 2005, the aggregate amounts of domestic and foreign claims against the Company as the defendant amounted to approximately W31,006 million and US$1,319,834 in 22 pending cases. The Company believes that the outcome of these cases is uncertain but, in any event, they would not result in a material ultimate loss for the Company.

18. Capital Surplus

Capital surplus as of December 31, 2005 and December 31, 2004, consist of the following:

		2005		2004
		(in millions of Korean Won)		
Additional paid-in capital	W	463,825	W	463,825
Revaluation surplus		3,233,730		3,213,414
Others		293,854		218,139
	W	3,991,409	W	3,895,378

19. Retained Earnings

Retained earnings as of December 31, 2005 and December 31, 2004, consist of the following:

		2005		2004
		(in millions of Korean Won)		
Appropriated				
Legal reserve	W	241,201	W	241,201
Appropriated retained earnings for business stabilization		918,300		918,300
Other legal reserve		1,303,333		880,000
Voluntary reserve		9,735,199		7,341,899
		12,198,033		9,381,400
Unappropriated		3,959,914		3,469,718
	W	16,157,947	W	12,851,118

Legal Reserve

The Commercial Code of the Republic Korea requires the Company to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid, until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock, or used to reduce accumulated deficit, if any, with the ratification of the Company s majority shareholders.

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Other Legal Reserve

Pursuant to the Special Tax Treatment Control Law, the Company appropriates retained earnings as a reserve for overseas investment loss and research and human resource development. These reserves are not available for dividends, but may be transferred to capital stock, or used to reduce accumulated deficit, if any, with the ratification of the Company s majority shareholders.

Voluntary Reserve

The Company appropriates a certain portion of retained earnings, such as reserve for business rationalization, reserve for business expansion and appropriated retained earnings for dividends, pursuant to a shareholder resolution, as a voluntary reserve. This reserve may be transferred to unappropriated retained earnings by the resolution of shareholders, and may be distributed as dividends after its reversal.

Additional Losses of Minority Interest

Accumulated deficit of SEO MUEUN Development Inc. and POSLILAMA Steel Structure Co., Ltd., affiliates included in the consolidated financial statements, resulted in losses in excess of minority interest amounting to W35,653 million for December 31, 2005 (December 31, 2004: W13,205 million). The additional losses are deducted from the consolidated retained earnings to be charged to the Controlling Company. The Company plans to add any profits resulting from SEO MUEUN Development Inc. and POSLILAMA Steel Structure Co., Ltd. to the Controlling Company s equity until they recover the amount of losses in excess of minority interest.

Dividends

The Company declared dividends, which were approved by the Board of Directors on July 12, 2005. For the year ended December 31, 2004, the Company declared dividends in accordance with the resolution of the Board of Directors on July 23, 2004.

Details of interim and year-end dividends for the years ended December 31, 2005, 2004 and 2003 are as follows:

	2005	2004	2003
	(in millions of Korean Won)		
Interim cash dividends			
Number of shares	W 78,759,934	W 80,707,945	W 81,648,519
Dividend ratio	40%	30%	20%
Dividend amount	157,520	121,062	81,649

	2005	2004	2003
	(in millions of Korean Won)		
Year-end cash dividends			
Number of shares	W80,154,281	W80,503,664	W80,707,945
Dividend ratio	120%	130%	100%
Dividend amount	480,926	523,274	403,540

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Details of the dividends payout ratio and dividends yield ratio for the ended December 31, 2005, 2004 and 2003 are as follows:

	2005		2004		2003	
	Dividend payout ratio	Dividend yield ratio	Dividend payout ratio	Dividend yield ratio	Dividend payout ratio	Dividend yield ratio
Common shares	15.91%	3.96%	16.89%	4.28%	24.31%	3.68%

20. Capital Adjustments

Capital adjustments as of December 31, 2005 and December 31, 2004, consist of the following:

	2005	2004
	(in millions of Korean Won)	
Treasury stock	W (959,205)	W (680,144)
Cumulative foreign currency translation adjustment	4,386	15,912
Valuation loss on investment securities	(196,790)	(486,502)
	W (1,151,609)	W (1,150,734)

As of December 31, 2005, the Company holds 7,096,065 shares of its own common stock amounting to W959,205 million.

The voting rights of treasury stock are restricted in accordance with the Korean Commercial Code of the Republic of Korea. In addition, the Company sold 1,289,347 shares and 36,453 shares of its treasury stock to the association of employee stock ownership on July 26, 2005 and October 25, 2005, as approved by the Board of Directors on July 22, 2005 and October 21, 2005, respectively, and the difference between the fair value and the proceeds from the sale was recognized as welfare expense.

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21. Stock Appreciation Rights

POSCO granted stock appreciation rights to its executive officers in accordance with the stock appreciation rights plan approved by the Board of Directors. The details of the stock appreciation rights granted are as follows:

	1st Grant	2nd Grant	3rd Grant	4th Grant	5th Grant	6th Grant
Before the modifications(1)						
Number of shares	498,000 shares	60,000 shares	22,000 shares	141,500 shares	218,600 shares	90,000 shares
Exercise price	W98,400 per share	W135,800 per share	W115,600 per share	W102,900 per share	W151,700 per share	W194,900 per share
After the modifications(1)						
Grant date	July 23, 2001	April 27, 2002	September 18, 2002	April 26, 2003	July 23, 2004	April 28, 2005
Exercise price	W98,900 per share	W136,400 per share	W116,100 per share	W102,900 per share	W151,700 per share	W194,900 per share
Number of shares granted	453,576 shares	55,896 shares	20,495 shares	135,897 shares	214,228 shares	90,000 shares
Number of shares cancelled	19,409 shares					
Number of shares exercised	338,071 shares	13,971 shares	3,931 shares	60,068 shares		
Number of shares outstanding	96,096 shares	41,925 shares	16,564 shares	75,829 shares	214,228 shares	90,000 shares
Exercise period	July 24, 2003 July 23, 2008	April 28, 2004 April 27, 2009	Sept. 19, 2004 Sept. 18 2009	April 27, 2005 April 26, 2010	July 24, 2006 July 23, 2011	April 29, 2007 April 28, 2012
Settlement method	Cash or stock compensation for the difference between the exercise price and fair market value of the option					

(1) The Company changed the number of shares granted and the exercise price as presented above, in accordance with the resolutions of the Board of Directors dated April 26, 2003, October 17, 2003 and October 22, 2004.

POSCO applied the intrinsic value method to calculate the compensation cost related to the stock appreciation rights, and such compensation costs are accounted as other long-term liabilities and amortized over the vesting period of the stock grants.

The compensation costs for stock appreciation rights granted to employees and executives recognized for the year ended December 31, 2005, and for the future periods are as follows:

	1st Grant	2nd Grant	3rd Grant	4th Grant	5th Grant	6th Grant	Total

	(in millions of Korean Won)						
Prior periods	W 36,297	W 2,851	W 1,461	W 9,663	W 1,695	W	W 51,967
Current year	3,348	898	271	3,572	6,548	310	14,947
Future periods					3,197	607	3,804
	W 39,645	W 3,749	W 1,732	W 13,235	W 11,440	W 917	W 70,718

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The following table summarizes information about appreciation rights granted and expense recognized at the award date:

	2005			2004		
Stock appreciation rights outstanding,	**Number of stock appreciation rights**		**Weighted-average exercise price per share**	**Number of stock appreciation rights**		**Weighted-average exercise price per share**
			(in Korean Won)			
Beginning of year	722,007	W	118,711	638,598	W	103,681
Granted	90,000		194,900	218,600		151,700
Excercised	(277,365)		101,899	(119,888)		98,900
Canceled						
Forfeited				(15,303)		117,973
Stock appreciation rights outstanding, end of year	534,642		140,258	722,007		118,711
Excercisable at the year end	230,414	W	108,276	456,885	W	104,865
Weighted-average fair value at grant date		W	116,176		W	110,179

The following table summarizes information about stock appreciation rights outstanding at December 31, 2005:

	Appreciation rights outstanding			
Exercise prices	**Shares**	**Weighted-average remaining contractual life**		**Weighted-average exercise price per share**
				(in Korean Won)
98,900	96,096	2.56 years	W	98,900
136,400	41,925	3.32 years		136,400
116,100	16,564	3.72 years		116,100
102,900	75,829	4.32 years		102,900
151,700	214,228	5.56 years		151,700
194,900	90,000	6.33 years		194,900
	534,642	4.74 years	W	140,258

POSDATA Co., Ltd. granted (1st grant) stock appreciation rights of 138,000 shares to its executives. However, the outstanding stock appreciation rights have been reduced to 88,000 shares as certain employees and executives have retired as of December 31, 2005. For December 31, 2005, POSDATA Co., Ltd. recognized stock compensation cost amounting to W3,290 million, with no additional stock compensation cost to be recognized in the future.

