

**POSCO**  
**and Subsidiaries**  
Consolidated Financial Statements  
December 31, 2008

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## **Independent Auditors' Report**

Based on a report originally issued in Korean

The Board of Directors and Shareholders

POSCO:

We have audited the accompanying consolidated balance sheet of POSCO and subsidiaries (the "Company") as of December 31, 2008, and the related consolidated statement of income, changes in equity and cash flows for the year ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The accompanying consolidated financial statements of the Company as of December 31, 2007, were audited by other auditors, whose report thereon dated March 19, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. These Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides 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, 2008 and the results of its operations, the changes in its equity and its cash flows for the year then ended in conformity with accounting principles generally accepted in the Republic of Korea.

Without qualifying our opinion, we draw attention to the following:

As discussed in note 2 to the consolidated financial statements, accounting principles and auditing standards and their application in practice vary among countries. The accompanying consolidated financial statements are not intended to present the financial position, results of operations, changes in equity and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying consolidated financial statements are for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.

Seoul, Korea

March 30, 2009

This report is effective as of March 30, 2009, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

**POSCO and Subsidiaries**  
**Consolidated Balance Sheets**  
**As of December 31, 2008 and 2007**

<i>(in millions of Won)</i>	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Cash and cash equivalents, net of government grants (note 3)	₩ 2,490,264	1,292,581
Short-term financial instruments (note 3)	1,827,450	1,743,079
Trading securities (note 4)	1,238,261	1,286,939
Current portion of available-for-sales securities (note 7)	30,888	32,113
Current portion of held-to-maturity securities (note 7)	20,613	192,393
Trade accounts and notes receivable, net of allowance for doubtful accounts and present value discount (note 5)	5,894,093	4,035,602
Other accounts and notes receivable, net of allowance for doubtful accounts and present value discount (note 5)	538,510	214,956
Advance payments	1,033,513	373,167
Inventories (notes 6 and 30)	8,661,721	4,902,016
Deferred income tax assets (note 25)	109,578	101,982
Other current assets, net of allowance for doubtful accounts (note 11)	352,742	218,705
<b>Total current assets</b>	<u>22,197,633</u>	<u>14,393,533</u>
Property, plant and equipment (notes 8 and 30)	42,230,169	37,902,887
Less accumulated depreciation	<u>(24,161,070)</u>	<u>(22,321,122)</u>
Property, plant and equipment, net	18,069,099	15,581,765
Investment securities, net (note 7)	5,177,482	5,178,723
Intangible assets, net (notes 9 and 30)	723,767	570,779
Long-term trade accounts and notes receivable, net of allowance for doubtful accounts and present value discount (note 5)	23,264	39,919
Long-term loans receivable, net of allowance for doubtful accounts and present value discount (note 5)	80,287	40,474
Deferred income tax assets (note 25)	317,023	279,903
Guarantee deposits	65,540	57,485
Long-term financial instruments (note 3)	16,462	17,065
Other long-term assets, net of allowance for doubtful accounts and present value discount (note 11)	290,725	115,117
<b>Total non-current assets</b>	<u>24,763,649</u>	<u>21,881,230</u>
<b>Total assets</b>	<u>₩ 46,961,282</u>	<u>36,274,763</u>

*See accompanying notes to consolidated financial statement*

**POSCO and Subsidiaries**  
**Consolidated Balance Sheets**  
**As of December 31, 2008 and 2007**

<i>(in millions of Won)</i>	<b>2008</b>	<b>2007</b>
<b>Liabilities</b>		
Trade accounts and notes payable	₩ 3,070,436	2,246,890
Short-term borrowings (note 12)	3,254,355	1,572,020
Current portion of long-term debts, net of discount on debentures issued (note 12 and 13)	770,142	483,402
Accrued expenses	237,917	172,971
Other accounts and notes payable	579,853	502,665
Withholdings	126,538	133,495
Income tax payable	2,083,472	930,822
Advances received	597,514	405,548
Deferred income tax liabilities (note 25)	-	120,992
Other current liabilities (note 15)	289,165	55,810
<b>Total current liabilities</b>	<b>11,009,392</b>	<b>6,624,615</b>
Long-term debts, net of current portion and discount on debentures issued (note 13)	6,895,862	3,306,486
Accrued severance benefits, net (note 14)	383,718	336,095
Deferred income tax liabilities (note 25)	70,363	654,969
Other long-term liabilities (note 15)	257,742	234,858
<b>Total non-current liabilities</b>	<b>7,607,685</b>	<b>4,532,408</b>
<b>Total liabilities</b>	<b>18,617,077</b>	<b>11,157,023</b>
<b>Parent shareholders' equity</b>		
Capital stock (notes 1 and 17)	482,403	482,403
Capital surplus (note 18)	4,319,083	4,176,592
Capital adjustments, net (note 21)	(2,509,081)	(2,727,147)
Accumulated other comprehensive income	(21,986)	784,933
Retained earnings (note 19)	25,393,246	21,767,302
	27,663,665	24,484,083
Minority interest	680,540	633,657
<b>Total shareholders' equity</b>	<b>28,344,205</b>	<b>25,117,740</b>
<b>Total liabilities and shareholders' equity</b>	<b>₩ 46,961,282</b>	<b>36,274,763</b>

*See accompanying notes to consolidated financial statements.*

**POSCO and Subsidiaries**  
**Consolidated Statements of Income**  
**For the years ended December 31, 2008 and 2007**

*(in millions of Won, except per share information)*

	<b>2008</b>	<b>2007</b>
<b>Sales</b> (note 30)	₩ 41,742,636	31,607,741
<b>Cost of goods sold</b> (note 30)	32,562,339	24,902,663
Gross profit	9,180,297	6,705,078
<b>Selling and administrative expenses</b> (notes 24 and 30)	2,006,368	1,785,217
Operating income	7,173,929	4,919,861
<b>Non-operating income</b> (note 30)		
Interest and dividend income	362,309	234,841
Gain on disposal of trading securities	55,056	57,236
Gain on valuation of trading securities	16,535	16,039
Gain on foreign currency transaction	1,078,243	158,346
Gain on foreign currency translation	122,287	19,179
Gain on derivative transaction	41,575	17,689
Gain on valuation of derivatives	346,932	12,741
Gain on disposal of property, plant and equipment	14,392	15,182
Equity in earnings of equity method accounted investments	32,931	71,563
Reversal of allowance for doubtful accounts	19,116	41,124
Reversal of stock compensation expense	55,155	-
Others	225,345	174,567
	2,369,876	818,507
<b>Non-operating expenses</b> (note 30)		
Interest expense	344,686	239,913
Other bad debt expense	23,269	16,335
Loss on disposal of trading securities	1,243	37
Loss on valuation of trading securities	3,870	440
Loss on foreign currency transaction	1,207,257	130,679
Loss on foreign currency translation	933,086	65,432
Loss on derivative transaction	103,739	6,312
Loss on valuation of derivatives	288,655	3,617
Donations	142,570	197,366
Loss on impairment of investments	120,840	11,542
Loss on disposal of property, plant and equipment	53,823	43,544
Loss on impairment of intangible assets	45,890	-
Equity in losses of equity method accounted investments	56,795	28,929
Others	122,443	95,291
	3,448,166	839,437
Net income before income tax expense and income of subsidiaries prior to acquisition	6,095,639	4,898,931
<b>Income tax expense</b> (notes 25 and 30)	1,733,983	1,274,226
<b>Net income (loss) of subsidiaries prior to acquisition</b> (note 30)	11,552	(53,259)
Net income	₩ 4,350,104	3,677,964
Net income attribute to controlling interest	4,378,751	3,558,660
Net income (loss) attributable to minority interest (note 30)	(28,647)	119,304
Basic earnings per share (note 26)	₩ 58,002	46,854

*See accompanying notes to consolidated financial statements.*

**POSCO and Subsidiaries**  
**Consolidated Statements of Changes in Equity**  
**For the years ended December 31, 2008 and 2007**

<i>(in millions of Won)</i>		<b>Capital Stock</b>	<b>Capital Surplus</b>	<b>Capital Adjustments</b>	<b>Accumulated Other Comprehensive income</b>	<b>Retained Earnings</b>	<b>Minority Interest</b>	<b>Total</b>
<b>Balance as of January 1, 2007</b>	₩	482,403	4,035,273	(1,678,229)	209,754	18,863,333	489,208	22,401,742
Net income		-	-	-	-	3,558,660	119,304	3,677,964
Effect of changes in scope of consolidation		-	37	-	-	-	62,024	62,062
Effect of changes in percentage of ownership of investees		-	(5,500)	-	-	-	-	(5,500)
Dividends		-	-	-	-	(655,099)	-	(655,099)
Changes in treasury stock		-	175,231	(1,045,274)	-	-	-	(870,044)
Gain on valuation of available-for-sale securities, net		-	-	-	498,711	-	-	498,711
Changes in capital adjustments arising from equity method accounted investments		-	-	-	(7,455)	-	-	(7,455)
Overseas operations translation adjustments		-	-	-	87,957	-	-	87,957
Loss on valuation of derivatives		-	-	-	(4,034)	-	-	(4,034)
Effect of changes in percentage of minority interest		-	-	-	-	-	16,380	16,380
Others		-	(28,449)	(3,644)	-	408	(53,259)	(84,944)
<b>Balance as of December 31, 2007</b>	₩	<b>482,403</b>	<b>4,176,592</b>	<b>(2,727,147)</b>	<b>784,933</b>	<b>21,767,302</b>	<b>633,657</b>	<b>25,117,740</b>

*See accompanying notes to consolidated financial statements.*



**POSCO and Subsidiaries**  
**Consolidated Statements of Changes in Equity**  
**For the years ended December 31, 2008 and 2007**

<i>(in millions of Won)</i>	<u>Capital Stock</u>	<u>Capital Surplus</u>	<u>Capital Adjustments</u>	<u>Accumulated Other Comprehensive income</u>	<u>Retained Earnings</u>	<u>Minority Interest</u>	<u>Total</u>
<b>Balance as of January 1, 2008</b>	₩ 482,403	4,176,592	(2,727,147)	784,933	21,767,302	633,657	25,117,740
Net income	-	-	-	-	4,378,751	(28,647)	4,350,104
Effect of changes in scope of consolidation	-	-	-	-	-	31,518	31,518
Effect of changes in percentage of ownership of investees	-	20,194	-	-	-	-	20,194
Dividends	-	-	-	-	(755,037)	-	(755,037)
Changes in treasury stock	-	121,938	213,951	-	-	-	335,889
Changes in available-for-sale securities, net	-	-	-	(1,276,043)	-	-	(1,276,043)
Changes in capital adjustments arising from equity method investments	-	-	-	37,575	-	-	37,575
Overseas operations translation adjustments	-	-	-	438,314	-	-	438,314
Loss on valuation of derivatives	-	-	-	(6,765)	-	-	(6,765)
Effect of changes in percentage of minority interest	-	-	-	-	-	39,726	39,726
Others	-	359	4,115	-	2,230	4,286	10,990
<b>Balance as of December 31, 2008</b>	₩ 482,403	4,319,083	(2,509,081)	(21,986)	25,393,246	680,540	28,344,205

*See accompanying notes to consolidated financial statements.*

**POSCO and Subsidiaries**  
**Consolidated Statements of Cash flows**  
**Years Ended December 31, 2008 and 2007**

<i>(in millions of Won)</i>	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities</b>		
Net income	₩ 4,350,104	3,677,964
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	2,379,291	2,126,729
Accrual of severance benefits	314,156	211,758
Provision for allowance for doubtful accounts, net	28,186	37,237
Loss (gain) on derivatives transaction, net	62,165	(11,377)
Loss on foreign currency translation, net	750,464	49,334
Loss on impairment of investments	120,840	11,542
Loss on disposal of property, plant and equipment, net	39,431	28,362
Loss on impairment of intangible assets, net	45,890	-
Gain on disposal of trading securities, net	(53,813)	(57,199)
Gain on valuation of trading securities, net	(12,665)	(15,599)
Gain on valuation of derivatives, net	(58,277)	(9,124)
Equity in earnings (losses) of equity method accounted investments, net	23,864	(42,634)
Other employee benefit	71,070	66,827
Net income (loss) of consolidated subsidiaries before acquisition	11,552	(53,259)
Stock compensation expense, net	(55,155)	123,881
Others, net	64,615	61,738
	<u>3,731,614</u>	<u>2,528,216</u>
<b>Changes in operating assets and liabilities</b>		
Trade accounts and notes receivable	(1,538,854)	(613,548)
Inventories	(3,393,710)	(461,226)
Other accounts and notes receivable	(222,706)	67,929
Accrued income	(11,914)	(15,218)
Advance payments	(586,601)	(70,847)
Prepaid expenses	(11,468)	(23,658)
Trade accounts and notes payable	609,200	561,078
Other accounts and notes payable	7,829	164,460
Advances received	215,491	(16,884)
Accrued expenses	94,716	(108,184)
Income tax payable	1,146,204	162,806
Deferred income tax assets and liabilities, net	(432,528)	(20,127)
Payment of severance benefits	(125,374)	(64,975)
Retirement insurance deposits	(141,807)	(147,366)
Other current liabilities	28,816	(13,055)
Others, net	(31,997)	(54,105)
	<u>(4,394,703)</u>	<u>(652,920)</u>
Net cash provided by operating activities	₩ <u>3,687,015</u>	<u>5,553,260</u>

*See accompanying notes to consolidated financial statements.*

**POSCO and Subsidiaries**  
**Consolidated Statements of Cash flows**  
**Years Ended December 31, 2007 and 2006**

(in millions of Won)

	<b>2008</b>	<b>2007</b>
<b>Cash flows from investing activities</b>		
Acquisition of trading securities	₩ (7,058,161)	(8,173,811)
Acquisition of short-term financial instruments	(5,098,326)	(2,678,616)
Acquisition of available-for-sale securities	(1,357,622)	(1,179,114)
Acquisition of property, plant and equipment	(4,093,313)	(2,892,247)
Acquisition of intangible assets	(131,107)	(81,946)
Acquisition of other long-term assets	(122,700)	(160,098)
Short-term loans provided	(79,876)	(50,687)
Long-term loans provided	(285,654)	(24,235)
Payment for business acquisition, net of cash acquired	(279,031)	(1,335)
Disposal of trading securities	7,008,770	9,064,842
Disposal of short-term financial instruments	5,045,613	1,705,169
Disposal of available-for-sale securities	26,752	9,412
Disposal of long-term financial instruments	279,610	34,555
Disposal of property, plant and equipment	53,773	34,958
Proceeds from short-term loans	191,251	108,221
Others, net	97,252	21,220
Net cash used in investing activities	<u>(5,802,769)</u>	<u>(4,263,712)</u>
<b>Cash flows from financing activities</b>		
Proceeds from short-term borrowings	10,233,819	6,811,282
Proceeds from long-term debt	3,454,625	1,054,138
Proceeds from other long-term liabilities	49,851	37,060
Disposal of treasury stock	364,753	406,991
Repayment of current portion of long-term debt	(491,635)	(278,699)
Repayment of short-term borrowings	(9,042,662)	(6,599,799)
Repayment of long-term debt	(369,348)	(248,087)
Payment of cash dividends	(755,037)	(655,099)
Acquisition of treasury stock	(36,832)	(1,291,362)
Repayment of other long-term liabilities	(38,145)	(94,072)
Others, net	(252,807)	(143,209)
Net cash provided by (used in) financing activities	<u>3,116,582</u>	<u>(1,000,856)</u>
Effect of exchange rate changes on cash and cash equivalents	141,536	30,901
Net increase in cash and cash equivalents from changes in consolidated subsidiaries	<u>55,519</u>	<u>36,815</u>
Net increase in cash and cash equivalents	1,197,883	356,407
<b>Cash and cash equivalents</b>		
Cash and cash equivalents at beginning of the year	<u>1,292,828</u>	<u>936,421</u>
Cash and cash equivalents at end of the year (note 3)	<u>₩ 2,490,711</u>	<u>1,292,828</u>

See accompanying notes to consolidated financial statements.

**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2008**

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**1. Consolidated Companies**

General descriptions of POSCO, the controlling company, and its controlled subsidiaries (Collectively the “Company”) and 25 other domestic subsidiaries including POSCO Engineering & Construction Co., Ltd. and 48 overseas subsidiaries, whose accounts are included in the consolidated financial statements, and 31 equity-method investees, which are excluded from the consolidation, are as follows:

**The Controlling Company**

POSCO, the controlling company, is the largest steel producer in Korea which 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 33,000 thousand tons: 15,000 thousand tons at the Pohang mill and 18,000 thousand tons at the Gwangyang mill. The shares of POSCO have been listed on the Korea Stock Exchange since 1988. POSCO operates two plants (Pohang mill and Gwangyang mill) and one office in Korea, and seven liaison offices overseas.

As of December 31, 2008, POSCO’s shareholders are as follows:

	<u>Number of Shares</u>	<u>Percentage of Ownership (%)</u>
National Pension Service	5,516,535	6.33
Nippon Steel Corporation (*1)	4,394,712	5.04
Mirae Asset Investments Co., Ltd.	3,620,298	4.15
SK Telecom Co., Ltd.	2,481,310	2.85
Pohang University of Science and Technology (POSTECH)	2,000,000	2.29
Others	69,173,980	79.34
	<u>87,186,835</u>	<u>100.00</u>

(\*1) Nippon Steel Corporation has American Depositary Receipts (ADRs), each of which represents 0.25 share of POSCO’s common share and has par value of ₩5,000 per share.

As of December 31, 2008, the shares of POSCO are listed on the Korea Stock Exchange, while its depository receipts are listed on the New York, London and Tokyo Stock Exchanges.

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2008

#### 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, 2008:

Subsidiaries	Primary Business	Number of Outstanding Shares	Number of Shares			Percentage of Ownership (%)	Percentage of Ownership of Subsidiaries (%)	Location
			POSCO	Subsidiaries	Total			
<b>Domestic</b>								
POSCO E & C Co., Ltd.	Engineering and construction	30,473,000	27,281,080	-	27,281,080	89.53	-	Pohang
Posteel Co., Ltd.	Steel sales and service	18,000,000	17,155,000	-	17,155,000	95.31	-	Seoul
POSCON Co., Ltd.	Electronic control devices manufacturing	3,519,740	3,098,610	-	3,098,610	88.04	-	Pohang
POSCO Coated Steel Co., Ltd.	Coated steel manufacturing	6,000,000	3,412,000	-	3,412,000	56.87	-	Pohang
POSCO Machinery & Engineering Co., Ltd.	Steel work maintenance and machinery installation	1,700,000	1,700,000	-	1,700,000	100.00	-	Pohang
POSDATA Co., Ltd.	Computer hardware and software distribution	81,551,600	50,440,720	-	50,440,720	61.85	-	Sungnam
POSCO Research Institute	Economic research and consulting	3,800,000	3,800,000	-	3,800,000	100.00	-	Seoul
Seung Kwang Co., Ltd.	Athletic facilities operation	3,945,000	2,737,000	1,208,000	3,945,000	100.00	POSCO E & C (30.62)	Suncheon
POSCO Architects Consultants Co., Ltd.	Architecture and consulting	230,000	230,000	-	230,000	100.00	-	Seoul
POSCO Specialty Steel Co., Ltd.	Specialty steel manufacturing	26,000,000	26,000,000	-	26,000,000	100.00	-	Changwon
POSCO Machinery Co., Ltd.	Steel work maintenance and machinery installation	1,000,000	1,000,000	-	1,000,000	100.00	-	Gwangyang
POSTECH Venture Capital Corp.	Investment in venture companies	6,000,000	5,700,000	-	5,700,000	95.00	-	Pohang
POSCO Refractories & Environment Company Co., Ltd. (POSREC)	Manufacturing and sellings	5,907,000	3,544,200	-	3,544,200	60.00	-	Pohang
POSCO Terminal Co., Ltd.	Transporting and warehousing	5,000,000	2,550,000	-	2,550,000	51.00	-	Gwangyang
Metapolis Co., Ltd.	Construction	10,560,000	-	4,229,280	4,229,280	40.05	POSCO E & C (40.05)	Seoul
POSMATE Co., Ltd. (*1)	Facilities management	714,286	214,286	-	214,286	30.00	-	Seoul
Samjung Packing & Aluminum Co., Ltd.	Packing materials manufacturing	3,000,000	270,000	831,756	1,101,756	36.73	Posmate Co., Ltd. (27.73)	Pohang
POSCO Power Corp.	Generation of Electricity	40,000,000	40,000,000	-	40,000,000	100.00	-	Seoul
Postech 2006 Energy Fund(*1)	Investment in new technology	570	-	126	126	22.11	POSTECH Venture Capital Corp(10.53) POSCO Power (11.58)	Seoul
POSCORE Co., Ltd.	Components manufacturing and sales	3,907,151	-	1,992,647	1,992,647	51.00	Posteel (51.00)	Cheonan
PHP Co., Ltd. (*3)	Rental houses construction and managemet	400,000	-	400,000	400,000	100.00	POSCO E & C (100.00)	Incheon

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2008

Subsidiaries	Primary Business	Number of Outstanding Shares	Number of Shares			Percentage of Ownership (%)	Percentage of Ownership of Subsidiaries (%)	Location
			POSCO	Subsidiaries	Total			
PNR Co., Ltd. (*3)	Steel by-products processing and sales	7,810,980	5,467,686	-	5,467,686	70.00	-	Pohang
Megaasset Co., Ltd. (*3)	Real estate rental and sales	2,000,000	-	2,000,000	2,000,000	100.00	POSCO E & C (100.00)	Cheonan
Daewoo Engineering Company (*3)	Construction and engineering service	2,400,000	-	2,128,701	2,128,701	88.70	POSCO E & C (88.70)	Sungnam
Universal Studio Resort Development Co., Ltd. (*3)	Resort development	1,000,000	-	375,000	375,000	37.50	POSCO E & C (27.50) POSDATA Co., Ltd.(10.00)	Hwasong
<b>Overseas</b>								
POSCO America Corporation (POSAM)	Steel trading	356,500	354,531	1,969	356,500	100.00	POSCAN (0.55)	USA
POSCO Australia Pty. Ltd. (POSA)	Steel sellings and mine development	761,775	761,775	-	761,775	100.00	-	Australia
POSCO Canada Ltd. (POSCAN)	Coal trading	1,099,885	-	1,099,885	1,099,885	100.00	Posteel (100.00)	Canada
POSCAN Elkview Coal Ltd.	Mine development	304,061	-	304,061	304,061	100.00	POSCAN (100.00)	Canada
POSCO Asia Co., Ltd. (POA)	Steel intermediate trading	9,360,000	9,360,000	-	9,360,000	100.00	-	China
VSC POSCO Steel Corporation (VPS) (*2)	Steel manufacturing	-	-	-	-	40.00	Posteel (5.00)	Vietnam
Dalian POSCO – CFM Coated Steel Co., Ltd. (*2)	Coated steel manufacturing	-	-	-	-	85.00	Posteel (15.00) POSCO-China (40.00)	China
POS-Tianjin Coil Center Co., Ltd.(*2)	Steel service center	-	-	-	-	70.00	Posteel (60.00)	China
POSMETAL Co., Ltd.	Steel service center	9,800	-	9,310	9,310	95.00	POSCO-Japan (95.00)	Japan
Shanghai Real Estate Development Co., Ltd. (*2)	Real estate rental	-	-	-	-	100.00	POSCO E&C (100.00)	China
IBC Corporation (*2)	Real estate rental	-	-	-	-	60.00	POSCO E&C (60.00)	Vietnam
POSLILAMA Steel Structure Co., Ltd. (*2)	Steel structure fabrication and sales	-	-	-	-	70.00	POSCO E&C (60.00) Posteel (10.00)	Vietnam
Zhangjiagang Pohang Stainless Steel Co., Ltd. (ZPSS) (*2)	Stainless steel manufacturing	-	-	-	-	82.48	POSCO-China (23.88)	China
Guangdong Pohang Coated Steel Co., Ltd. (*2)	Coated steel manufacturing	-	-	-	-	96.98	POSCO-China (10.43)	China
POSCO Thailand Bangkok Processing Center Co.,Ltd.	Steel service center	14,857,921	12,721,734	2,136,187	14,857,921	100.00	Posteel (14.38)	Thailand
Myanmar-POSCO Steel Co., Ltd.	Specialty steel manufacturing and sales	19,200	13,440	-	13,440	70.00	-	Myanmar
Zhangjiagang POSHA Steel Port Co., Ltd. (ZPSP)(*2)	Stainless steel manufacturing	-	-	-	-	90.00	POSCO E&C (25.00) ZPSP (65.00)	China
POSCO-JOPC Co., Ltd.	Steel processing and sellings	4,900	-	2,785	2,785	56.84	POSCO-Japan (56.84)	Japan
POSCO Investment Co., Ltd.	Finance	5,000,000	5,000,000	-	5,000,000	100.00	-	China

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2008

Subsidiaries	Primary Business	Number of Outstanding Shares	Number of Shares			Percentage of Ownership (%)	Percentage of Ownership of Subsidiaries (%)	Location
			POSCO	Subsidiaries	Total			
POSCO-MKPC SDN BHD	Steel service center	56,550,200	25,269,900	14,315,238	39,585,138	70.00	Posteel (25.81)	Malaysia
Qingdao Pohang Stainless Steel Co., Ltd. (*2)	Stainless steel manufacturing	-	-	-	-	100.00	POSCO-China (10.00) ZPSS (20.00)	China
POSCO (Suzhou) Automotive Processing Center Co., Ltd. (*2)	Steel service center	-	-	-	-	100.00	POSCO-China (10.00)	China
POSEC-Hawaii Inc.	Construction and sales	24,400	-	24,400	24,400	100.00	POSCO E&C (100.00)	USA
POS-Qingdao Coil Center Co., Ltd. (*2)	Steel service center	-	-	-	-	100.00	Posteel (100.00)	China
POS-ORE Pty. Ltd.	Iron ore mining and trading	17,500,001	-	17,500,001	17,500,001	100.00	POSA (100.00)	Australia
POSCO-China Holding Corp. (*2)	Holding company	-	-	-	-	100.00	-	China
POSCO-Japan Co., Ltd.	Steel trading	90,438	90,438	-	90,438	100.00	-	Japan
POSCO E&C (Zhangjiagang) Engineering & Consulting Co., Ltd. (*2)	Facilities manufacturing	-	-	-	-	100.00	POSCO E&C (100.00)	China
POS-CD Pty. Ltd.	Coal trading	12,550,000	-	12,550,000	12,550,000	100.00	POSA (100.00)	Australia
POS-GC Pty. Ltd.	Coal trading	11,050,000	-	11,050,000	11,050,000	100.00	POSA (100.00)	Australia
POSCO-India Private Ltd.	Coal trading	225,000,000	225,000,000	-	225,000,000	100.00	-	India
POS-India Pune Steel Processing Centre Pvt. Ltd.	Steel service center	115,062,470	74,787,080	-	74,787,080	65.00	-	India
POSCO-INPC Co., Ltd.	Steel service center	49,000	-	44,100	44,100	90.00	POSCO-Japan (90.00)	Japan
POSCO-Foshan Steel Processing Center Co., Ltd. (*2)	Steel service center	-	-	-	-	100.00	POA (24.20) POSCO-China (36.20)	China
POSCO E&C (Beijing) Co., Ltd. (*2)	Construction and engineering	-	-	-	-	100.00	POSCO E&C (100.00)	China
POS-MPC S.A. de C.V.	Steel service center	3,663,289	-	2,234,607	2,234,607	61.00	POSAM (61.00)	Mexico
Zhangjiagang Pohang Port Co., Ltd. (*2)	Raw material and steel depot service	-	-	-	-	100.00	ZPSS (47.30) POSA (27.70) POSCO-China (25.00)	China
POSCO-Vietnam Co., Ltd. (*2)	Cold-rolled steel manufacturing and sales	-	-	-	-	100.00	-	Vietnam
POSCO-Mexico Co., Ltd.	Cold-rolled steel manufacturing and sales	1,541,191,740	1,304,955,672	236,236,068	1,541,191,740	100.00	POSCAN (15.33)	Mexico
POSS India Delhi Steel Processing Centre Private Limited	Steel service center	55,673,970	42,532,980	-	42,532,980	76.40	-	India

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2008

Subsidiaries	Primary Business	Number of Outstanding Shares	Number of Shares			Percentage of Ownership (%)	Percentage of Ownership of Subsidiaries (%)	Location
			POSCO	Subsidiaries	Total			
POS-NP Pty. Ltd.	Coal trading	35,000,000	-	35,000,000	35,000,000	100.00	POSA (100.00)	Australia
POSCO-Vietnam Processing Center Co., Ltd. (*2)	Steel service center	-	-	-	-	80.00	-	Vietnam
POSCO (Chongqing) Automotive Processing Center Co., Ltd. (*2,3)	Steel service center	-	-	-	-	100.00	POSCO-China (10.00)	China
Suzhou POSCORE Technology Co., Ltd. (*2)	Components manufacturing and sales	-	-	-	-	100.00	Posteel(15.15) POA(15.15) POSCORE(69.70)	China
POSCO-JYPC Co., Ltd. (*3)	Steel service center	49,000	-	31,550	31,550	64.39	POSCO-Japan (64.39)	Japan
POSCO-Malaysia SDN. BHD. (*3)	Steel service center	27,000,000	16,200,000	-	16,200,000	60.00	-	Malaysia
POS-Minerals Corporation (*3)	Mine development and operation	100	-	100	100	100.00	POSCAN (85.00) Samjung P&A (15.00)	USA
POSCO (Wuhu) Automotive Processing Center Co., Ltd. (*2,3)	Steel service center	-	-	-	-	100.00	POSCO-China (31.43)	China

(\*1) These subsidiaries are included in the consolidated financial statements as the controlling company has control over them in consideration of board of directors and others.