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22. Derivatives

The Company has entered into various derivatives agreements with financial institutions to hedge currency and commodity price risks. The gains and losses on those derivatives for December 31, 2005, and related contracts outstanding as of December 31, 2005, are as follows:

Company	Type of transaction	Purpose of transaction	Financial institutions	Valuation gain	Valuation loss	Transaction gain	Transaction loss
				(in millions of Korean Won)			
POSCO	Currency forward	Trading	SC Korea First Bank and others	W	W 18,727	W 688	W 861
	Nickel future		Sempra Metal Ltd.			1,674	637
POSCO E&C	Currency forward		Citibank Korea and others	1,546	1,982	600	6,722
Posteel Co.,Ltd.			Hana bank and others			170	37
Pohang Coated Steel Co.,Ltd.			Shinhan Bank		684	112	125
	Option			125		486	564
POSDATA	Currency forward		Korea Exchange Bank			90	12
Changwon Specialty Steel Co.,Ltd.			SC Korea First Bank			37	42
				W 1,671	W 21,393	W 3,857	W 9,000

The gains and losses on currency those derivatives for December 31, 2004, and related contracts outstanding as of December 31, 2004, were as follows:

Company	Type of transaction	Purpose of transaction	Financial institutions	Valuation gain	Valuation loss	Transaction gain	Transaction loss
				(in millions of Korean Won)			
POSCO	Currency swap	Trading	Citibank Korea and others	W	W	W 683	W
	Nickel future		Sempra Metal Ltd.			2,800	5,980
	Currency forward		CALYON	6		597	1,092
POSCO E&C			Citibank Korea and others	9,588	2,646	4,900	1,499
Posteel Co., Ltd.			Citibank Korea			328	694

Pohang Coated Steel Co., Ltd.	Shinhan Bank			3,106	67
Changwon Specialty Steel Co.,Ltd.	SC Korea First Bank			38	
		W 9,594	W 2,646	W 12,452	W 9,332

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The gains and losses on currency those derivatives for December 31, 2003, and related contracts outstanding as of December 31, 2003, were as follows:

Company	Type of transaction	Purpose of transaction	Financial institutions	Valuation gain	Valuation loss	Transaction gain	Transaction loss
POSCO	Currency swap	Fair market value hedge(1)	Citibank Korea and others	W	W 29,693	W	W
POSCO	Currency forward	Trading	The Bank of New York			451	
POSCO	Nickel forward	Cash flow hedge	Sempra Metal., Ltd	4,153			
POSCO E&C	Currency forward	Fair market value hedge(1)	Citibank Korea and others	2,646	1,066	936	124
Posteel Co., Ltd.		Trading	Hana Bank	12	22	305	329
Pohang Coated Steel Co.,Ltd.			Shinhan Bank	189		789	1,180
Changwon Specialty Steel Co.,Ltd.		Fair market value hedge(1)	Korea First Bank	2			27
				W 7,002	W 30,781	W 2,481	W 1,660

(1) Accounted for as trading, since the criteria for hedge accounting are not met.

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23. Selling and Administrative Expenses

Selling and administrative expenses for December 31, 2005, 2004 and 2003, consist of the following:

	2005	2004	2003
	(in millions of Korean Won)		
Transportation and storage	W 492,921	W 493,790	W 445,723
Salaries	168,746	149,153	142,400
Welfare	116,542	103,638	75,730
Depreciation and amortization	60,742	68,145	65,384
Fees and charges	122,204	76,710	54,662
Advertising	98,158	49,382	40,681
Research and development	52,545	70,949	56,825
Severance benefits	29,475	25,051	21,217
Sales commissions	23,409	18,286	18,759
Travel	18,808	18,530	16,075
Rent	16,345	17,287	12,554
Repairs	14,736	20,047	9,159
Training	17,367	11,765	11,835
Office supplies	7,654	8,103	5,660
Provision for doubtful accounts	104,310	53,671	8,955
Meeting	9,680	8,576	8,098
Taxes and public dues	14,914	13,661	11,534
Vehicle expenses	2,155	6,509	5,983
Membership fees	8,876	5,391	5,294
Sales promotions	5,745	6,474	6,333
Entertainment	7,315	6,444	5,796
Others	58,670	61,366	46,813
	W 1,451,317	W 1,292,928	W 1,075,470

24. Donations

Donations by the Company for December 31, 2005, 2004 and 2003, consist of the following:

	2005	2004	2003
	(in millions of Korean Won)		
Pohang University of Science and Technology	W 17,050	W 32,479	W 2,267
POSCO Educational Foundation	33,000	39,500	38,800
POSCO Welfare Fund	69,960	58,000	
Others	33,008	39,567	62,124
	W 153,018	W 169,546	W 103,191

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25. Income Taxes

Income tax expense for December 31, 2005, 2004 and 2003, consist of the following:

	2005	2004	2003
	(in millions of Korean Won)		
Current income taxes	W 1,610,278	W 1,361,874	W 746,482
Deferred income taxes	(127,839)	139,772	(16,212)
	W 1,482,439	W 1,501,646	W 730,270

The following table reconciles income tax expense computed at the statutory rates to the actual income tax expense recorded by the Company:

	2005	2004	2003
	(in millions of Korean Won)		
Net income before income tax expense	W 5,488,189	W 5,342,910	W 2,747,270
Statutory tax rate (%)	27.5	29.7	29.7
Income tax expense computed at statutory rate	1,509,240	1,586,844	815,939
Tax credit	(215,892)	(161,939)	(99,109)
Others, net	189,091	76,741	13,440
Income tax expense	W 1,482,439	W 1,501,646	W 730,270
Effective rate (%)	27.01	28.11	26.58

In 2005, National Tax Service audited the Company s corporate income tax returns for the years 2000 to 2004. As a result of the audit, the Company recognized the expected additional income taxes amounting to W178,598 million in its income statement as a non-operating expense for the year ended December 31, 2005. On March 10, 2006, the Company received the additional income taxes bill imposed by Daegu regional office of National Tax Service.

In accordance with the SKFAS No. 17, *Deferred Income Tax,* which became applicable to the Company on January 1, 2005, income tax effect of temporary differences in relation to an item in the shareholders equity is recorded as part of the related shareholders equity item. Due to the change in accounting policy, capital adjustment decreased by W6,882 million, deferred tax assets increased by W158,030 million and deferred tax liabilities increased by W163,343 million. There is no effect on net income.

26. Earnings Per Share

Basic earnings per share is computed by dividing net income allocated to common stock by the weighted average number of common shares outstanding during the year. Basic ordinary income per share is computed by dividing ordinary income allocated to common stock as adjusted by extraordinary gains or losses and net of related income taxes, by the weighted average number of common shares outstanding during the year.

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Period	Number of shares issued	Number of days outstanding	Weighted number of shares
Beginning balance(1)	80,503,664	365	29,383,837,360
Acquisition treasury stock	412,894	(2)	(476,518,019)
			28,907,319,341

Period	Weighted-Average Number of Common Shares
For period 2005:	28,907,319,341 ÷ 365 = 79,198,135
For period 2004:	29,585,862,618 ÷ 366 = 80,835,690

(1) Beginning number of common shares excludes 6,683,171 treasury shares

(2) The Company s net acquisition of treasury shares is 412,894 during the year ended December 31, 2005. For the computation of weighted average number of common shares outstanding, the number of treasury shares was excluded.