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

(\*3) These subsidiaries are newly included in the consolidation.



**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2008**

Summary of financial on controlled subsidiaries as of and for the year ended December 31, 2008 is as follow:

<b>Summary of Financial information</b> (in millions of Korean won)(*)					
<b>Subsidiaries</b>	<b>Total Assets</b>	<b>Total liabilities</b>	<b>Net Assets</b>	<b>Sales</b>	<b>Net Income (loss)</b>
<b>Domestic</b>					
POSCO E & C Co., Ltd.	4,730,101	3,139,178	1,590,923	4,517,303	161,520
Posteel Co., Ltd.	912,379	460,815	451,564	2,479,568	115,603
POSCON Co., Ltd.	369,372	209,537	159,835	474,757	12,731
POSCO Coated Steel Co., Ltd.	487,758	270,905	216,853	956,381	(48,482)
POSCO Machinery & Engineering Co., Ltd.	136,787	79,413	57,374	295,481	3,263
POSDATA Co., Ltd.	308,567	189,995	118,572	384,380	(78,749)
POSCO Research Institute	26,449	3,077	23,372	19,742	187
Seung Kwang Co., Ltd.	76,929	36,984	39,945	12,620	(2,047)
POSCO Architects Consultants Co., Ltd.	54,481	17,170	37,311	73,021	6,862
POSCO Specialty Steel Co., Ltd.	1,007,588	440,881	566,707	1,679,748	77,316
POSCO Machinery Co., Ltd.	60,925	33,122	27,803	142,125	5,033
POSTECH Venture Capital Corp.	35,418	618	34,800	3,137	(2,231)
POSCO Refractories & Environment Co., Ltd. (POSREC)	233,415	78,686	154,729	446,939	25,181
POSCO Terminal Co., Ltd.	50,200	11,297	38,903	66,420	11,592
Metapolis Co., Ltd.	527,057	423,173	103,884	210,439	42,360
Posmate Co., Ltd.	55,310	19,285	36,025	79,052	2,701
Samjung Packing & Aluminum Co., Ltd.	154,668	97,861	56,807	373,682	(10,031)
POSCO Power Corp.	1,181,079	628,510	552,569	744,026	46,910
Postech 2006 Energy Fund	29,393	3	29,390	1,184	212
POSCORE Co., Ltd.	571,862	570,620	1,242	-	(600)
PHP Co., Ltd.	92,124	47,928	44,196	180,222	21,235
PNR Co., Ltd.	51,725	12,185	39,540	-	485

**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2008**

**Summary of Financial information**  
**(in millions of Korean won)(\*)**

<b>Subsidiaries</b>	<b>Total Assets</b>	<b>Total liabilities</b>	<b>Net Assets</b>	<b>Sales</b>	<b>Net Income (loss)</b>
Megaasset Co., Ltd.	58,068	49,961	8,107	1,609	(1,893)
Daewoo Engineering Company	276,230	144,447	131,783	564,825	27,992
Universal Studio Resort Development Co., Ltd.	10,000	-	10,000	-	-
<b>Overseas</b>					
POSCO America Corporation (POSAM)	284,442	109,714	174,728	208,846	11,366
POSCO Australia Pty. Ltd. (POSA)	348,774	210,739	138,035	122,733	38,523
POSCO Canada Ltd. (POSCAN)	361,976	109,719	252,257	289,102	128,813
POSCAN Elkview Coal Ltd.	46,508	2,699	43,809	-	4,976
POSCO Asia Co., Ltd. (POA)	71,044	39,624	31,420	1,715,372	3,033
VSC POSCO Steel Corporation (VPS)	68,785	50,485	18,300	207,048	1,747
Dalian POSCO – CFM Coated Steel Co., Ltd.	51,822	37,336	14,486	136,075	596
POS-Tianjin Coil Center Co., Ltd.	48,181	33,203	14,978	107,480	566
POSMETAL Co., Ltd.	83,341	69,054	14,287	57,936	287
Shanghai Real Estate Development Co., Ltd.	182,638	56,213	126,425	29,116	15,230
IBC Corporation	95,102	62,472	32,630	23,697	11,326
POSLILAMA Steel Structure Co., Ltd.	48,041	66,515	(18,474)	68,147	442
Zhangjiagang Pohang Stainless Steel Co., Ltd. (ZPSS)	1,551,082	915,467	635,615	2,206,084	(131,021)
Guangdong Pohang Coated Steel Co., Ltd.	104,143	67,707	36,436	151,814	(16,200)
POSCO Thailand Bangkok Processing Center Co., Ltd.	154,531	116,545	37,986	216,693	(10,472)
Myanmar-POSCO Steel Co., Ltd.	11,872	6,600	5,272	16,017	415
Zhangjiagang POSHA Steel Port Co., Ltd. (ZPSP)	16,058	45	16,013	1,797	(30)
POSCO-JOPC Co., Ltd.	59,706	52,750	6,956	53,691	(268)
POSCO Investment Co., Ltd.	492,447	399,848	92,599	12,248	561

**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
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**Summary of Financial information**  
**(in millions of Korean won)(\* )**

<b>Subsidiaries</b>	<b>Total Assets</b>	<b>Total liabilities</b>	<b>Net Assets</b>	<b>Sales</b>	<b>Net Income (loss)</b>
POSCO-MKPC SDN BHD	95,701	52,983	42,718	122,621	5,708
Qingdao Pohang Stainless Steel Co., Ltd.	256,315	123,582	132,733	449,276	(21,347)
POSCO (Suzhou) Automotive Processing Center Co., Ltd.	128,923	73,044	55,879	184,297	2,899
POSEC-Hawaii Inc.	46,117	19,202	26,915	9,891	(2,450)
POS-Qingdao Coil Center Co., Ltd.	59,392	44,877	14,515	111,986	117
POS-Ore Pty. Ltd.	68,080	10,492	57,588	81,156	42,268
POSCO-China Holding Corp.	267,957	15,976	251,981	88,891	(22,653)
POSCO-Japan Co., Ltd.	710,982	603,676	107,306	1,253,173	8,377
POSCO E&C (Zhangjiagang) Engineering & Consulting Co., Ltd.	4,001	659	3,342	120	(299)
POS-CD Pty. Ltd.	31,433	23,459	7,974	5,389	(570)
POS-GC Pty. Ltd.	22,823	6,692	16,131	21,777	7,806
POSCO-India Private Ltd.	59,303	331	58,972	-	-
POS-India Pune Steel Processing Centre Pvt. Ltd.	121,973	87,829	34,144	97,726	(1,394)
POSCO-JNPC Co., Ltd.	112,682	106,704	5,978	110,639	1,352
POSCO-Foshan Steel Processing Center Co., Ltd.	170,718	137,104	33,614	379,229	3,600
POSCO E&C (Beijing) Co., Ltd.	57,975	35,731	22,244	92,761	748
POS-MPC S.A. de C.V.	144,770	119,554	25,216	152,136	(8,140)
Zhangjiagang Pohang Port Co., Ltd.	32,097	16,502	15,595	4,044	(199)
POSCO-Vietnam Co., Ltd.	513,860	282,481	231,379	-	(5,177)
POSCO-Mexico Co., Ltd.	242,643	126,191	116,452	-	(23,598)
POSS India Delhi Steel Processing Centre Pvt. Ltd.	52,260	44,032	8,228	40,409	(6,159)

**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2008**

**Summary of Financial information**  
**(in millions of Korean won)(\*)**

<b>Subsidiaries</b>	<b>Total Assets</b>	<b>Total liabilities</b>	<b>Net Assets</b>	<b>Sales</b>	<b>Net Income (loss)</b>
POS-NP Pty. Ltd.	48,399	22,450	25,949	16,980	(3,454)
POSCO-Vietnam Processing Center Co., Ltd.	37,917	26,684	11,233	32,321	(891)
POSCO (Chongqing) Automotive Processing Center Co, Ltd.	46,808	36,893	9,915	26,909	75
Suzhou POSCORE Technology Co., Ltd.	38,187	11,934	26,253	61,879	(15)
POSCO-JYPC Co., Ltd.	55,284	51,869	3,415	16,642	(2,203)
POSCO-Malaysia SDN. BHD.	67,415	89,840	(22,425)	50,445	(18,222)
POS-Minerals Corporation	126,034	-	126,034	-	(854)
POSCO (Wuhu) Automotive Processing Center Co., Ltd.	22,518	4,058	18,460	-	(417)

(\*) Total assets, total liabilities and net assets of the Company's overseas subsidiaries are translated at the exchange rate as of the balance sheet date, and sales and net income are translated at the weighted-average exchange rate of the reporting period.

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2008 and 2007

#### Equity-Method Investees

The following table sets forth certain information with regard to equity-method investees as of December 31, 2008:

Investees	Primary Business	Number of Outstanding Shares	Number of Shares			Percentage of Ownership (%)	Percentage of Ownership of Subsidiaries (%)	Location
			POSCO	Subsidiaries	Total			
<b>Domestic</b>								
eNtoB Corporation	E-business	3,200,000	560,000	300,000	860,000	26.88	POSCO E&C (3.75) and Others	Seoul
MIDAS Information Technology Co., Ltd.	Engineering	3,402,000	-	866,190	866,190	25.46	POSCO E&C (25.46)	Seoul
Songdo New City Development Inc.(*2)	Real estate	-	-	-	-	29.90	POSCO E&C (29.90)	Seoul
Gail International Korea Ltd.(*2)	Real estate	-	-	-	-	29.90	POSCO E&C (29.90)	Seoul
SNNC Co., Ltd.(*1)	Material manufacturing	37,000,000	18,130,000	-	18,130,000	49.00	-	Gwangyang
Chungju Enterprise City	Construction	8,000,000	-	2,008,000	2,008,000	25.10	POSCO E&C (22.00) POADATA (3.10)	Chungju
Taegisan Wind Power Corporation (*1)	Wind power plant construction and management	1,220,000	-	610,000	610,000	50.00	POSCO E&C (50.00)	Hoengseong
KOREASOLARPARK Co., Ltd. (*1)	Solar power plant construction and management	2,400,000	-	900,000	900,000	37.50	POSCO E&C (7.50) Postech 2006 Energy Fund (30.00)	Youngam
Cheongna IBT Co., Ltd. (*2,4)	Multiplex development	-	-	-	-	6.30	POSCO E&C (6.3)	Incheon
<b>Overseas</b>								
KOBRASCO (*1)	Facilities lease	4,021,438,370	2,010,719,185	-	2,010,719,185	50.00	-	Brazil
USS - POSCO Industries (UPI) (*1,2)	Steel processing	-	-	-	-	50.00	POSAM (50.00)	USA
Poschrome (Proprietary) Limited	Material manufacturing	86,700	21,675	-	21,675	25.00	-	Republic of South Africa
Guangdong Xingpu Steel Center Co., Ltd. (*2)	Steel processing	-	-	-	-	21.00	Posteel (10.50)	China
POS-Hyundai Steel Manufacturing India Private Limited	Steel processing	23,455,600	2,345,558	4,573,842	6,919,400	29.50	Posteel (19.50)	India
POSVINA Co., Ltd. (*1,2)	Steel manufacturing	-	-	-	-	50.00	-	Vietnam
PT POSMI Steel Indonesia (POSMI) (*1)	Steel service center	12,600	1,193	3,579	4,772	37.87	Posteel (28.40)	Indonesia
POSCO Bioventures L.P. (*2,3)	Investment in companies in the bio-tech industry	-	-	-	-	100.00	POSAM(100.00)	USA
CAML Resources Pty. Ltd. (*1)	Material processing	9,715	-	3,239	3,239	33.34	POSA(33.34)	Australia
Nickel Mining Company SAS (*1)	Material processing	6,601,426	3,234,698	-	3,234,698	49.00	-	New Caledonia
Liaoning Rongyuan Posco Refractories Co., Ltd. (*1,2)	Manufacturing and sellings	-	-	-	-	35.00	POSREC (35.00)	China

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2008 and 2007

Investees	Primary Business	Number of Outstanding Shares	Number of Shares			Percentage of Ownership (%)	Percentage of Ownership of Subsidiaries (%)	Location
			POSCO	Subsidiaries	Total			
POSCO-SK Steel Pinghu Processing Center Co., Ltd. (*2)	Steel processing	-	-	-	-	20.00	-	China
Hubei Huaerliang POSCO Silicon Science & Technology Co., Ltd. (*2)	Material processing	-	-	-	-	30.00	POSCO-China (30.00)	China
POSCO Poland Wroclaw Steel Processing Center Co., Ltd.	Steel processing	100,000	30,000	-	30,000	30.00	-	Poland
Ah kxanh New City Development (*1,2)	Construction	-	-	-	-	50.00	POSCO E&C (50.00)	Vietnam
Henan Tsingpu Ferro Alloy Co., Ltd. (*1,2)	Material processing	-	-	-	-	49.00	Zhangjiagang STS (49.00)	China
United Spiral Pipe, LLC. (USP) (*1,2)	Steel pipe manufacturing and sales	-	-	-	-	35.00	POSAM (35.00)	USA
Zhongyue POSCO (Qinhuangdao) Timpla Industrial Co., Ltd. (*1,2)	Specialty steel manufacturing	-	-	-	-	34.00	POSCO-China (10.00)	China
BX Steel POSCO Cold Rolled sheet Co., Ltd. (*2)	Steel manufacturing	-	-	-	-	25.00	-	China
POSCO-SAMSUNG Slovakia Steel Processing Center Co., Ltd. (*2)	Steel processing	-	-	-	-	30.00	-	Slovakia
Eureka Moly LLC. (*2)	Material processing	-	-	-	-	20.00	POS-Mineral (20.00)	USA
POS UTEK Development (*2)	Construction	-	-	-	-	25.00	POSCO E&C (25.00)	Russia

(\*1) Although the Company owns over 30% equity interest in these investees, the Company is not their major shareholder, excluding them from consolidation.