Ordinary Income per share for the years ended December 31, 2005 and 2004, and 2003 are calculated as follows:

	2005	2004	2003
	(in millions of Korean Won, except per share amounts)		
Ordinary income	W 4,011,547	W 3,811,843	W 1,995,983
Weighted-average number of common shares outstanding	79,198,135	80,835,690	81,483,634
Basic earnings and ordinary income per share	W 50,652	W 47,155	W 24,496

Earnings per share for the years ended December 31, 2005, 2004 and 2003 are calculated as follows:

	2005	2004	2003
	(in millions of Korean Won, except per share amounts)		
Ordinary income	W 4,011,547	W 3,814,225	W 1,995,983
Weighted-average number of common shares outstanding	79,198,135	80,835,690	81,483,634
Basic earnings and ordinary income per share	W 50,652	W 47,185	W 24,496

Diluted Earnings Per Share

Diluted earnings per share for the years ended December 31, 2005, 2004 and 2003 are identical to basic earnings per share, since there is no dilutive effect resulting from the stock option plan as of December 31, 2005, 2004 and 2003.

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27. Assets and Liabilities Denominated in Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies as of December 31, 2005 and December 31, 2004, are as follows:

		2005		2004
		Foreign currency(3)	Won equivalent	Won equivalent
		(in millions of Korean Won except for foreign currencies)		
Assets				
Cash and cash equivalents(1)	US$	316,844,860	W 320,964	W 38,628
	JPY	31,940,745	275	9
	Overseas subsidiaries (US$)	280,573,968	284,221	218,143
Trade accounts and notes receivable	US$	545,530,525	552,622	330,210
	JPY	3,710,469,500	31,912	42,382
	EUR	3,621,507	4,346	934
	Overseas subsidiaries (US$)	241,600,285	244,741	317,097
Other accounts and notes receivable	US$	9,936,621	10,066	18,793
	JPY	39,080,774	336	104
	Overseas subsidiaries (US$)	18,526	18,526	8,339
Short-term and long-term loans receivable	Overseas subsidiaries (US$)	19,054,227	19,302	72,461
Long-term trade accounts and notes receivable	US$			
	Overseas subsidiaries (US$)	70,513	71	74
Investment securities(2)	US$			1,044
	Overseas subsidiaries (US$)	37,020,904	37,502	25,134
Guarantee deposits	US$	327,939	332	462
	Overseas subsidiaries (US$)	1,288,796	1,306	1,317
			W 1,526,522	W 1,075,131

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		Foreign currency(3)	20 W- 05 on equivalent	2004 --W------------ on equivalent
		(in millions of Korean Won except for foreign currencies)		
Liabilities				
Trade accounts and notes payable	US$	772,264,663	W 782,304	W 274,779
	JPY	2,274,827,010	19,564	5,358
	EUR	11,011,238	13,215	7,304
	Overseas subsidiaries (US$)	71,589,380	72,520	110,338
Other accounts and notes payable	US$	7,501,251	7,599	7,595
	JPY	305,046,967	2,624	2,780
	EUR	4,113,498	4,937	508
	Overseas subsidiaries (US$)	357,715	362	432
Accrued expenses	US$	8,480,609	8,591	225,902
	Overseas subsidiaries (US$)	18,543,504	18,785	10,731
Short-term borrowings	US$	10,290,216	10,424	15,875
	JPY	300,000,000	2,580	
	Overseas subsidiaries (US$)	622,526,933	630,620	520,292
Withholdings	US$	4,960,814	5,025	5,335
	JPY	81,416,567	700	371
	EUR	5,662,370	6,796	6,814
	Overseas subsidiaries (US$)	7,263,637	7,358	562
Debentures(2),(4)	US$	260,165,000	263,547	481,938
	JPY	81,622,000,000	701,982	826,072
Foreign currency loans(4)	JPY	2,803,297,214	24,109	32,221
	Overseas subsidiaries (US$)	374,942,894	379,817	256,404
Loans from foreign financial institutions(4)	US$	19,180,930	19,430	24,470
	EUR	21,446,351	25,739	36,146
				28

Overseas subsidiaries (US$)		
	W 3,008,628	W 2,852,255

(1) Includes cash and cash equivalents, short-term financial instruments and long-term financial instruments.

(2) Presented at face value.

(3) Currencies other than US$, JPY, and EUR have been converted into US$ while the amounts of overseas subsidiaries are converted into US$.

(4) Includes current portion of long-term debts.

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28. Related Party Transactions

Significant transactions, which occurred in the ordinary course of business, with consolidated subsidiaries for the years ended December 31, 2005, 2004 and 2003, and the related account balances as of December 31, 2005 and December 31, 2004, are as follows:

	Sales and others(1)			Purchases and others(1)		
	2005	2004	2003	2005	2004	2003
	(in millions of Korean Won)					
POSCO E&C	W 3,758	W 9,317	W 4,834	W 1,732,462	W 891,474	W 314,456
Posteel Co., Ltd.	1,030,276	919,618	870,792	86,005	67,193	35,681
POSCON Co., Ltd.	131	139	72	235,232	194,847	167,642
Pohang Steel Co., Ltd.	426,007	303,425	251,137	1,105	271	1,576
POSCO Machinery & Engineering Co., Ltd.	92	5,001	65	160,787	116,424	102,099
POSDATA Co., Ltd.	1,009	989	857	182,149	209,839	206,562
POSCO Research Institute				14,350	13,203	11,694
Seung Kwang Co., Ltd.				110	35	60
POS-AC Co., Ltd.	566	517	450	29,554	20,980	9,150
Changwon Specialty Steel Co., Ltd.	3,440	31	77	53,618	75,984	57,557
POSCO Machinery Co., Ltd.	121	116	126	107,648	95,892	80,908
POSCO Refractories & Environment(POSREC)	261	137	122	195,329	173,917	154,404
POSTECH Venture Capital Co., Ltd.	63	59	54			
Pohang Steel America Corporation (POSAM)	97,920	33,446				107
POSCO Australia Pty. Ltd. (POSA)	10,163	1,115		31,305	41,673	157,641
POSCO Canada Ltd. (POSCAN)				102,841	56,143	39,664
POSCO Asia Co., Ltd. (POA)	552,694	573,772	367,998	130,871	146,016	111,889
Zhangjiagang Pohang Stainless Steel Co., Ltd.	723,522	714,832	349,723			
POSCO-Japan Co., Ltd.	544,636	409,845	226,276	75,604	30,846	10,922
Others	317,176	86,821	33,110	338,718		
	W 3,711,835	W 3,059,180	W 2,105,693	W 3,477,688	W 2,134,737	W 1,462,012

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	Receivables(2)		Payables(2)	
	2005	2004	2005	2004
	(in millions of Korean Won)			
POSCO E&C	53	82,889	193,856	237,283
Posteel Co., Ltd.	111,790	122,260	1,760	1,876
POSCON Co., Ltd.	1	15,172	28,638	43,050
Pohang Steel Co., Ltd.	33,896	43,021	66	1
POSCO Machinery & Engineering Co., Ltd.	4	2,270	14,449	27,879
POSDATA Co., Ltd.	43	442	26,709	30,782
POSCO Research Institute			2,674	7,224
Seung Kwang Co., Ltd.	2,063	2,038		
POS-AC Co., Ltd.	1		888	663
Changwon Specialty Steel Co., Ltd.	1,231	1	2,119	6,692
POSCO Machinery Co., Ltd.	1	4,300	9,863	19,767
POSCO Refractories & Environment (POSREC)	17	19	23,774	23,526
POSTECH Venture Capital Co., Ltd.			53	
Pohang Steel America Corporation (POSAM)	9			
POSCO Australia Pty. Ltd. (POSA)	618	24		
POSCO Canada Ltd. (POSCAN)		16	5,726	
POSCO Asia Co., Ltd. (POA)	8,749	29,866	6,931	4,730
VSC-POSCO Steel Corporation (VPS)		11		
DALIAN POSCO-CFM Coil Center Co., Ltd.				
Zhangjiagang Pohang Stainless Steel Co., Ltd.	175,415	16,486		
POSCO-Japan Co., Ltd.	19,599	18,751	1,542	1,722
Others	97,123		28,772	
	W 450,613	W 337,566	W 347,820	W 405,195

(1) Sales and others include sales, non-operating income and others; purchases and others include purchases, overhead expenses and others.

(2) Receivables include trade accounts, other accounts receivable and others; payables include trade accounts, other accounts payable and others.

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Significant transactions, which occurred in the ordinary course of business, with equity method investees for the years ended December 31, 2005, 2004 and 2003, and related account balances as of December 31, 2005 and December 31, 2004, are as follows:

	Sales and others(1)			Purchases and others(1)		
	2005	2004	2003	2005	2004	2003
	(in millions of Korean Won)					
eNtoB Corporation	W	W	W	W 170,258	W 131,377	W 69,072
KOBRASCO				202,262	104,848	99,498
POSCHROME				45,043	51,820	33,267
Posmmit Steel Centre SDN BHD (POS-MMIT)	10,229	7,655	480			
PT POSMI Steel Indonesia		5				
POSVINA Co., Ltd.	11,239	12,599	7,281			
USS POSCO Industries (UPI)	312,377	365,362	239,294			16
Shunde Xingpu Steel Center Co., Ltd.			219			
MIDAS Information Technology., Ltd.					15	99
	W 333,845	W 385,621	W 247,274	W 417,563	W 288,060	W 201,952

	Receivables(2)		Payables(2)	
	2005	2004	2005	2004
	(in millions of Korean Won)			
eNtoB Corporation	W	W	W 2,329	W 3,286
KOBRASCO				2,584
POSCHROME			4,719	
Posmmit Steel Centre SDN BHD (POS-MMIT)	29			
PT POSMI Steel Indonesia				
POSVINA Co., Ltd.	1,100	4		
USS POSCO Industries (UPI)				
MIDAS Information Technology., Ltd.				
	W 1,129	W 4	W 7,048	W 5,870

(1)

Sales and others include sales, non-operating income and others; purchases and others include purchases, overhead expenses and others.

(2) Receivables include trade accounts, other accounts receivable and others; payables include trade accounts, other accounts payable and others.

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Eliminations of inter-company revenues and expenses for the years ended December 31, 2005, 2004 and 2003 are as follows:

	Revenues		
	2005	**2004**	**2003**
	(in millions of Korean Won)		
Sales	W 8,293,069	W 5,982,359	W 4,115,235
Interest income	1,322	2,242	485
Rental income	1,014	727	612
Others	3,074	3,693	3,023
	W 8,298,479	W 5,989,021	W 4,119,355

	Expenses		
	2005	**2004**	**2003**
	(in millions of Korean Won)		
Cost of goods sold	W 8,094,089	W 5,849,925	W 4,007,975
Interest expense	3,778	2,272	495
Selling and administrative expenses	156,157	120,428	109,011
Others	44,455	16,396	1,874
	W 8,298,479	W 5,989,021	W 4,119,355

Eliminations of significant inter-company receivables and payables for the years ended December 31, 2005 and for the year December 31, 2004, are as follows:

	2005	**2004**
	(in millions of Korean Won)	
Trade accounts and notes payable	W 728,395	W 412,421
Short-term borrowings	28,064	19,959
Other accounts and notes payable	269,287	265,881
Long-term debts	23,557	50,435
Other liabilities	284,829	114,934
	W 1,334,132	W 863,630

		2005		2004
		(in millions of Korean Won)		
Trade accounts and notes receivable	W	1,046,732	W	676,744
Short-term loans receivable		36,310		20,628
Other accounts and notes receivable		5,415		296
Long-term loans receivable		37,359		51,032
Other assets		208,316		114,930
	W	1,334,132	W	863,630

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29. Segment and Regional Information

The following table provides information on the significant financial status of each operating segment of the consolidated subsidiaries as of and for the years ended December 31, 2005:

	Steel	Trading	Others	Consolidation adjustment	Consolidated
			(in millions of Korean Won)		
Statement of income					
External customers	W 24,841,038	W 3,373,587	W 6,380,232	W (8,293,069)	W 26,301,788
Less: Inter-segment	(3,974,711)	(990,743)	(3,327,616)	8,293,069	
Net sales	W 20,866,327	W 2,382,844	W 3,052,616	W	W 26,301,788
Operating income	W 5,879,972	W 24,453	W 436,583	W (257,732)	W 6,083,276
Depreciation and amortization and others	1,606,140	7,346	83,899	(84,831)	1,612,554
Balance sheet					
Inventories	3,264,059	102,569	531,519	(105,553)	3,792,594
Investments	4,660,946	273,938	818,018	(2,611,346)	3,141,556
Property, plant and equipment	12,216,465	213,681	642,283	(800,719)	12,271,710
Intangible assets	326,768	505	137,251	(10,815)	453,709

The following table provides information on the significant financial status of each operating segment of the consolidated subsidiaries as of and for the years ended December 31, 2004:

	Steel	Trading	Others	Consolidation adjustment	Consolidated
			(in millions of Korean Won)		
Statement of income					
External customers	W 22,624,977	W 2,986,345	W 4,344,090	W (5,982,359)	W 23,973,053
Less: Inter-segment	(3,322,773)	(626,579)	(2,033,007)	5,982,359	
Net sales	W 19,302,204	W 2,359,766	W 2,311,083	W	W 23,973,053
Operating income	W 5,174,877	W 34,770	W 190,245	W (80,472)	W 5,319,420
Depreciation and amortization and others	1,553,238	7,933	77,904	(73,624)	1,565,451
Balance sheet					
Inventories	2,534,497	72,463	515,567	(57,006)	3,065,521
Investments	4,087,223	282,491	633,453	(2,298,629)	2,704,538
Property, plant and equipment	10,189,473	230,082	586,270	(565,534)	10,440,291
Intangible assets	410,170	1,515	97,100	(12,470)	496,315

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The following table provides information on the significant financial status of each operating segment of the consolidated subsidiaries as of and for the years ended December 31, 2003:

	Steel	Trading	Others	Consolidation adjustment	Consolidated
			(in millions of Korean Won)		
Statement of income					
External customers	W 16,503,386	W 2,384,952	W 3,016,135	W (4,115,236)	W 17,789,237
Less: Inter-segment	(2,241,755)	(599,615)	(1,273,866)	4,115,236	
Net sales	14,261,631	W 1,785,337	W 1,742,269	W -	W 17,789,237
Balance sheet					
Inventories	1,867,743	W 51,638	W 160,389	W (11,399)	W 2,068,371
Investments	4,056,692	308,349	501,454	(2,039,817)	2,826,678
Property, plant and equipment	9,549,746	206,416	612,625	(523,010)	9,845,777
Intangible assets	402,439	2,351	79,593	(9,887)	474,496

Substantially all of the Company s operations are for the production of steel products. Net sales for the years ended December 31, 2005, 2004 and 2003, and non-current assets by geographic location as of December 31, 2005, 2004 and 2003, are as follows:

	Sales(1)		Non-current assets	
	2005	2004	2005	2004
		(in millions of Korean Won)		
Korea	W 18,566,060	W 16,738,372	W 17,614,231	W 15,295,486
Japan	1,371,510	1,163,541	72,177	84,640
China	3,117,909	3,315,789	1,204,250	813,798
Asia/Pacific, excluding Japan and China	1,502,205	1,257,108	113,167	108,119
North America	550,331	529,080	188,345	153,919
Others	1,193,773	969,163	97,684	61,815
Consolidation adjustments			(3,422,880)	(2,876,632)
	W 26,301,788	W 23,973,053	W 15,866,974	W 13,641,145

(1) Represent revenues, net of consolidation adjustments, incurred based on customers locations instead of the Company and subsidiaries locations.