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

(\*3) Subsidiaries are not included in the consolidated financial statements as the controlling company has no control over these subsidiaries, while it is holding 100% of company's interest.

(\*4) Subsidiaries are included in the consolidated financial statements as it is deemed to be substantially influenced by the controlling company, delegated the 40% of voting rights from the investee company.

**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
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**Subsidiaries or Investees Excluded from the Consolidated Financial Statements**

<b>Location</b>	<b>Investees</b>	<b>Country</b>	<b>Reason</b>	
Domestic	HJ photovoltaics, Inc.	Korea	Small company	
	Garolim Tidal Power Plant Co., Ltd.	Korea	Small company	
	Daewoo national car Gwangju selling Co., Ltd.	Korea	Small company	
	BASYS INDUSTRY CO., LTD.	Korea	Small company	
	SENTECH KOREA CORP.	Korea	Small company	
	Applied Science Corp.	Korea	Small company	
	POSBRO Co., Ltd	Korea	Small company	
	POSWITH Co., Ltd	Korea	Small company	
	Pohang SFC Co., Ltd	Korea	Small company	
	Poscoenc SongDo International Building Co., Ltd.	Korea	Small company	
	POSTECH BD Newundertaking fund	Korea	Small company	
	Pohang Fuelcell Power Corporation	Korea	Small company	
	AROMA POSTECH RENEWABLE ENERGY, CO., LTD.	Korea	Non-majority control	
	Innovalloy Co., Ltd.	Korea	Non-majority control	
	DONGKWANG ELECTRIC CO., LTD.	Korea	Under liquidation	
	MIRAE COMMUNICATION CO., LTD.	Korea	Under liquidation	
	Busan-Gimhae Light Rail Transit Co., Ltd.	Korea	SOC business	
	Suwon Green Environment Co., Ltd.	Korea	SOC business	
	Uisiseol LRT Co., Ltd.	Korea	SOC business	
	Incheon-Gimpo Highway	Korea	SOC business	
	Jangheung Environment Co., Ltd.	Korea	SOC business	
	Clean Paju Co., Ltd.	Korea	SOC business	
	Pajoo & Viro	Korea	SOC business	
	Green Jangryang Co., Ltd.	Korea	SOC business	
	Green Cheonan Co., Ltd.	Korea	SOC business	
	Universal Studios Resort Asset Management Corporation	Korea	Small company	
	Overseas	POSCO E&C Nigeria Ltd.	Nigeria	Small company
		DWEMEX,S.A.DE C.V.	Mexico	Small company
		POS MPC Servicios de C.V.	Mexico	Small company
		POSCO E&C SMART	Mexico	Small company
		POSCO MEXICO HUMAN TECH	Mexico	Small company
		POSCO-MESDC	Mexico	Small company
		&TV Communications, Inc.	USA	Small company
HAMOS		Vietnam	Small company	
Europe Steel Distribution Center ( POS-ESDC, Logistics, Trading and Investment d.o.o)		Slovakia	Small company	
AZER POSCO E&C. LLC.		Azerbaijan	Small company	
VECTUS LIMITED		UK	Small company	
POSCO E&C India Private Ltd.		India	Small company	
PT.POSNESIA		Indonesia	Under liquidation	
Dalian Poscon Dongbang Automatic Co., Ltd		China	Small company	
San Pu Trading Co., Ltd.		China	Small company	
Yingkou Posrec Refractories Co., Ltd.		China	Small company	
Zhangjiagang BLZ Pohang International Trading Co., Ltd.		China	Small company	
Qingdao Posco Steel Processing Co., Ltd	China	Small company		

**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2008 and 2007**

<b>Location</b>	<b>Investees</b>	<b>Country</b>	<b>Reason</b>
Overseas	POSCO SeAH Steel Wire(Nantong) Co., Ltd	China	Small company
	POSCO-SAMSUNG-SUZHOU PROCESSING CENTER(POSS-SZPC)	China	Small company
	POSDATA-CHINA	China	Small company
	POSA Cayman	Cayman Islands	Small company
	DAEWOO TECH THAILAND	Thailand	Small company
	POSCO Philippine Manila Processing Center, Inc. (POS-PMPC)	Philippine	Small company
	Miller Pohang Coal Company Pty Ltd. (MPCC)	Australia	Non-majority control
	POS JK LLC.	UAE	Small company
	POSCO Gulf Logistics LLC.	UAE	Small company

**Changes in Scope of Consolidation**

<b>Investees</b>	<b>Location</b>	<b>Reason</b>
PNR Co., Ltd.	Pohang	The Company made investments to establish
Megaasset Co., Ltd.	Cheonan	The Company made investments to establish
Universal Studio Resort Development Co., Ltd.	Hwasung	The Company made investments to establish
Daewoo Engineering Co., Ltd.	Sungnam	The Company's ownership effectively exceeded 50% through additional increase in paid in capital
PHP Co., Ltd.	Incheon	Total assets exceeded ₩7,000million as of December 31,2007
POS-Minerals Corporation	USA	The Company made investments to establish
POSCO (Wuhu) Processing Center Co., Ltd.	China	The Company made investments to establish
POSCO-Malaysia SDN. BHD.	Malaysia	The Company's ownership effectively exceeded 50% through additional increase in paid in capital
POSCO-JYPC Co., Ltd.	Japan	Total assets exceeded ₩7,000million as of December 31,2007
POSCO (Chongqing) Automotive Processing Center Co., Ltd.	China	Total assets exceeded ₩7,000million as of December 31,2007

The total assets, shareholders' equity, sales, and net income of the consolidated financial statements as of and for the year ended December 31, 2008, increased by ₩1,285,017 million, ₩325,117 million, ₩660,430 million, and ₩2,854 million, respectively.



**POSCO and Subsidiaries**  
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**The Effect from Adjustment of Accounting Policy in Consolidated Subsidiaries**

The effects to the financial statements of consolidated subsidiaries resulting from the application of accounting principles and estimates of the controlling company to its subsidiaries for the years ended December 31, 2008 and 2007 are as follows:

*(in millions of Won)*

Investees	2008		
	Net Asstes Value before Adjustment	Adjustment Amount	Net Asstes Value after Adjustment
Posteel Co., Ltd.	₩ 451,564	₩ (601)	₩ 450,963
POSCON Co., Ltd.	159,835	1,329	161,164
POSCO Coated Steel Co., Ltd.	216,853	(4,107)	212,746
POSCO Refractories & Environment Co., Ltd. (POSREC)	154,729	5,544	160,273
Samjung Packing & Aluminum Co., Ltd.	56,808	3,775	60,583
POSCO Power Corp.	552,569	(7,910)	544,659
POSCO Asia Co., Ltd.	31,420	(352)	31,068
Zhangjiagang Pohang Stainless Steel Co., Ltd.	635,615	(71,419)	564,196
POSCO Investment Co., Ltd.	92,599	(3,915)	88,684
Qingdao Pohang Stainless Steel Co., Ltd.	132,733	(21,682)	111,051
POSCO-Japan Co., Ltd.	107,306	(1,097)	106,209
POS-Qingdao Coil Center Co., Ltd.	14,515	(34)	14,481
POSCO E&C (Beijing) Co., Ltd.	22,244	(275)	21,969

*(in millions of Won)*

Investees	2007		
	Net Asstes Value before Adjustment	Adjustment Amount	Net Asstes Value after Adjustment
Posteel Co., Ltd.	324,736	(626)	324,111
POSCON Co., Ltd.	149,729	901	150,630
POSCO Coated Steel Co., Ltd.	275,322	(2,821)	272,501
POSCO Refractories & Environment Co., Ltd. (POSREC)	132,953	6,451	139,404
Samjung Packing & Aluminum Co., Ltd.	77,793	2,362	80,155
POSCO Power Corp.	523,318	(1,509)	521,809
POSCO Asia Co., Ltd.	20,861	(544)	20,317
Zhangjiagang Pohang Stainless Steel Co., Ltd.	569,173	(42,750)	526,423
POSCO Investment Co., Ltd.	68,609	(1,574)	67,036
Qingdao Pohang Stainless Steel Co., Ltd.	83,558	(6,215)	77,344
POSCO-Japan Co., Ltd.	58,188	(545)	57,643

# **POSCO and Subsidiaries**

## **Notes to Consolidated Financial Statements**

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#### **2. Summary of significant accounting policies and basis of presenting financial statements**

The Company prepares the consolidated financial statements in accordance with generally accepted accounting principles in the Republic of Korea and applied the same accounting policies that were adopted in the previous year's consolidated financial statements.

The significant accounting policies followed by the Company in the preparation of its consolidated financial statements for the year ended December 31, 2008 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 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.

##### **Revenue recognition**

The Company's revenue categories consist of goods sold, services rendered, construction contracts and other income. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Revenue from services provided is recognized by applying the percentage of completion method when the amount of revenue, the costs incurred, the costs to complete and stage of completion of the balance sheet date can be reliably measured, and it is probable that future economic benefits will flow into the Company.

Revenue from construction contracts are recognized when the outcome of the contract can be reliably measured. If it is highly probable that the contract cost exceeds contract revenue, then the expected loss on the construction contract will be immediately recognized as expense. And other income is recognized when the revenue recognition process is completed, the amount of revenue is reliably measured and it is probable that future economic benefits will flow into the Company.

# **POSCO and Subsidiaries**

## **Notes to Consolidated Financial Statements**

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#### **Allowance for doubtful accounts**

Allowance for doubtful accounts is estimated based on an analysis of individual accounts and past experience of collection and presented as a deduction from trade accounts and notes receivable.

When the terms of trade accounts and notes receivable (the principal, interest rate or term) are modified, either through a court order, such as a reorganization, or by mutual formal agreement, resulting in a reduction in the present value of the future cash flows due to the Company, the difference between the carrying value of the relevant accounts and notes receivable and the present value of the future cash flows is recognized as bad debt expense.

#### **Inventories**

The costs of inventories are determined using the moving-weighted average method while materials-in-transit are determined using the specific identification method. A valuation loss is incurred when the market price of inventories falls below its carrying amount and the loss is reported as a contra inventory account, which is added to cost of goods sold. A loss incurred because of the difference between the quantity of inventories recorded in the financial statements and the actual quantity found shall be added to cost of goods sold if it is incurred in the ordinary course of business.

#### **Investments in Securities**

Upon acquisition, the Company classifies debt and equity securities (excluding investments in subsidiaries, associates and joint ventures) into the following categories: held-to-maturity, available-for-sale or trading securities. This classification is reassessed at each balance sheet date.

Investments in debt securities where the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity. Securities that are acquired principally for the purpose of selling in the short term are classified as trading securities. Investments not classified as either held-to-maturity or trading securities are classified as available-for-sale securities.

A security is recognized initially at its acquisition cost, which includes the market value of the consideration given and any other transaction costs. After initial recognition, held-to-maturity securities are accounted for at amortized costs in the balance sheet and trading and available-for-sale securities are accounted for at their fair values, however, non-marketable securities are accounted for at their acquisition costs if their fair values cannot be reliably estimated. The fair value of marketable securities is determined using quoted market prices as of the period end.

**POSCO and Subsidiaries**  
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Trading securities are subsequently carried at fair value. Gains and losses arising from changes in the fair value of trading securities are included in the income statement in the period in which they arise. Available-for-sale securities are subsequently carried at fair value.

Gains and losses arising from changes in the fair value of available-for-sale securities are recognized as accumulated other comprehensive income, net of tax, directly in equity. Held-to-maturity investments are carried at amortized cost with interest income and expense recognized in the income statement using the effective interest method.

The Company reviews investments in securities whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. Impairment losses are recognized when the reasonably estimated recoverable amounts are less than the carrying amount and it is not obviously evidenced that impairment is unnecessary.

Trading securities are presented as current assets. Available-for-sale securities, which mature within one year from the balance sheet date or where the likelihood of disposal within one year from the balance sheet date is probable, are presented as current assets. Held-to-maturity securities, which mature within one year from the balance sheet date, are presented as current assets.

**Equity method investments**

Investments in equity securities of companies, over which the Company exercises a significant control or 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 adjustments, as adjustments to retained earnings or adjustments to equity in earnings or losses of equity method accounted investments, depending on the nature of the underlying change in the book value of the investee. When the Company's share of losses in an associate or subsidiary equals or exceeds its interest in the associate or subsidiary, including preferred stock or other long term loans and receivables issued by the associate or subsidiary, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate or subsidiary. Unrealized gains on transactions between the Company and its associates or subsidiaries are eliminated to the extent of the Company's interest in each associate or subsidiary.