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Condensed consolidated balance sheets categorized by types of business are as follows:

	2005	
	Non-financial Institution	**Financial Institution**
	(in millions of Korean Won)	
Assets		
Current assets	W 11,618,851	W 48,841
Non-Current assets	15,867,586	134,292
Investment assets	3,142,196	134,263
Property, plant and equipment	12,271,681	29
Intangible assets	453,709	
Total Assets	27,486,437	183,133
Liabilities		
Current liabilities	5,840,863	83,784
Non-Current liabilities	1,780,441	74
Total Liabilities	7,621,304	83,858
Shareholders equity		
Common stock	482,403	83,187
Capital surplus	3,990,266	
Retained earnings	16,161,090	19,017
Capital adjustments	(1,153,744)	(2,929)
Minority interest	385,118	
Total shareholders equity	19,865,133	99,275
Total liabilities and shareholders equity	W 27,486,437	W 183,133

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Condensed consolidated statements of income categorized by types of business are as follows:

	2005	
	Non-financial Institution	Financial Institution
	(in millions of Korean Won)	
Sales	W 26,297,284	W 6,890
Cost of goods sold	(18,763,918)	(3,177)
Selling and administrative expenses	(1,449,750)	(1,666)
Operating income	6,083,616	2,047
Non-operating income	786,485	560
Non-operating expenses	(1,380,580)	(4,736)
Net income (loss) before income tax expense and minority interest	5,489,521	(2,129)
Income tax expense	(1,483,725)	(1,286)
Net income before minority interest	4,005,796	(843)
Minority interest in income of consolidated subsidiaries	(5,626)	
Net income (loss)	W 4,011,422	W (843)

30. Operating Results for the Final Interim Period

Significant operating results for the quarter ended December 31, 2005, are as follows:

	Unaudited
	(in millions of Korean Won, except per share amount)
Sales	W 6,535,114
Cost of sales	5,004,931
Operating income	1,108,800
Net income	377,935
Ordinary income per share	4,792
Net income per share	4,792

31. Reclassification of Prior Periods Financial Statements

Certain amounts in financial statements as of and for the year ended December 31, 2004, have been reclassified to conform to the December 31, 2005 financial statement presentation. These reclassifications had no effect on previously reported net income or shareholders equity.

32. Issuance of POSCO ADSs on the Tokyo Stock Exchange

As approved by the Board of Directors on July 12, 2005, the Company issued 14,000,000 American Depository Shares (ADSs) representing 3,500,000 shares of the Company s common stocks. Each ADS represents the one-fourth of one share of common stock. The Korea Securities Depository has the custody of underlying common stocks and the Bank of New York is the depository of POSCO ADSs. POSCO ADSs listed on the Tokyo Stock Exchange, from which the Company received a listing approval on October 24, 2005. Subscription is scheduled for three days from November 16, 2005 to November 18,

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2005, with the payment for subscription to be made on November 21, 2005. POSCO ADSs have been available for trading on the Tokyo Stock Exchange beginning November 22, 2005.

33. Significant Differences between Korean GAAP and U.S. GAAP

Reconciliation to U.S. Generally Accepted Accounting Principles

The consolidated financial statements of the Company are prepared in accordance with generally accepted accounting principles in the Republic of Korea (Korean GAAP), which differs in certain material respects from generally accepted accounting principles in the United States of America (U.S. GAAP). Application of U.S. GAAP would have affected the balance sheets as of December 31, 2005 and 2004 and the net income for the three year periods ended December 31, 2005, 2004 and 2003 to the extent described below.

A description of the material differences between Korean GAAP and U.S. GAAP as they relate to the Company are discussed in detail below.

(a) Reconciliation of net income from Korean GAAP to U.S. GAAP

	Adjustments before income tax	Income tax effect	Adjustments after income tax
	(in millions of Korean Won, except share data)		
For the year ended December 31, 2005			
Net income under Korean GAAP			W 4,011,546
Adjustments			
Fixed asset revaluation	W 19,301	W (5,222)	14,079
Capitalized costs	15,381	(4,230)	11,151
Capitalized repairs	(5,312)	1,461	(3,851)
Investment securities	81,659	(22,456)	59,203
Amortization of goodwill	8,875	(2,441)	6,434
Others, net	4,187	(1,151)	3,036
	W 124,091	W (34,039)	W 90,052
Net income as adjusted in accordance with U.S. GAAP			W 4,101,598
Basic and diluted earnings per share, as adjusted, in accordance with U.S. GAAP			W 51,789
Weighted-average shares outstanding			79,198,135

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	Adjustments before income tax	Income tax effect	Adjustments after income tax
		(in millions of Korean Won, except share data)	
For the year ended December 31, 2004			
Net income under Korean GAAP			W 3,814,225
Adjustments			
Fixed asset revaluation	W 26,428	W (6,840)	19,588
Capitalized costs	47,458	(13,051)	34,407
Capitalized repairs	(9,422)	2,591	(6,831)
Investment securities	(557,615)	153,344	(404,271)
Others, net	4,270	(1,174)	3,096
	W (488,881)	W 134,870	W (354,011)
Net income as adjusted in accordance with U.S. GAAP			W 3,460,214
Basic and diluted earnings per share, as adjusted, in accordance with U.S. GAAP			W 42,806
Weighted-average shares outstanding			80,835,690

	Adjustments before income tax	Income tax effect	Adjustments after income tax
		(in millions of Korean Won, except share data)	
For the year ended December 31, 2003			
Net income under Korean GAAP			W 1,995,983
Adjustments			
Fixed asset revaluation	W 26,351	W (7,826)	18,525
Capitalized costs	16,187	(4,808)	11,379
Capitalized repairs	(9,721)	2,887	(6,834)
Investment securities	(22,557)	6,699	(15,858)
Others, net	(8,773)	2,606	(6,167)
	W 1,487	W (442)	W 1,045
Net income as adjusted in accordance with U.S. GAAP			W 1,997,028
Basic and diluted earnings per share, as adjusted, in accordance with U.S. GAAP			W 24,508

Weighted-average shares outstanding	81,483,634

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(b) Reconciliation of shareholders equity from Korean GAAP to U.S. GAAP

	Adjustments before income tax	Income tax effect	Adjustments after income tax
	(in millions of Korean Won)		
As of December 31, 2005			
Shareholders equity under Korean GAAP			W 19,866,916
Less: Minority interest			(386,766)
			19,480,150
Adjustments			
Fixed asset revaluation	W (175,907)	W 25,528	(150,379)
Capitalized costs	286,208	(78,707)	207,501
Capitalized repairs	3,724	(1,024)	2,700
Investment securities	(66,594)	18,313	(48,281)
Amortization of goodwill	8,875	(2,441)	6,434
Others, net	60	(16)	44
	W 56,366	W (38,347)	W 18,019
Shareholders equity, as adjusted, in accordance with U.S. GAAP			W 19,498,169

	Adjustments before income tax	Income tax effect	Adjustments after income tax
	(in millions of Korean Won)		
As of December 31, 2004			
Shareholders equity under Korean GAAP			W 16,386,056
Less: Minority interest			(307,891)
			16,078,165
Adjustments			
Fixed asset revaluation	W (195,045)	W 30,705	(164,340)
Capitalized costs	270,827	(74,477)	196,350
Capitalized repairs	9,036	(2,485)	6,551
Investment securities	(48,399)	214,510	166,111
Others, net	(4,127)	1,135	(2,992)
Deferred taxes related to OCI			(71,788)
	W 32,292	W 169,388	W 129,892

Shareholders equity, as adjusted, in accordance with U.S. GAAP	W 16,208,057

(c) Fixed asset revaluation

Under Korean GAAP, certain fixed assets were subject to upward revaluations in accordance with the Asset Revaluation Law, with the revaluation increment credited to capital surplus. As a result of this revaluation, depreciation expense on these assets was adjusted to reflect the increased basis. Under U.S. GAAP, such a revaluation is not permitted and depreciation expense should be based on historical

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cost. When assets are sold, any revaluation surplus related to those assets under Korean GAAP would be reflected in income as additional gain on sale of assets under U.S. GAAP.

(d) Capitalized costs

Under Korean GAAP, the Company capitalizes certain foreign exchange gains and losses on borrowings associated with property, plant and equipment during the construction period. Under U.S. GAAP, all foreign exchange gains and losses are included in the results of operations for the current period. No foreign exchange gains and losses have been capitalized as of December 31, 2005, 2004 and 2003 under Korean GAAP. Depreciation of net capitalized foreign exchange gains and losses carried forward from prior periods amounted to W8,097 million, W20,611 million and W20,611 million in 2005, 2004 and 2003, respectively.