**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
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The excess of the acquisition cost of an investment in an investee or a subsidiary over the Company's share of the fair value of the identifiable net assets acquired is amortized, not to exceed 20 years, using the straight-line method over its estimated useful life. When acquisition cost of investments in an investee or a subsidiary is less than the Company's interest on the fair value of the identifiable net assets acquired, such difference is reversed over the weighted average useful lives using straight-line method if non-monetary assets of a investee or a subsidiary are subject to depreciation, while it is reversed at the time of disposal if assets are not subject to depreciation. Also, the Company's interest on the difference between fair value and carrying value of identifiable assets and liabilities of a investee or a subsidiary, at the time of acquisition, is depreciated or reversed in accordance with accounting policies of related assets or liabilities of a investee or a subsidiary.

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 accumulated other comprehensive income, a component of shareholders' equity.

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.

**Property, Plant and Equipment**

Property, plant and equipment are stated at cost except for certain assets subject to upward revaluations in accordance with the Asset Revaluation Law. Assets acquired by investment in kind or gift are stated at its fair value.

Depreciation is computed using the straight-line method or declining-balance method over the estimated useful lives of the assets, as follows:

	<u>Estimated useful</u>
Buildings and structures	5-60 years
Machinery and equipment	3-25 years
Vehicles	3-10 years
Tools	4-10 years
Furniture and fixtures	3-10 years
Financial lease asset	3-18 years

## **POSCO and Subsidiaries**

### **Notes to Consolidated Financial Statements**

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The Company recognizes interest costs and other financial charges on borrowings associated with the production, acquisition, construction or development of property, plant and equipment as an expense in the period in which they are incurred.

Significant additions or improvements extending useful lives of assets are capitalized. Normal maintenance and repairs are charged to expense as incurred.

The Company reviews property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized when the expected estimated undiscounted future net cash flows from the use of the asset and its eventual disposal are less than its carrying amount.

#### **Leases**

The Company classifies and accounts for leases as either operating or capital, depending on the terms. Leases where the Company assumes substantially all of the risks and rewards of ownership are classified as capital leases. All other leases are classified as operating leases.

#### **Intangible assets**

Intangible assets are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use. Intangible assets are stated net of accumulated amortization computed using the straight-line method and others over the estimated useful lives as described below.

	<u><b>Estimated useful</b></u>
Goodwill	5-20 years
Negative goodwill	5-10 years
Intellectual property rights	5-10 years
Deferred development expenses (*1)	3-10 years
Port facilities usage rights (*2)	1-75 years
Long-term electricity supply contract rights (*3)	9-15 years
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 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.

## **POSCO and Subsidiaries**

### **Notes to Consolidated Financial Statements**

#### **December 31, 2008 and 2007**

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- (\*2) As of December 31, 2008, 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 Kwangyang, Pohang, Pyoungtaek and Masan.
- (\*3) The Company recognized the electricity supply contract, entered into with Korea Electric Power Corporation by POSCO Power Corp., as an identifiable intangible asset. The fair value of the contract rights is recorded as long-term electricity supply contract rights as of the balance sheet date.

The Company assesses the potential impairment of intangible 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 intangible asset 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.

#### **Discounts on debentures**

Discounts on debentures are amortized over the term of the debenture using the effective interest rate method. Amortization of the discount is recorded as interest expense.

#### **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. POSCO and its domestic subsidiaries have partially funded the accrued severance benefits through group severance insurance and the amounts funded under these insurance deposits are classified as a deduction from the accrued severance benefits liability. The Company made deposits to the National Pension Service in accordance with the National Pension Act of the Republic of Korea. Accordingly, accrued severance benefits in the accompanying balance sheet are presented net of this deposit.

#### **Restructuring of receivables**

When the difference between the carrying value of receivables and the present value of future cash flows is material arising from variation of the terms of receivables (the principle, interest rate or term), either through a court order, such as a reorganization, or by mutual agreement, future cash flows expected to be earned are valued at their present value using an appropriate discount rate. The present value discounts are recovered using the effective interest rate method and are recognized as interest income.

# **POSCO and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **December 31, 2008 and 2007**

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#### **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. Foreign currency financial statements of branches located in overseas translated into Korean Won using exchange rates in effect as of the balance sheet date for assets and liabilities and annual average exchange rates for income and expense. Any resulting translation gain or loss is included in accumulated other comprehensive income and these other comprehensive income are recognized as income or expense when the branches cease their operations.

#### **Derivatives**

All derivative instruments are accounted for at their fair value according to the rights and obligations associated with the derivative contracts. The resulting changes in fair value of derivative instruments are recognized either in the income statement or shareholders' equity, depending on whether the derivative instruments qualify as a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument purchased with the purpose of hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment that is attributable to a particular risk.

The resulting changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in the shareholders' equity as accumulated other comprehensive income and expense.

An embedded derivative instrument is separated from the host contract and accounted for as a derivative instrument when the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract and a separate instrument with the same terms as the embedded derivative instrument would be a derivative instrument subject to derivative accounting.

#### **Provisions and contingent liabilities**

When there is a probability that an outflow of economic benefit will occur due to a present obligation resulting from a past event, and whose amount is reasonably estimable, a corresponding provision is recognized in the financial statements. However, when such outflow is dependent upon a future event, is not certain to occur, or cannot be reliably estimated, only disclosure regarding the contingent liability is made in the notes to the financial statements.



**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
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**Treasury stock**

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

**Sale of receivables**

The Company sells or discounts certain amounts or notes receivable to financial institutions and accounts for these transactions as a sale of the receivables if the rights and obligations relating to the receivables sold are substantially transferred to the buyers. The losses from the sale of the receivables are charged to operations as incurred.

**Income tax and deferred income tax**

Income tax on the income or loss for the year comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted.

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

# **POSCO and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **December 31, 2008 and 2007**

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#### **Use of estimates**

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the Republic of Korea requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes to consolidated financial statements. Actual results could differ from those estimates.

#### **Elimination of the investments of investing company and the stockholders' equity of the investees**

In eliminating the investment of the investing company and the stockholders' equity of the investee, the portion of the investee's stockholders' equity that belongs to minority interest should be separately presented. The elimination of the investments of the investing company and the stockholders' equity of the investees should be done as of the date of acquisition of controlling interest. The nearest closing date from acquisition of controlling interest is deemed to be acquisition date when acquisition date of interest of subsidiaries is different from closing date of subsidiaries. Purchase method is used in the elimination and the difference arising are recognized as goodwill.

#### **Elimination of inter-company transactions**

Inter-company transactions of the company should be eliminated and related unrealized inter-company gain and losses are treated as follows:

##### **(a) Calculation of unrealized gains and losses**

Unrealized gains or losses to be eliminated with respect to company's inventory, fixed assets and intangible assets are computed based upon average gross profit ratio of the concerned transaction. However, when the actual gross profit ratio is deemed materially different from the average gross profit ratio, the actual gross profit ratio of the concerned transaction can be used instead.

##### **(b) Elimination of unrealized gains and losses**

Unrealized gains or losses arising from downward intercompany transaction should be fully eliminated and it is attributed to company's investment. On the other hand, unrealized gains or losses arising from upward transactions should be fully eliminated and it is attributed to the company's investment proportionately to the equity interest of the company and minority interest.

# **POSCO and Subsidiaries**

## **Notes to Consolidated Financial Statements**

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#### **Translation of Subsidiary's Financial Statement in Foreign Countries**

In translation of subsidiary's financial statement denominated in foreign currencies, the balance sheet items are translated at the exchange rates in effect at the balance sheet date (but, historical exchange rates should be used for the equity items) and the profit and loss items are translated at the current year's average exchange rates. Differences arising in translation should be treated as translation gain or loss from foreign operation and it is proportionately attributed to the company's equity interest and minority interest by equity interest owned. For the cash flow items, the beginning cash balances are translated at the exchange rates in effect at the prior years balance sheet date, the ending cash balances are translated at the current year's balance sheet date and the other items are translated at the current year's average exchange rates. Differences arising in translation should be treated as gain or loss on foreign currency translation.

#### **Consolidated Financial Statement Date**

Date of consolidated financial statement is the controlling company's closing date and the date of subsidiaries' financial statements except Myanmar POSCO Steel Co., Ltd., POSCO-India Private Ltd., POS-India Pune Steel Processing Centre Pvt. Ltd., POSCO India Delhi Steel Processing Centre Private Limited are consistent with the controlling company's. The Company uses reliable financial statements as of December 31, 2008 of these four subsidiaries.

#### **Reclassification**

Certain reclassifications have been made to the 2007 consolidated financial statements to conform to the 2008 presentation.

**POSCO and Subsidiaries**  
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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, 2008 and 2007 are as follows:

<i>(in millions of Won)</i>	<b>Annual Interest Rate (%)</b>		<b>2008</b>	<b>2007</b>
<b>Cash and cash equivalents</b>				
Cash on hand and bank deposits	0.00 ~ 3.00	₩	74,657	95,292
Checking accounts	0.00 ~ 1.00		3,160	16,103
Corporate bank deposits	0.00 ~ 7.43		459,023	558,267
Time deposits	5.01 ~ 6.70		598,000	-
Time deposits in foreign currency and others	0.47 ~ 6.70		517,561	286,679
Maintained by overseas affiliates	0.00 ~ 12.00		838,309	336,487
			<u>2,490,710</u>	<u>1,292,828</u>
Less : Government grants			(446)	(247)
		₩	<u>2,490,264</u>	<u>1,292,581</u>
<b>Short-term financial instruments</b>				
Time deposits	2.25 ~ 7.15	₩	1,049,535	839,257
Installment accounts	-		-	160
Specified money in trust	-		80,455	3,002
Certificates of deposit	5.50 ~ 7.40		529,000	769,430
Commercial papers	7.00 ~ 7.70		20,000	14,587
Others	0.10 ~ 12.50		93,351	54,902
Maintained by overseas affiliates	1.00 ~ 15.60		55,109	61,741
		₩	<u>1,827,450</u>	<u>1,743,079</u>
<b>Long-term financial instruments</b>				
Installment accounts	5.00 ~ 10.00	₩	16,355	16,952
Guarantee deposits for opening accounts	-		107	113
		₩	<u>16,462</u>	<u>17,065</u>

The financial assets pledged as collateral include short-term financial instruments amounting to ₩21,940 million and ₩4,392 million as of December 31, 2008 and 2007, respectively, in relation to performance guarantee deposits, short-term borrowings, long-term debts and others; short-term financial instruments amounting to ₩5,887 million and ₩5,140 million as of December 31, 2008 and 2007, respectively, in relation to government-appropriated projects; and long-term financial instruments amounting to ₩107 million and ₩113 million as of December 31, 2008 and 2007, respectively, in relation to maintaining deposits for opening checking accounts (note 13).

**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
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**4. Trading Securities**

Trading securities as of December 31, 2008 and 2007 are as follows:

<i>(in millions of Won)</i>	<b>2008</b>		<b>2007</b>
	<b>Acquisition Cost</b>	<b>Fair Value</b>	<b>Book Value</b>
Beneficiary certificates and others	₩ 1,222,077	1,238,261	1,286,939

**5. Accounts and Notes Receivable, and Others**

(a) Accounts and notes receivable, and their allowance for doubtful accounts and present value discounts as of December 31, 2008 and 2007 are as follows:

<i>(in millions of Won)</i>	<b>2008</b>	<b>2007</b>
Trade accounts and notes receivable	₩ 6,158,066	4,290,213
Less: Allowance for doubtful accounts	(263,802)	(254,417)
Less: Present value discount	(171)	(194)
	₩ 5,894,093	4,035,602
Other accounts and notes receivable	₩ 555,902	248,601
Less: Allowance for doubtful accounts	(17,153)	(33,287)
Less: Present value discount	(239)	(358)
	₩ 538,510	214,956
Long-term trade accounts and notes receivable	₩ 29,623	58,411
Less: Allowance for doubtful accounts	(4,528)	(16,187)
Less: Present value discount	(1,831)	(2,305)
	₩ 23,264	39,919
Long-term loans receivable	₩ 97,793	43,201
Less: Allowance for doubtful accounts	(17,448)	(2,650)
Less: Present value discount	(58)	(77)
	₩ 80,287	40,474

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(b) Accounts stated at present value under long-term deferred payment term and others as of December 31, 2008 are as follows:

<i>(in millions of Won)</i>	<b>Face Value</b>	<b>Present Value Discount</b>	<b>Book Value</b>	<b>Maturity</b>	<b>Discount Rate (%)</b>
Other accounts receivable					
BNG Steel Co., Ltd.	₩ 10,000	239	9,761	2009	5.6
	<u>₩ 10,000</u>	<u>239</u>	<u>9,761</u>		
Long-term loans receivable					
lee Dongjoon and others	₩ 212	32	180	2017	7.5
Riviera C.C	260	27	233	2011	3.7
	<u>₩ 472</u>	<u>59</u>	<u>413</u>		
Long-term trade accounts and notes receivable					
BNG Steel Co., Ltd.(*)	₩ 12,900	926	11,974	2009	8.6
DK Dongsin Co., Ltd(*)	9,087	383	8,704	2010	4.7
Others	25,993	2,001	23,992	2011~2016	4.7~6.5
	<u>₩ 47,980</u>	<u>3,310</u>	<u>44,670</u>		

(\*) Discount at present value incurred from restructured receivables under work-out plans is presented as allowance for doubtful accounts.

**6. Inventories**

Inventories as of December 31, 2008 and 2007 are as follows:

<i>(in millions of Won)</i>	<b>2008</b>	<b>2007</b>
Finished goods	₩ 2,003,646	1,064,036
By-products	41,841	24,983
Semi-finished goods	2,389,245	1,387,703
Raw materials	2,077,569	1,177,880
Fuel and materials	563,136	520,882
Materials-in-transit	1,698,042	786,278
Others	8,251	3,706
	<u>8,781,730</u>	<u>4,965,468</u>
Less: Provision for valuation loss	(120,009)	(63,452)
	<u>₩ 8,661,721</u>	<u>4,902,016</u>

**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
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**7. Investment Securities**

Investment securities, net of current portion, as of December 31, 2008 and 2007 are as follows:

<i>(in millions of Won)</i>	<b>2008</b>	<b>2007</b>
Available-for-sale securities	₩ 4,257,625	4,511,569
Held-to-maturity securities	87,321	62,542
Equity-method investments	832,536	604,612
	<u>₩ 5,177,482</u>	<u>5,178,723</u>

**Available-for-Sale Securities**

(a) Available for sale securities as of December 31, 2008 and 2007 are as follows:

<i>(in millions of Won)</i>	<b>2008</b>	<b>2007</b>
Current portion of available-for-sale securities		
Investments in bonds	₩ 30,888	32,113
Available-for-sale securities		
Marketable equity securities	2,917,595	3,888,043
Non-marketable equity securities	1,306,739	599,414
Investments in bonds	8,467	3,762
Investments in capital	24,824	20,350
	<u>4,257,625</u>	<u>4,511,569</u>
	<u>₩ 4,288,513</u>	<u>4,543,682</u>

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(b) Investments in marketable equity securities as of December 31, 2008 and 2007 are as follows:

(in millions of Won)

Company	2008				2007	
	Number of Shares	Percentage of Ownership	Acquisition Cost	Fair Value	Book Value(*1)	Book Value
SK Telecom Co., Ltd. (*1)	4,297,549	5.29	₩ 1,208,677	₩ 891,835	₩ 891,835	₩ 1,061,740
Hana Financial Group Inc.	4,663,776	2.20	29,998	90,943	90,943	235,054
Nippon Steel Corporation (*1)	238,352,000	3.50	719,622	963,486	963,486	1,374,491
Hyundai Heavy Industries Co., Ltd.	1,477,000	1.94	343,505	294,661	294,661	653,572
Hanil Iron & Steel Co., Ltd.	206,798	10.14	2,413	1,596	1,596	5,811
HI Steel Co., Ltd.	135,357	9.95	1,609	1,766	1,766	2,430
Munbae Steel Co., Ltd.	1,849,380	9.02	3,588	3,921	3,921	8,230
Dong Yang Steel Pipe Co., Ltd.	1,564,250	2.45	3,911	1,400	1,400	2,831
Korea Line Corp.	217,373	1.89	8,067	14,347	14,347	35,867
Shinhan Financial Group Inc.	3,815,676	0.96	219,467	113,326	113,326	204,139
SeAH Steel Corp.	540,000	10.11	18,792	23,490	23,490	26,028
Thainox Stainless Public Company Limited	1,200,000,000	15.00	42,301	40,299	40,299	46,243
Union Steel Co., Ltd.	1,005,000	9.80	40,212	14,472	14,472	23,618
Macarthur Coal Limited (*2)	21,215,700	10.00	420,805	55,927	55,927	-
Hanjin shipping Co., Ltd.	68,260	0.08	2,652	1,236	1,236	-
KB Financial Group Inc.	8,379,888	2.35	300,150	282,402	282,402	-
LG Powercom Corporation (*3)	6,300,000	5.00	246,000	39,000	39,000	-
DC Chemical Co., Ltd.	3,404	-	149	749	749	854
Muchison Metals Ltd.	50,567,000	12.25	22,620	27,737	27,737	114,212
Cockatoo Coal Ltd.	73,595,835	19.99	21,750	21,129	21,129	40,574
Sandfire Resources NL	16,498,339	19.90	5,741	1,292	1,292	-
Silicon Motion Technology Corp.	136,925	0.42	3,052	394	394	2,284
Pixelplus Co., Ltd. (*4)	159,156	4.78	2,606	62	62	346
KOSES Co., Ltd.	328,857	6.13	617	401	401	1,483
Aromasoft Corp Co., Ltd.	685,459	11.25	654	877	877	2,300
i-Components Co., Ltd.	100,000	2.13	300	290	290	-
Maruichi Steel Tube Ltd.	345,100	0.37	13,942	11,906	11,906	7,995
FuelCell Energy, Inc.	3,822,630	5.61	27,141	18,651	18,651	35,577
Others	-	-	-	-	-	2,364
			₩ 3,710,341	₩ 2,917,595	₩ 2,917,595	₩ 3,888,043

(\*1) Certain portion of those investments have been pledged as collateral. (note 10)

(\*2) The Company recognized excess of the acquisition cost of MacArthur Coal Limited over the fair value at the acquisition date amounting to ₩ 96,785 million as impairment losses.

(\*3) LG Powercom Corporation listed on the Korea Stock Exchange since November, 2008 and i-Components Co., Ltd. listed on the KOSDAQ since December, 2008 were reclassified to marketable equity securities from non-marketable equity securities.

(\*4) Impairment loss of ₩2,544 million is recognized as it is unlikely that there is evidence that events or changes in circumstances have made the recovery of a carrying value.



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(c) Investments in non-marketable equity securities as of December 31, 2008 and 2007 are as follows:

<i>(in millions of Won)</i>	2008			2007	
	Number of Shares	Percentage of Ownership (%)	Acquisition Cost	Book Value	Book Value
The Siam United Steel (*1)	11,071,000	12.30	₩ 34,658	₩ 58,367	₩ 34,658
Big Jump Energy Participacoes S.A.	-	16.20	667,824	667,824	-
GLOBAL UNITY LTD.	70,649	13.33	710	710	710
PT-POSNESIA (*2)	29,610,000	70.00	9,474	1,567	1,567
The Korea economic daily	28,728	0.15	309	309	309
The Seoul Shinmun Co., Ltd.	1,614,000	19.40	7,479	-	-
THE KOREA METAL JOURNAL Co., Ltd.	2,000	2.67	20	20	20
Pohang Steelers Co., Ltd.	35,200	14.67	176	176	200
Chunnam Dragons Football Club Co., Ltd.	19,799	13.20	99	99	99
POSHOME Co., Ltd.	10,000	3.69	50	50	50
Kihyup Technology Banking Corp.	600,000	10.34	3,000	3,000	3,000
Samwon steel Co., Ltd.	1,786,000	19.00	8,930	8,930	8,930
POSWITH Co., Ltd. (*2)	320,000	100.00	1,600	1,600	1,600
Woori DCI Co., Ltd.	5,653	18.84	28	28	28
RCC Co., Ltd.	9,053	18.11	45	45	45
MTS Korea Inc.	11,076	18.46	55	55	55
Taihan ST Corp., Ltd.	796,000	19.90	13,930	13,930	13,930
WUHAN Excellent Steel Center (WESC) (*3)	-	5.00	432	432	432
POSCO-SAMSUNG Suzhou Processing Center (POSS-SZPC) (*2,*3)	-	30.00	1,608	1,608	1,608
POSCO MEXICO HUMAN TECH (*2,*3)	-	80.00	3	3	3
Europe Steel Distribution Center (POS-ESDC, Logistics, Trading and Investment d.o.o) (*2,*3)	-	50.00	1,893	1,893	1,893
HAMOS (*2,*3)	-	20.00	998	998	998
Keo Yang Shipping Co., Ltd. (*5)	-	-	-	-	780
LG Powercom Corporation (*6)	-	-	-	-	93,398
ESCO Professionals., Ltd.	-	-	-	-	21
TFS Global Co., Ltd.	-	-	-	-	26
CTA Co., Ltd.	-	-	-	-	37
POSCO-SK STEEL Pinghu Processing Center Co., LTD. (*4)	-	-	-	-	1,869
POSCO Poland Steel Processing Center Co., Ltd. (*4)	-	-	-	-	3,803
POSCO (Chongqing) Automotive Processing Center Co., Ltd. (*7)	-	-	-	-	6,201
POSCO-SAMSUNG Slovakia Steel Processing Center Co., Ltd. (*4)	-	-	-	-	1,794
Airport Railroad Co., Ltd. (*1)	22,101,940	11.90	110,510	179,026	179,026
Daejeon Cogeneration Plant Co., Ltd.	-	-	-	-	11,196
Busan Gimhae Light Rail Transit Co., Ltd. (*2)	9,160,000	20.85	45,800	45,800	17,954

**POSCO and Subsidiaries**  
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(in millions of Won)

Company	2008			2007	
	Number of Shares	Percentage of Ownership (%)	Acquisition Cost	Book Value	Book Value
Seoul Metro Line9 Corparation	4,090,985	12.25	₩ 20,455	₩ 20,455	₩ 8,515
Korea Athletic Promotion Association	839,964	16.42	8,627	8,476	8,627
VECTUS LIMITED (*2)	2,211,837	99.59	8,220	3,227	7,006
U-Space Co., Ltd.	2,800,000	10.00	14,000	14,000	14,000
Sinbundang Railroad Co., Ltd.	2,189,948	7.14	11,114	11,114	10,305
Kenertec Co., Ltd. (*3)	-	0.00	10,000	10,000	10,000
Eco-City Corporation	1,596,000	19.00	7,980	7,980	7,980
Pohang Youngil New Port Corporation	1,123,200	7.20	5,616	5,616	5,616
Gyeonsu Highway Co., Ltd.	992,000	3.20	4,960	4,960	4,960
DreamHub Project Financial Investment Co., Ltd.	2,400,000	1.20	12,000	12,000	-
Enk Co., Ltd.	500,000	9.70	10,000	10,000	-
& TV Communications, Inc. (*2)	582,000	68.70	6,096	7,510	-
Others	-	-	234,032	204,931	136,165
			₩ 1,262,731	₩ 1,306,739	₩ 599,414

(\*1) The fair value of The Siam United Steel was based on the valuation report of a public rating services company. Except for The Siam United Steel, investments are recorded at cost since fair value is not readily determinable.

(\*2) Those investments were not accounted for using the equity method as either they are under liquidation proceedings as of December 31, 2008 or their total assets are less than ₩ 7 billion as of December 31, 2007.

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

(\*4) Those investments were reclassified to equity-method investments from available-for-sale securities since their total assets are greater than ₩ 7 billion as of December 31, 2007.

(\*5) Keo Yang Shipping Co., Ltd. which merged with Han Jin Shipping Co., Ltd. was reclassified to marketable equity securities from non-marketable equity securities.

(\*6) LG Powercom Corporation listed on the Korea Stock Exchange since November, 2008 was reclassified to marketable equity securities from non-marketable equity securities.

(\*7) Those investments were reclassified to consolidated subsidiaries from available-for-sale securities since their total assets are greater than ₩ 7 billion as of December 31, 2007.

**POSCO and Subsidiaries**  
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(d) 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 accumulated other comprehensive income. The movements of such differences for the years ended December 31, 2008 and 2007 are as follows:

<i>(in millions of Won)</i>	2008			2007		
	Beginning Balance	Increase (Decrease)	Ending Balance	Beginning Balance	Increase (Decrease)	Ending Balance
SK Telecom Co., Ltd.	₩ (98,383)	₩ (148,754)	₩ (247,137)	₩ (185,185)	₩ 86,802	₩ (98,383)
Hana Financial Group Inc.	148,666	(101,129)	47,537	143,594	5,072	148,666
Nippon Steel Corporation	474,780	(284,566)	190,214	412,453	62,327	474,780
Hyundai Heavy Industries Co., Ltd.	224,798	(262,896)	(38,098)	-	224,798	224,798
Hanil Iron & Steel Co., Ltd.	2,464	(3,273)	(809)	1,467	997	2,464
HI Steel Co., Ltd.	595	(472)	123	404	191	595
Munbae Steel Co., Ltd.	3,365	(3,275)	90	(865)	4,230	3,365
Dong Yang Steel Pipe Co., Ltd.	(782)	(1,176)	(1,958)	(2,092)	1,310	(782)
Korea Line Corp.	20,155	(15,257)	4,898	1,952	18,203	20,155
Shinhan Financial Group Inc.	(11,114)	(71,676)	(82,790)	-	(11,114)	(11,114)
SeAH Steel Corp.	5,246	(1,582)	3,664	-	5,246	5,246
Thainox Stainless Public Company Limited	2,858	(4,420)	(1,562)	-	2,858	2,858
Union Steel Co., Ltd.	(12,031)	(8,046)	(20,077)	-	(12,031)	(12,031)
MacArthur Coal Limited	-	(209,113)	(209,113)	-	-	-
Hanjin Shipping Co., Ltd.	-	(1,105)	(1,105)	-	-	-
KB Financial Group Inc.	-	(13,843)	(13,843)	-	-	-
LG Powercom Corporation	(92,314)	(69,146)	(161,460)	(100,887)	8,573	(92,314)
The Siam United Steel	-	18,493	18,493	-	-	-
Others	112,181	(94,807)	17,374	10,932	101,249	112,181
	₩ 780,484	₩ (1,276,043)	₩ (495,559)	₩ 281,773	₩ 498,711	₩ 780,484

**POSCO and Subsidiaries**  
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(e) Investments in bonds as of December 31, 2008 and 2007 are as follows:

(in millions of Won)

	Maturity	2008		2007	
		Acquisition Cost	Book Value	Book Value	
Government bonds	Less than 1 year	₩ 494	₩ 494	₩	4,694
	1-5 years	97	97		76
	5-10 years	-	-		48
Others	Less than 1 year	30,394	30,394		27,419
	1-5 years	8,370	8,370		3,638
		39,355	39,355		35,875
Less: Current portion		(30,888)	(30,888)		(32,113)
		₩ 8,467	₩ 8,467	₩	3,762

(f) Equity investments as of December 31, 2008 and 2007 are as follows:

(in millions of Won)

	2008		2007	
	Acquisition Cost	Book Value	Book Value	
Construction guarantee	₩ 14,705	₩ 17,676	₩	15,635
Others	5,862	7,148		4,715
	₩ 20,567	₩ 24,824	₩	20,350

**Held-To-Maturity Securities**

(a) Held-to-maturity securities as of December 31, 2008 and 2007 are as follows:

(in millions of Won)

	Maturity	2008		2007	
		Acquisition Cost	Book Value	Book Value	
Current portion of held-to-maturity securities					
Government bonds	Less than 1 year	₩ 20,613	₩ 20,613	₩	192,393
Held-to-maturity securities					
Government bonds	1-5years	92,563	86,756		31,635
	5-10 years	565	565		30,907
		93,128	87,321		62,542
		₩ 113,741	₩ 107,934	₩	254,935