In addition, effective from the period beginning after December 31, 2002, under Korean GAAP, interest costs that would have been theoretically avoided had expenditures not been made for assets which require a period of time to prepare them for their intended use are generally expensed as incurred, except when certain criteria are met for capitalization. The Company has adopted this application and expensed financing costs subject to the capitalization. Under U.S. GAAP, the Company is required to capitalize such amount. Capital projects that have had their progress halted would suspend the capitalization of interest and would also delay the accumulation of depreciation during the suspense period.

Capitalized interest for the years ended December 31, 2005, 2004 and 2003 are as follows:

	2005	2004	2003
	(in millions of Korean Won)		
Capitalized interest	W 86,269	W 84,948	W 54,386
Depreciation of capitalized interest	(60,581)	(55,871)	(54,857)
Net income impact	W 25,688	W 29,077	W (471)

Under Korean GAAP, research and development costs, organization costs and internal use software costs have been recorded as intangible assets and amortized over a period not exceeding 20 years. Under U.S. GAAP, organization costs as well as research and developments costs are generally expensed as incurred. In addition, certain costs incurred for software developed for internal use, U.S. GAAP requires that costs incurred in the preliminary project stage be expensed as incurred. External direct costs such as material and service, payroll or payroll related costs for employees who are directly associated with the project, and interest costs incurred when developing computer software for internal use, should be capitalized and amortized on a straight-line method over the estimated useful life. Training costs, data conversion costs and general administrative costs should be expensed as incurred.

U.S. GAAP reconciliation adjustments for the capitalization and amortization of intangible assets which arose mostly from research and development cost for the years ended December 31, 2005, 2004 and 2003 are as follows:

	2005	2004	2003
	(in millions of Korean Won)		
Net income impact	W (18,404)	W (2,230)	W (3,953)

(e) Capitalized repairs

Under Korean GAAP, repair costs associated with the Company s furnaces are expensed as incurred, regardless of the nature of the expenditure. U.S. GAAP requires that repairs that extend an asset s useful

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Notes to Consolidated Financial Statements (Continued)
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life or significantly increase its value be capitalized when incurred and depreciated. Routine maintenance and repairs are expensed as incurred. No repair costs have been capitalized as of December 31, 2005, 2004 and 2003 under Korean GAAP. Depreciation of capitalized repairs carried forward from prior periods has been recorded.

(f) Guarantees

Under Korean GAAP, the guarantor is required to disclose guarantees, including indirect guarantees of indebtedness of others. Under U.S. GAAP, the guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee for guarantees issued or modified after December 31, 2002. As of December 31, 2005, the guarantees issued or modified after December 31, 2002 by the Company for the repayment of loans amounts to W81,541 million, excluding guarantees issued either between parents and their subsidiaries or between corporations under common control (Note 17). The fair value of the liability recorded at the inception is amortized into income over the life of the guarantee contract. The Company has recognized the fair value of liabilities net of amortization amounting to W1,732 million, W(559) million and W(2,396) million for the years ended December 31, 2005, 2004 and 2003, respectively. This adjustment is included in Others, net.

(g) Stock Appreciation Rights

Under Korean GAAP, the intrinsic value method for awards that call for settlement in cash, shares, or a combination of both measures compensation at the end of each period as the amount by which the moving weighted average of quoted market value of the shares of the enterprise s stock covered by a grant exceeds the option price. The moving weighted average of quoted market value is calculated based on the weighted average market price of last one week, last one month and last two months of each period. Under U.S. GAAP, accounting for stock appreciation rights requires compensation for awards that call for settlement in cash, shares, or a combination of both to be measured at the end of each period as the amount by which the quoted market value of the shares of the enterprise s stock covered by a grant exceeds the option price.

U.S. GAAP reconciliation adjustments for stock appreciation rights granted to employees and executives recognized for the years ended December 31, 2005, 2004 and 2003 are included in Others, net and are as follows:

	2005	2004	2003
	(in millions of Korean Won)		
Net income impact	W 2,455	W 4,829	W (6,001)

The total stock compensation expense under U.S. GAAP for the years ended December 31, 2005, 2004 and 2003 are W(12,027) million, W9,810 million and W24,894 million, respectively.

(h) Investment Securities

The differences in accounting for investment securities relate to (i) recognition of an impairment loss under U.S. GAAP but not under Korean GAAP and (2) Recognition of gain on disposal of available for sale investments.

(i) Recognition of an impairment loss

Under Korean GAAP, if the fair value of investments classified as either available-for-sale or held to maturity permanently declines compared to its acquisition cost as evidenced by events such as bankruptcy,

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POSCO AND SUBSIDIARIES
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liquidation, negative net asset values and cessation of operations, the carrying value of the debt or equity security is adjusted to fair value, with the resulting impairment loss charged to current operations. If the fair value of the security subsequently recovers, a gain is recognized up to the amount of previously recognized impairment loss.

Under U.S. GAAP, if the decline in fair value of investments classified as either available-for-sale of held to maturity is determined to be other-than-temporary, the cost basis of the individual security is written down to fair value as the new cost basis and the amount of the impairment loss is charged to current operations. In addition, U.S. GAAP prohibits gain recognition based on subsequent recoveries of previously impaired investments.

Both Korean GAAP and U.S. GAAP requires that all unrealized gains and losses arising from available-for-sale securities be recorded in accumulated other comprehensive income.

As a result of the above differences, the Company recognized an impairment loss recorded in the statement of income on available-for-sale securities under U.S. GAAP of W7,881 for which the decline in fair value was considered to be other-than-temporary under U.S. GAAP but not permanently impaired under Korean GAAP. This U.S. GAAP adjustment also results in a reclassification adjustment within accumulated other comprehensive income, resulting in higher unrealized losses under Korean GAAP, compared to U.S. GAAP.

No other-than-temporary impairment is recorded for held-to-maturity securities as of December 31, 2005, 2004 and 2003.

(ii) Recognition of gain on disposal of available for sale investments

The Company disposed of certain securities that had been previously impaired under U.S. GAAP purposes. The fair value of these securities subsequently recovered resulting in the reversal of the impairment under Korean GAAP. As a result, the Company s cost basis relating to those securities was higher under Korean GAAP than under U.S. GAAP. This difference in cost basis resulted in a gain of W89,541 under U.S. GAAP upon disposal.

A summary of the U.S. GAAP adjustments relating to investment securities for the years ended December 31, 2005, 2004 and 2003 follows:

	2005	2004	2003
	(in millions of Korean Won)		
Impairment loss	W (7,882)	W (562,838)	W (24,766)
Recognition of gains on disposal	89,541	5,223	2,209
Net income impact	W 81,659	W (557,615)	W (22,557)

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Notes to Consolidated Financial Statements (Continued)
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Information with respect to available-for-sale debt and equity securities as of December 31, 2005, 2004 and 2003 is as follows:

Available-for-Sale Securities:

	2005	2004	2003
	(in millions of Korean Won)		
Book value	W 1,864,297	W 2,261,620	W 2,315,508
Unrealized gains and losses	328,276	47,272	(157,844)
Permanent impairment loss	(11,605)	(3,190)	(10,651)
Fair value (Korean GAAP)	2,180,968	2,305,702	2,147,013
Other-than-temporary impairment	(66,594)	(48,399)	(38,118)
Fair value (US GAAP)	W 2,114,374	W 2,257,303	W 2,108,895

No other-than-temporary impairment is recorded for held-to-maturity securities as of December 31, 2005, 2004 and 2003.

(i) Goodwill

Under Korean GAAP, goodwill is amortized over the useful life during which future economic benefits are expected to flow to the enterprise, not exceeding twenty years. The Company amortizes goodwill over five years using straight-line method. Under U.S. GAAP, goodwill is not subject to amortization rather an impairment test is required at least annually.

(j) Deferred Income Taxes

In general, accounting for deferred income taxes is substantially the same between Korean GAAP and U.S. GAAP. The Company is also required to recognize the additional deferred tax effects that result from differences between the reported Korean GAAP and U.S. GAAP amounts.

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34. Additional Financial Information in Accordance with U.S. GAAP

(a) Deferred taxes in accordance with U.S. GAAP

The tax effects of temporary differences that resulted in significant portions of the deferred tax assets and liabilities at December 31, 2005 and 2004, computed under U.S. GAAP, and a description of the financial statement items that created these differences are as follows:

	2005	2004
	(in millions of Korean Won)	
Deferred tax assets		
Fixed asset revaluation	W 25,528	W 30,705
Capitalized foreign exchange losses		3,071
Investment securities	77,984	69,822
Impairment loss on fixed assets	129,135	129,135
Impairment loss on investment securities	23,078	221,337
Allowance for doubtful accounts	61,142	32,148
Allowance for severance benefits	101,867	69,913
Depreciation expense	18,980	17,299
Capital expenditures		9,489
Research and development expense	12,988	9,804
Deferred taxes related to OCI	182,824	
Denied accrual expenses	120,198	16,452
Others	86,287	115,681
Total deferred tax assets	840,011	724,856
Deferred tax liabilities		
Gain on valuation of equity method investments	134,441	81,400
Reserve for repairs	132,120	137,394
Accrued income	917	3,453
Reserve for technology	388,117	367,283
Capitalized repairs	1,024	2,485
Capitalized costs	78,707	78,876
Deferred taxes related to OCI	162,434	71,788
Others	30,159	101,061
Total deferred tax liabilities	927,919	843,740
Net deferred tax liabilities	W 87,908	W 118,884

(b) Comprehensive income

Under Korean GAAP, there is no requirement to present comprehensive income. Under U.S. GAAP, comprehensive income and its components are required to be presented under the provisions of SFAS No. 130, Reporting Comprehensive Income. Comprehensive income includes all changes in shareholders equity during the period except those resulting from investments by, or distributions to

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owners, including certain items not included in the current year s results of operations. Comprehensive income for the years ended December 31, 2005, 2004, and 2003 is summarized as follows:

	2005	2004	2003
	(in millions of Korean Won)		
Net income, as adjusted, in accordance with U.S. GAAP	W 4,101,598	W 3,460,214	W 1,997,028
Other comprehensive income, net of tax:			
Foreign currency translation adjustments	(7,150)	(91,750)	34,414
Unrealized gains (losses) on investments	85,195	434,753	8,960
Less: Reclassification adjustment for gains included in income	(1,665)	(1,288)	
Comprehensive income, as adjusted, in accordance with U.S. GAAP	W 4,177,978	W 3,801,929	W 2,040,402

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Accumulated other comprehensive income as of December 31, 2005, 2004 and 2003 is summarized as follows:

	Foreign currency translation adjustments		Unrealized gains (losses) on investments		Accumulated other comprehensive income	
	(in millions of Korean Won)					
Balance, December 31, 2002	W	68,872	W	(264,702)	W	(195,830)
Foreign currency translation adjustment, net of tax benefit of W(10,081) million		34,414				34,414
Unrealized losses on investments, net of tax benefit of W(14,825) million				8,960		8,960
Current period change		34,414		8,960		43,374
Balance, December 31, 2003	W	103,286	W	(255,742)	W	(152,456)
Foreign currency translation adjustment, net of tax benefit of W34,801 million		(91,750)				(91,750)
Unrealized losses on investments, net of tax benefit of W(164,905) million				434,753		434,753
Less: Reclassification adjustment for net realized gain included in income, net of tax benefit of W488 million				(1,288)		(1,288)
Current period change		(91,750)		433,465		341,715
Balance, December 31, 2004	W	11,536	W	177,723	W	189,259
Foreign currency translation adjustment, net of tax benefit of W2,712 million		(7,150)				(7,150)
Unrealized losses on investments, net of tax benefit of W(32,316) million				85,195		85,195
Less: Reclassification adjustment for net realized gain included in income, net of tax benefit of W632 million				(1,665)		(1,665)
Current period change		(7,150)		83,530		76,380
Balance, December 31, 2005	W	4,386	W	261,253	W	265,639

(c) Fair Value of financial instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

(i) Cash and cash equivalents, short-term financial instruments, trading securities, trade accounts and notes receivable, trade accounts and notes payable, and short-term borrowings

The carrying amount approximates fair value due to the short-term nature of those instruments.

(ii) Investment Securities

The fair value of market-traded investments such as listed company s stocks, public bonds and other marketable securities are based on quoted market prices for those investments.

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Investments in non-listed companies stock, for which there are no quoted market prices, estimate of fair value is based on acquisition cost less impairment if any.

(iii) Long-Term loans, trade account and notes receivable

Loans receivable, accounts and notes receivable are reported net of specific and general provisions for impairment as well as present value discount factor. As a result, the fair values of long-term loans approximate their carrying values.

(iv) Long-Term debt

The fair value of long-term debt is based on quoted market prices, where available. For those notes where quoted market prices are not obtainable, a discounted cash flow model is used based on the current rates for issues with similar maturities.

The estimated fair values of the Company s financial instruments stated under Korean GAAP as of December 31, 2005 and 2004 are summarized as follows:

	2005		2004	
	Carrying amount	Fair value	Carrying amount	Fair value
	(in millions of Korean Won)			
Cash and cash equivalents	W 653,364	W 653,364	W 486,370	W 486,370
Short-term financial instruments	760,371	760,371	640,988	640,988
Trading securities	2,610,502	2,610,502	2,689,593	2,689,593
Trade accounts and notes receivable, including long-term loans	3,369,737	3,369,737	3,374,219	3,374,219
Investment securities	2,815,741	2,815,741	2,345,076	2,345,076
Short-term borrowings	859,774	859,774	657,541	657,541
Trade accounts and notes payable	1,145,729	1,145,729	1,082,299	1,082,299
Long-term debt, including current portion	2,188,470	2,233,670	3,096,727	3,184,984

(d) Minority interest

Minority interests in consolidated subsidiaries are disclosed within the shareholders equity section of the balance sheet. Under U.S. GAAP, minority interests are recorded between the liability section and the shareholders equity section in the consolidated balance sheet.

(e) Classification differences in the Consolidated Statements of Income

Certain income and expense items in the Company s Consolidated Statements of Income including: (i) gains and losses on disposal of property, plant and equipment; (ii) impairment of property, plant and equipment; (iii) gains on recovery of allowance for doubtful accounts; (iv) other bad debt expenses; (v) and provision for early retirement benefits have been classified as non-operating under Korean GAAP and excluded from the determination of operating income. Under U.S. GAAP, the above noted income and expense items would be included in the determination of operating income. In addition, as a result of tax assessments, amendments to tax return filings and related tax penalties and interest have been classified as non-operating expenses under Korean GAAP. Under U.S. GAAP, these expenses would be included as part of the Company s income tax. After reclassification of those items, operating income under U.S. GAAP would be W5,725,875 million, W5,407,351 million and W3,106,742 million for the years ending December 31, 2005, 2004 and 2003, respectively.

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Components of Other non-operating expenses

Other non-operating expenses disclosed within the Korean GAAP Consolidated Statements of Income are comprised of the following:

	2005	2004	2003
	(in millions of Korean Won)		
Loss on disposal of investments	121,474	7,869	7,084
Loss on impairment of property, plant and equipment		72,692	150,750
Additional payment of income taxes	194,506	10,054	1,104
Provision for early retirement benefits(1)	418,567	16,637	6,480
Others	119,542	58,021	68,253
Total	W 854,089	W 165,273	W 233,671

(1) On March 30, 2000, the company initiated an ongoing plan to offer special termination benefits to employees who voluntarily accept early retirement. During the year ended December 31, 2005, the Company received applications for early retirement from employees. As of December 31, 2005, the company recorded an expense amounting to KRW 418,567 million representing lump sum early retirement benefits which were either paid or accrued for the applicants who were notified of acceptance and approval of their applications during the year ended December 31, 2005. The employees were terminated effective on or before January 1, 2006 and all liabilities associated with these early retirement benefits were settled by January of 2006.

(f) Consolidated statement of cash flows

Under both Korean GAAP and US GAAP, cash flows are classified under operating activities, investing activities and financing activities. Under Korean GAAP, cash and cash equivalents include cash on hand, cash in banks, and highly liquid temporary cash investments with original maturities of three months or less. Under US GAAP, cash and cash equivalents are defined as being cash and investments with original maturities of three months or less.