(\*) Certain portion of the government bonds has been pledged as collateral for the consolidated subsidiaries. (note 10)

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**Equity-Method Investments**

(a) Equity-method investments as of December 31, 2008 and 2007 are as follows:

<i>(in millions of Won)</i>	2008				2007	
	Number of Shares	Percentage of Ownership (%)	Acquisition Cost	Net Asset Value	Book Value	Book Value
eNtoB Corporation (*3)	860,000	28.44	₩ 5,550	₩ 7,717	₩ 7,519	₩ 6,149
Midas IT Co.,Ltd.	866,190	25.46	433	6,945	6,926	5,321
Songdo Cosmopolitan City Development Inc. (*3,6)	-	29.90	6,674	(104,929)	-	-
Gale International Korea Inc. (*3)	-	29.90	427	7,080	6,983	11,385
SNNC Co., Ltd.	18,130,000	49.00	90,650	65,782	59,020	87,762
Chungju Enterprise City	2,008,000	25.10	10,040	7,715	7,686	9,576
Taegisan Wind Power Corporation (*2)	610,000	50.00	3,050	2,787	5,273	-
KOREASOLARPARK CO.,Ltd. (*2)	900,000	37.50	2,250	798	1,847	-
Chungla International Business Town Co., Ltd. (*3,4)	-	6.27	3,910	3,392	3,354	-
KOBRASCO (*2)	2,010,719,185	50.00	32,950	68,736	57,656	41,143
USS - POSCO Industries (UPI) (*2,3)	-	50.00	244,532	77,816	51,330	59,771
Poschrome (Proprietary) Limited	21,675	25.00	4,859	12,386	5,004	5,165
Guangdong Xingpu Steel Center Co., Ltd. (*3)	-	21.00	1,852	5,579	5,422	3,026
POS-Hyundai Steel Manufacturing India Private Limited	6,919,400	29.50	3,136	4,657	4,657	4,025
POSVINA Co., Ltd. (*2,3)	-	50.00	1,527	2,605	2,455	2,192
PT POSMI Steel Indonesia (POSMI) (*2)	4,772	37.87	3,187	4,166	3,767	3,177
POSCO Bioventures L.P. (*3,5)	-	100.00	46,102	39,584	39,584	35,190
CAML Resources Pty. Ltd. (*2)	3,239	33.34	40,388	24,209	31,959	28,155
Nickel Mining Company SAS (*2)	3,234,698	49.00	157,585	254,402	220,553	200,622
Liaoning Rongyuan Posco Refractories Co., Ltd. (*2,3)	-	35.00	1,105	2,336	2,175	1,380
POSCO-SK Steel Pinghu Processing Center Co., Ltd. (*3)	-	20.00	1,869	2,947	2,845	-
Hubei Huerliang POSCO Silicon Science & Technology Co., Ltd. (*3)	-	30.00	3,236	10,526	10,552	4,385
POSCO Poland Wroclaw Steel Processing Center Co., Ltd.	30,000	30.00	3,803	3,796	3,225	-
Ah khanh New City Development (*2,3)	-	50.00	20,429	21,184	21,184	10,893
Henan Tsingpu Ferro Alloy Co., Ltd. (*2,3)	-	49.00	8,846	4,945	5,084	8,470
United Spiral Pipe, LLC. (USP) (*2,3)	-	35.00	29,108	31,718	32,260	-

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<i>(in millions of Won)</i>	<b>2008</b>						<b>2007</b>
	<b>Number of Shares</b>	<b>Percentage of Ownership (%)</b>	<b>Acquisition Cost</b>	<b>Net Asset Value</b>	<b>Book Value</b>	<b>Book Value</b>	
Investees (*1)							
Zhongyue POSCO (Qinhuangdao)							
Tinplate Industrial Co., Ltd. (*2,3)	-	34.00	₩ 9,517	₩ 17,135	₩ 16,944	₩ 10,043	
BX Steel POSCO Cold Rolled sheet Co., Ltd. (*3)	-	25.00	61,961	81,199	90,776	66,782	
POSCO-SAMSUNG Slovakia Steel Processing Center Co., Ltd. (*3)	-	30.00	1,794	3,027	2,879	-	
Eureka Moly LLC. (*3)	-	20.00	121,209	26,760	121,209	-	
POS UTEK Development (*3)	-	25.00	2,664	2,408	2,408	-	
			₩ 924,643	₩ 699,408	₩ 832,536	₩ 604,612	

(\*1) Due to the difference in the closing schedule of December 31, 2008, the equity method of accounting is applied based on the most recent available financial information, which has not been audited or reviewed.

(\*2) Although the Company owns over 30% equity interest in these subsidiaries, the Company is not their major shareholder, excluding them from consolidation.

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

(\*4) Subsidiaries are included in the consolidated financial statement as it is deemed to be substantially influenced by the controlling company, delegated the 40% of voting rights from other major shareholders.

(\*5) POSCO Bioventures L.P. is not included in the consolidated financial statement as it is not substantially controlled by the controlling company while the company holds 100% of equity interest.

(\*6) The equity method of accounting has been suspended for investment in Songdo New City Development Inc. as the Company's net investments have been reduced to zero. Unrecorded changes in equity interest in Songdo New City Development Inc. in 2008 amounted to ₩65,379 million and the accumulated unrecorded changes in equity interest prior to 2008 amounted to ₩39,550 million.

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(b) Details on the elimination of unrealized gain or loss from inter-company transactions for the years ended December 31, 2008 and 2007 are as follows:

(in millions of Won)

Investee	2008			2007		
	Inventories	Property, Plant and Equipment, and Intangible Assets	Total	Inventories	Property, Plant and Equipment, and Intangible Assets	Total
eNtoB Corporation	₩ 123	₩ 10	₩ 133	₩ (340)	₩ (18)	₩ (358)
Midas IT Co., Ltd.	-	(2)	(2)	-	(13)	(13)
SNNC Co., Ltd.	3,094	(5,938)	(2,844)	-	(1,709)	(1,709)
KOREASOLARPARK CO., Ltd.	-	(65)	(65)	-	-	-
KOBRASCO	(12,450)	-	(12,450)	3,000	-	3,000
USS - POSCO Industries (UPI)	(6,268)	-	(6,268)	8,558	-	8,558
Poschrome (Proprietary) Limited	(7,674)	-	(7,674)	(615)	-	(615)
Guangdong Xingpu Steel Center Co., Ltd.	(66)	-	(66)	254	-	254
POSVINA Co., Ltd.	(77)	-	(77)	14	-	14
PT POSMI Steel Indonesia (POSMI)	(393)	-	(393)	125	-	125
Nickel Mining Company SAS	(10,508)	-	(10,508)	-	-	-
POSCO-SK Steel Pinghu Processing Center Co., Ltd.	(168)	-	(168)	-	-	-
Henan Tsingpu Ferro Alloy Co., Ltd.	27	-	27	127	-	127
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co.,	(167)	-	(167)	-	-	-
	₩ (34,527)	₩ (5,995)	₩ (40,522)	₩ 11,123	₩ (1,740)	₩ 9,383

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(c) Details of differences between the initial purchase price and the Company's initial proportionate ownership in the book value of the investees for the years ended December 31, 2008 and 2007 are as follows:

*(in millions of Won)*

Investee	Jan. 1 2007 Balance	Increase (Decrease)	Amortization	Dec. 31 2007 Balance	Increase (Decrease)	Amortization	Dec. 31 2008 Balance
eNtoB Corporation	₩ -	₩ 670	₩ (80)	₩ 590	₩ 244	₩ (138)	₩ 696
SNNC Co., Ltd.	-	209	(21)	188	-	(42)	146
KOREASOLARPARK CO., Ltd.	-	-	-	-	1,392	(278)	1,114
POSMMIT Steel Centre SDN BHD	19	(19)	-	-	-	-	-
PT POSMI Steel Indonesia	221	-	(187)	34	-	(10)	24
CAML Resources Pty Ltd.	19,279	-	(5,764)	13,515	-	(5,764)	7,751
POSCO Poland Wroclaw Steel Processing Center Co., Ltd.	-	-	-	-	243	(243)	-
BX Steel POSCO Cold Rolled sheet Co., Ltd.	-	13,363	(1,114)	12,249	-	(2,672)	9,577
POSCO-SAMSUNG Slovakia Steel Processing Center Co., Ltd.	-	-	-	-	98	(98)	-
	₩ 19,519	₩ 14,223	₩ (7,166)	₩ 26,576	₩ 1,977	₩ (9,245)	₩ 19,308



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(d) The valuations of equity method investments as of and for the years ended December 31, 2008 and 2007 are as follows:

(in millions of Won)

Investees	Dec. 31 2007 Balance	Equity method Profits (Losses)	Other Increase (Decrease) (*)	Dec. 31 2007 Balance	Equity method Profits (Losses)	Other Increase (Decrease) (*)	Dec. 31 2008 Balance
eNtoB Corporation	₩ 4,399	₩ 488	₩ 1,262	₩ 6,149	₩ 748	₩ 622	₩ 7,519
Midas IT Co.,Ltd.	4,292	1,002	27	5,321	1,788	(183)	6,926
Songdo Cosmopolitan City	-	-	-	-	-	-	-
Gale International Korea Inc.	2,070	11,408	(2,093)	11,385	3,308	(7,710)	6,983
SNNC Co., Ltd.	18,816	(2,637)	71,583	87,762	(28,742)	-	59,020
Chungju Enterprise City	-	(464)	10,040	9,576	(1,847)	(43)	7,686
Teajsan Wind Power Generation	-	-	-	-	2,413	2,860	5,273
KOREASOLARPARK CO.,Ltd.	-	-	-	-	(433)	2,280	1,847
Chungla International Business							
Town Co., Ltd.	-	-	-	-	(539)	3,893	3,354
KOBRASCO	32,622	18,947	(10,426)	41,143	35,385	(18,872)	57,656
POSCO-JOPC Co., Ltd.	835	-	(835)	-	-	-	-
USS - POSCO							
Industries (UPI)	49,380	(10,096)	20,487	59,771	308	(8,749)	51,330
Poschrome (Proprietary)							
Limited	4,826	2,793	(2,454)	5,165	3,288	(3,449)	5,004
Guangdong Xingpu Steel							
Center Co., Ltd.	2,487	319	220	3,026	886	1,510	5,422
POS-Hyundai Steel							
Manufacturing India							
Private Limited	2,780	827	418	4,025	231	401	4,657
POSVINA Co., Ltd.	2,066	172	(46)	2,192	(29)	292	2,455
POSMMIT Steel							
Centre SDN BHD	3,891	-	(3,891)	-	-	-	-
PT POSMI Steel							
Indonesia (POSMI)	3,205	(65)	37	3,177	147	443	3,767
POSCO Bio ventures L.P.	33,931	(1,066)	2,325	35,190	(8,288)	12,682	39,584
CAML Resources Pty.							
Ltd.	37,717	(11,500)	1,938	28,155	3,617	187	31,959
Nickel Mining Company							
SAS	-	32,229	168,393	200,622	(35,918)	55,849	220,553
Liaoning Rongyuan Posco							
Refractories Co., Ltd.	-	252	1,128	1,380	347	448	2,175
POSCO-SK Steel Pinghu							
Processing Center							
Co., Ltd.	-	-	-	-	(34)	2,879	2,845
Hubei Huaerliang POSCO							
Silicon Science &							
Technology Co., Ltd.	3,186	913	286	4,385	4,000	2,167	10,552
POSCO Poland Wroclaw							
Steel Processing Center							
Co., Ltd.	-	-	-	-	(1,037)	4,262	3,225
Ah khanh New City							
Development	-	(353)	11,246	10,893	(2,697)	12,988	21,184
Henan Tsingpu Ferro							
Alloy Co., Ltd.	-	(1,489)	9,959	8,470	(5,043)	1,657	5,084
United Spiral Pipe, LLC.							
(USP)	-	-	-	-	(1,393)	33,653	32,260
Zhongyue POSCO							
(Qinhuangdao)							
Timpla Industrial Co., Ltd.	-	(216)	10,259	10,043	2,361	4,540	16,944
POSCO-CORE	-	(1,043)	1,043	-	-	-	-

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(in millions of Won)

Investees	Dec. 31 2007 Balance	Equity method Profits (Losses)	Other Increase (Decrease) (*)	Dec. 31 2007 Balance	Equity method Profits (Losses)	Other Increase (Decrease) (*)	Dec. 31 2008 Balance
BX Steel POSCO Cold Rolled sheet Co., Ltd.	-	2,213	64,569	66,782	3,261	20,733	90,776
POSCO-SAMSUNG Slovakia Steel Processing Center Co., Ltd.	-	-	-	-	273	2,606	2,879
Eureka Moly LLC.	-	-	-	-	-	121,209	121,209
POS UTEK Development	-	-	-	-	(225)	2,633	2,408
	₩ 206,503	₩ 42,634	₩ 355,475	₩ 604,612	₩ (23,864)	₩ 251,788	₩ 832,536

(\*) Other increase or decrease represents the changes in investment securities due to acquisitions (disposals), dividends received, changes in capital adjustments arising from translations of financial statements of overseas investees and others.