Under U.S. GAAP, cash flows related to purchases and sales of trading securities are classified as cash flows from operating activities. However, under Korean GAAP, they are classified as cash flows from investing activities. Net cash flows from purchases and sales of trading securities are W221,705 million, W(63,667) million and W(81,321) million for the years ended December 31, 2005, 2004 and 2003, respectively.

(g) Segment

The following table provides information on reconciliation of net income of each operating segment of the consolidated subsidiaries from Korean GAAP to U.S. GAAP for the year ended December 31, 2005:

	Steel	Trading	Others	Reconciling adjustments	Consolidated
	(in millions of Korean Won)				
Net income under Korean GAAP	W 3,972,572	W 11,935	W 278,105	W (251,066)	W 4,011,546
Adjustments	104,891	(3,713)	(11,126)		90,052
Net income under U.S. GAAP	W 4,077,463	W 8,222	W 266,979	W (251,066)	W 4,101,598

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December 31, 2005 and 2004

The following table provides information on reconciliation of total assets of the consolidated subsidiaries from Korean GAAP to U.S. GAAP as of December 31, 2005:

	Steel	Trading	Others	Subtotal before elimination	Reconciling adjustments	US GAAP adjustments	Consolidated
	(in millions of Korean Won)						
Segments total assets	W 26,648,657	W 970,949	W 4,438,504	W 32,058,110	W (4,550,800)	W 18,019	W 27,525,329

The following table provides information on the significant items in total assets of each operating segment of the consolidated subsidiaries as of December 31, 2005:

	Steel	Trading	Others	Reconciling adjustments	Consolidated
	(in millions of Korean Won)				
Investments under Korean GAAP	W 4,795,209	W 273,938	W 683,755	W (2,611,346)	W 3,141,556
Adjustments	(77,922)	(4,805)	(13,339)		(96,066)
Investments under U.S. GAAP	W 4,717,287	W 269,133	W 670,416	W (2,611,346)	W 3,045,490
Property, plant and equipment under Korean GAAP	W 12,216,494	W 213,681	W 642,254	W (800,719)	W 12,271,710
Adjustments	148,424				148,424
Property, plant and equipment under U.S. GAAP	W 12,364,918	W 213,681	W 642,254	W (800,719)	W 12,420,134

35. Recent Accounting Pronouncements

U.S. GAAP

In March 2005, the SEC issued SAB No. 107 (SAB 107), which expresses the view of the staff regarding the interaction between the FASB s SFAS No. 123 (revised 2004) (FAS 123R), Share-Based Payment, and certain SEC rules and regulations and provides the staff s views regarding the valuation of share-based payment arrangements for public companies. Specifically, SAB 107 provides guidance on how to determine the expected volatility and expected term inputs into a valuation model used to determine the fair value of share based payments under FAS 123R. SAB 107 also provides guidance related to numerous aspects of the adoption of FAS 123R such as taxes, capitalization of compensation costs, modification of share based payments prior to adoption and the classification of expenses.

In December 2004, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standards No. 123 R, Share-Based Payment. This Statement requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. In April 2005, the Securities Exchange Commission (SEC) approved a new rule that delayed the effective date of FAS 123 R. Under the SEC rule, FAS 123 R is now effective for annual rather than interim period that begin after June 15, 2005. The company is evaluating the requirements of FAS No. 123 R and currently expects that the adoption of FAS No. 123 R will not have a material impact on the Company s financial position and results of operation.

In March 2005, the FASB issued FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143. This interpretation clarifies that an entity is required to recognize a liability for the fair value of a conditional assets retirement obligation if the fair value of the liability can be reasonably estimated. The Interpretation is effective no later than the

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end of fiscal years ending after December 15, 2005 (December 31, 2005, for calendar-year enterprises). The adoption of this Interpretation did not have a material effect on the Company s financial position and results of operation.

In November 2004, the FASB issued Financial Accounting Standard No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4 (FAS 151). The standard requires that abnormal amounts of idle capacity and spoilage costs should be excluded from the cost of inventory and expensed when incurred. Additionally, the standard requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities and clarifies the meaning of the term normal capacity . The provisions of FAS 151 are applicable to inventory costs incurred during fiscal years beginning after June 15, 2005. The Company is in the process of determining the impact of adoption on its financial position and results of operations.

In December 2004, the FASB issued Statement No. 153 (FAS 153), Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29. FAS 153 is based on the principle that nonmonetary asset exchanges should be recorded and measured at the fair value of the assets exchanged, with certain exceptions. This standard requires exchanges of productive assets to be accounted for at fair value, rather than at carryover basis, unless (1) neither the asset received nor the asset surrendered has a fair value that is determinable within reasonable limits or (2) the transactions lack commercial substance (as defined). The new standard is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not expect the adoption of this statement to have a material impact on its financial position or results of operations.

In May 2005, the FASB issued Financial Accounting Standards No. 154, which changes the requirements for the accounting and reporting of a change in accounting principle. The Statement requires that changes in accounting principle be retroactively applied. FAS 154 is effective for accounting changes and correction of errors made on or after January 1, 2006, with earlier adoption permitted. The Company will apply the provisions of this Statement from January 1, 2006.

In February 2006, the FASB issued Financial Accounting Standards No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140. This Statement resolves issues addressed in Statement 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets. and is effective for all financial instrument acquired or issued after beginning of an entity s first fiscal year that begins after September 15, 2006. The Company does not expect the adoption of this statement to have a material impact on its financial position or result of operations.

In March 2006, the FASB issued FASB issued Financial Accounting Standards No. 156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140 . This Statement amends FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a certain servicing contract and all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. An entity should adopt this Statement as of the beginning of its first fiscal year that begins after September 15, 2006, with earlier adoption is permitted. The Company does not expect the adoption of this statement to have a material impact on its financial position or result of operations.

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Korean GAAP

In February 2005, the Korean Accounting Standards Boards (KASB) issued Statements of Korean Financial Accounting Standards (SKFAS) No. 18, Interests in Joint Ventures. This statement provides the definition of joint venture which requires an investor to recognize assets, liabilities, revenue and expenses related to its investment on a joint venture. Under SKFAS No. 18, joint venture may be classified into one of the following types; joint venture business, joint venture assets or joint venture corporation, and an investor should apply SKFAS No. 15, Investments in Associates correspondingly for its investment on joint venture corporation. The provisions of this standard are effective prospectively for joint ventures beginning on or after December 31, 2005. The Company does not expect the adoption of this statement to have a material impact on its financial position or results of operations.

In March 2005, the KASB issued SKFAS No. 19, Lease accounting, which supersedes pre-KASB standard of Accounting Standards for Lease Industry , Under SKFAS No. 19, lease transactions that the risk and benefit from the ownership of the leased property is de facto transferred to the lessee should be classified as a finance lease, and an operating lease otherwise. The classification should be determined by substance of a transaction and lease of real estate also are subject to the statements as other property leases. The provisions of this standard are effectively for lease transactions beginning on or after December 31, 2005. The Company does not expect the adoption of this statement to have a material impact on its financial position or results of operations.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

POSCO

(Registrant)

/s/ Ku-Taek Lee

Ku-Taek Lee
Chief Executive Officer
and Representative Director

Date: June 12, 2006

Exhibit Index

1.1	Articles of incorporation of POSCO (English translation)
2.1	Form of Common Stock Certificate (including English translation) (incorporated by reference to Exhibit 4.3 to the Registrant s Registration Statement No. 33-81554)*
2.2	Form of Deposit Agreement (including Form of American Depositary Receipts) (incorporated by reference to the Registrant s Registration Statement (File No. 33-84318) on Form F-6)*
2.3	Letter from ADR Depositary to the Registrant relating to the Pre-release of American Depositary Receipts (incorporated by reference to the Registrant s Registration Statement (File No. 33-84318) on Form F-6)*
7.1	Computation of ratio of earnings to fixed charges
8.1	List of subsidiaries of POSCO
12.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Consent of Samil PricewaterhouseCoopers, the Korean member firm of PricewaterhouseCoopers

* Filed previously