(e) Summary of financial information on equity-method investees as of and for the year ended December 31, 2008 is as follows:

(in millions of Won)

Investee	Total Assets		Total Liabilities		Sales		Net Income (Loss)
eNtoB Corporation	₩	79,825	₩	52,688	₩	756,983	₩ 2,624
Midas IT Co., Ltd.		42,991		15,716		29,113	5,637
Songdo Cosmopolitan City Development Inc.		1,980,494		2,331,426		785,032	(75,565)
Gale International Korea Inc.		30,609		6,931		47,154	21,680
SNNC Co., Ltd.		409,132		274,883		34,358	(47,959)
Chungju Enterprise City		66,026		35,289		-	(7,512)
Teajisan Wind Power Generation Co., Ltd.		75,391		69,817		255	(266)
KOREASOLARPARK CO., Ltd.		20,555		18,426		1,771	(239)
Chungla International Business Town Co., Ltd.		119,367		65,524		-	(7,859)
KOBRASCO		248,692		111,220		309,199	93,868
USS - POSCO Industries (UPI)		650,816		495,185		1,325,532	44,098
Poschrome (Proprietary) Limited		54,718		5,173		86,844	36,931

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Investee	Total Assets		Total Liabilities		Sales		Net Income (Loss)	
Guangdong Xingpu Steel Center Co., Ltd.	₩	66,788	₩	40,220	₩	96,503	₩	4,048
POS-Hyundai Steel Manufacturing India Private Limited		20,799		5,011		22,842		783
POSVINA Co., Ltd.		8,925		3,716		39,753		96
PT POSMI Steel Indonesia (POSMI)		90,171		79,171		97,725		1,252
POSCO Bio ventures L.P.		39,584		-		-		(9,940)
CAML Resources Pty. Ltd.		158,624		86,013		154,983		34,534
Nickel Mining Company SAS		627,425		108,238		159,080		(1,077)
Liaoning Rongyuan Posco Refractories Co., Ltd.		16,874		10,201		19,511		1,190
POSCO-SK Steel (Pinghu) Processing Center Co., Ltd.		60,965		46,229		68,863		623
Hubei Huaerliang POSCO Silicon Science & Technology Co., Ltd.		53,292		18,206		87,453		13,333
POSCO Poland Wroclaw Steel Processing Center Co., Ltd.		64,854		52,200		55,459		(2,478)
Ah khanh New City Development		136,575		94,208		-		(5,352)
Henan Tsingpu Ferro Alloy Co., Ltd.		42,420		32,328		118,639		(10,878)
United Spiral Pipe, LLC. (USP)		98,274		7,650		-		(3,980)
Zhongyue POSCO (Qinhuangdau) Tinplate Industrial Co., Ltd.		125,521		75,125		137,991		6,802
BX Steel POSCO Cold Rolled sheet Co., Ltd.		1,203,363		878,567		1,026,640		23,732
POSCO-SAMSUNG Slovakia Steel Processing Center Co., Ltd.		43,465		33,374		32,512		1,238
Eureka Moly		143,080		9,281		-		(3,405)
POS UTEK Development		9,631		-		-		(900)

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**8. Property, Plant and Equipment**

(a) Property, plant and equipment as of December 31, 2008 and 2007 are as follows:

<i>(in millions of Won)</i>	<b>2008</b>	<b>2007</b>
Buildings and structures	₩ 7,629,084	₩ 7,004,718
Machinery and equipment	28,854,834	27,312,692
Vehicles	205,973	196,939
Tools	467,142	425,335
Furniture and fixtures	302,801	258,670
Capital lease assets	11,900	11,466
	<u>37,471,734</u>	<u>35,209,821</u>
Less: Accumulated depreciation	(24,156,260)	(22,318,851)
Less: Accumulated impairment loss	(2,810)	-
Less: Government grants	(2,000)	(2,271)
	<u>13,310,664</u>	<u>12,888,699</u>
Land	1,861,451	1,509,189
Construction-in-progress	2,896,984	1,183,877
	<u>₩ 18,069,099</u>	<u>₩ 15,581,765</u>

The value of land based on the posted price issued by the Korean tax authority amounted to ₩4,107,522 million and ₩3,481,264 million as of December 31, 2008 and 2007, respectively.

As of December 31, 2008 and 2007, property, plant and equipment are insured against fire and other casualty losses for up to ₩12,140,982 million and ₩8,876,226 million, respectively. 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 ₩3,942 billion as of December 31, 2000, the latest revaluation date. The revaluation surplus amounting to ₩3,225 billion, net of related tax and transfers to capital stock, was credited to capital surplus, a component of shareholders' equity.

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Through a resolution of the Board of Directors in May 1998, the construction on the Minimill was 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 operation committee to cease the construction on the No. 2 Minimill in April 2002. In June, 2006, the Company entered into a contract with Al-Tuwairqi Trading & Contracting Establishment in Saudi Arabia to sell the No. 2 Minimill equipment for USD 96 million. As of December 31, 2008, the company completed the disposal of property, plant and equipment classified as other investment assets.

(b) The changes in the carrying value of property, plant and equipment for the year ended December 31, 2008, are as follows:

<i>(in millions of Won)</i>	<b>Beginning Balance</b>	<b>Acquisition(*1)</b>	<b>Disposal</b>	<b>Depreciation(*2)</b>	<b>Others(*3)</b>	<b>Elimination of Intercompany Transactions</b>	<b>Ending Balance</b>
Land	₩ 1,509,189	₩ 119,753	₩ (26,404)	₩ -	₩ 260,018	₩ (1,105)	₩ 1,861,451
Buildings	2,623,024	231,885	(11,123)	(216,416)	405,973	(177,441)	2,855,902
Structures	1,546,816	152,673	(5,687)	(130,600)	104,876	(77,847)	1,590,231
Machinery and equipment	8,526,549	1,479,351	(29,270)	(1,795,165)	978,965	(524,831)	8,635,599
Vehicles	36,946	10,928	(2,064)	(15,040)	4,038	(885)	33,923
Tools	75,383	54,086	(548)	(43,896)	10,306	(935)	94,396
Furniture and fixtures	69,152	48,066	(733)	(34,838)	13,859	(5,472)	90,034
Financial Lease assets	10,829	403	-	(687)	34	-	10,579
Construction-in-progress	1,183,877	4,014,374	(33,483)	-	(2,018,206)	(249,578)	2,896,984
	<u>₩ 15,581,765</u>	<u>₩ 6,111,519</u>	<u>₩ (109,312)</u>	<u>₩ (2,236,642)</u>	<u>₩ (240,137)</u>	<u>₩ (1,038,094)</u>	<u>₩ 18,069,099</u>

(\*1) Includes asset transfer from construction-in-progress.

(\*2) Includes depreciation expense of idle property.

(\*3) Includes foreign currency translation adjustments, asset transfers and adjustments resulting from the effect of changes in the scope of consolidation, etc..

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The changes in the carrying value of property, plant and equipment for the year ended December 31, 2007, were as follows:

<i>(in millions of Won)</i>	<b>Beginning Balance</b>	<b>Acquisition</b>	<b>Disposal</b>	<b>Depreciation</b>	<b>Others</b>	<b>Elimination of Intercompany Transactions</b>	<b>Ending Balance</b>
Land	₩ 1,311,755	₩ 67,228	₩ (2,462)	₩ -	₩ 132,742	₩ (74)	₩ 1,509,189
Buildings	2,400,099	366,769	(16,560)	(193,798)	232,302	(165,788)	2,623,024
Structures	1,366,558	361,420	(10,862)	(122,054)	29,130	(77,376)	1,546,816
Machinery and equipment	6,674,178	3,391,203	(370,812)	(1,585,314)	976,260	(558,966)	8,526,549
Vehicles	44,101	12,442	(8,382)	(15,832)	6,149	(1,532)	36,946
Tools	84,134	32,598	(5,262)	(43,284)	8,565	(1,368)	75,383
Furniture and fixtures	76,879	10,184	(8,623)	(35,858)	30,966	(4,396)	69,152
Financial Lease assets	-	11,466	-	(637)	-	-	10,829
Construction-in-progress	2,685,416	2,937,680	(73,678)	-	(4,174,278)	(191,263)	1,183,877
	<u>₩ 14,643,120</u>	<u>₩ 7,190,990</u>	<u>₩ (496,641)</u>	<u>₩ (1,996,777)</u>	<u>₩ (2,758,164)</u>	<u>₩ (1,000,763)</u>	<u>₩ 15,581,765</u>

(c) The Company entered into a capital lease contract with Ilshin Shipping Co., Ltd. for a Ro-Ro (roll-on roll-off) ship for transporting plates and others. As of December 31, 2008, the book value of the assets and minimal lease expense are follows:

<i>(in millions of Won)</i>	<b>Minimum lease payments</b>
Less 1 year	₩ 1,478
1 ~5 years	5,180
Over 5 years	7,192
	<u>₩ 13,850</u>

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**9. Intangible Assets**

(a) Intangible assets, net of accumulated amortization, as of December 31, 2008 and 2007 are as follows:

<i>(in millions of Won)</i>	<b>2008</b>		<b>2007</b>	
Goodwill	₩	270,842	₩	75,556
Negative goodwill		(575)		(1,243)
Intellectual property rights		18,266		1,811
Research and development costs, net of government grants		82,221		91,965
Port facilities usage rights		116,078		130,234
Long-term electricity supply contract rights		55,170		61,857
Others		181,765		210,599
	₩	<u>723,767</u>	₩	<u>570,779</u>

(b) The changes in the carrying value of intangible assets for the year ended December 31, 2008 are as follows:

<i>(in millions of Won)</i>	<b>For the year ended December 31, 2008</b>							
	<b>Beginning Balance</b>	<b>Acquisition</b>	<b>Disposal</b>	<b>Amortization (Recovery)</b>	<b>Others (*1)</b>	<b>Elimination of Intercompany Transactions</b>	<b>Ending Balance</b>	
Goodwill	₩ 75,556	₩ 230,489	₩ -	₩ (33,327)	₩ (1,876)	₩ -	₩ 270,842	
Negative goodwill	(1,243)	-	-	406	262	-	(575)	
Intellectual property rights	1,811	2,625	(360)	(1,237)	15,427	-	18,266	
Research and development costs, net of government grants (*3)	91,965	40,066	(2,037)	(18,071)	(29,214)	(488)	82,221	
Port facilities usage rights	130,234	7,562	-	(21,604)	362	(476)	116,078	
Long-term electricity supply contract rights	61,857	-	-	(6,687)	-	-	55,170	
Others(*2)	210,599	72,532	(8,795)	(66,896)	(22,700)	(2,975)	181,765	
	₩ <u>570,779</u>	₩ <u>353,274</u>	₩ <u>(11,192)</u>	₩ <u>(147,416)</u>	₩ <u>(37,739)</u>	₩ <u>(3,939)</u>	₩ <u>723,767</u>	

(\*1) Includes transfers of an asset, adjustments arising from foreign currency translations and changes in consolidation scope, and others.

(\*2) Consolidated company has recorded expenses related to the ERP system and production innovation as other intangible assets.

(\*3) The Company recognized impairment loss on development cost amounting to ₩45,890 million including ₩45,362 million of impairment loss recognized by POSDATA Co., Ltd. as it is assumed that the future economic benefits will not flow into the company.

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The changes in the carrying amount of intangible assets for the year ended December 31, 2007 were as follows:

<i>(in millions of Won)</i>	For the year ended December 31, 2007						
	Beginning Balance	Acquisition	Disposal	Amortization (Recovery)	Others	Elimination of Intercompany Transactions	Ending Balance
Goodwill	₩ 90,105	₩ -	₩ -	₩ (22,247)	₩ 7,698	₩ -	₩ 75,556
Negative goodwill	(1,388)	-	-	406	(261)	-	(1,243)
Intellectual property rights	1,221	3,260	-	(1,067)	(1,603)	-	1,811
Research and development costs, net of government grants	67,862	42,749	(75)	(14,684)	(3,469)	(418)	91,965
Port facilities usage rights	112,102	37,153	-	(18,658)	(1)	(362)	130,234
Long-term electricity supply contract rights	68,544	-	-	6,687	-	-	61,857
Others	218,636	62,411	(518)	(71,627)	6,281	(4,584)	210,599
	<u>₩ 557,082</u>	<u>₩ 145,573</u>	<u>₩ (593)</u>	<u>₩ (134,564)</u>	<u>₩ 8,645</u>	<u>₩ (5,364)</u>	<u>₩ 570,779</u>

(c) The amortization expense for the years ended December 31, 2008 and 2007 was classified under the following:

<i>(in millions of Won)</i>	2008	2007
Cost of goods sold	₩ 75,826	77,911
Selling and administrative expenses	71,590	56,653
	<u>₩ 147,416</u>	<u>134,564</u>

(d) Detail of significant intangible assets are as follows:

<i>(in millions of Won)</i>	Description	2008	2007	Residual useful life
Goodwill	Excess investment amount over fair value in POSCO Power Corp.	₩ 47,682	₩ 68,894	2 years
	Excess investment amount over fair value in Daewoo Engineering Company	209,461	-	19 years

(e) Research and development costs incurred for the years ended December 31, 2008 and 2007 were ₩455,912 million and ₩343,076 million, respectively. Research and development costs amounting to ₩361,341 million and ₩290,230 million were classified to cost of goods sold, while ₩94,571 million and ₩52,846 million were classified to selling and administrative expenses for the years ended December 31, 2008 and 2007, respectively.



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**10. Pledged assets**

(a) Details of assets pledged as collateral for short-term borrowings and long-term debts, as well as for performance guarantee, as of December 31, 2008 and 2007 are as follows:

<i>(in millions of Won)</i>	<b>Beneficiaries</b>	<b>2008</b>		<b>2007</b>	
Land	Mizuho Bank and others	₩	225,628	₩	253,096
Buildings and structures	Woori Bank and others		172,159		187,611
Machinery and equipment	The Korea Development Bank and others		431,626		392,230
Short-term financial instruments	The Korea Development Bank and others		3,000		4,000
Trade accounts and notes receivable	YAMAGUCHI Bank and others		84,557		47,268
Available-for-sale securities(*1)	Exchangeable bond holder and others		2,033,862		685,402
Held-to-maturity securities(*2)	Gyeongsangbuk-do provincial office		31,553		31,440
Investments in capital	Related creditors		7,196		-
		₩	<u>2,989,581</u>	₩	<u>1,601,047</u>

(\*1) As of December 31, 2008, 1,955,978 shares, equivalent to 17,603,801 American depository receipts (“ADRs”) of SK Telecom Co., Ltd. have been pledged as collateral for the exchangeable bonds issued (note 13) and 194,025,000 shares of Nippon Steel Corporation have been pledged as collateral for the 1st samuri bonds issued. In addition, 2,341,569 shares of SK Telecom Co., Ltd. and 410,000 shares of Hyundai Heavy Industries Co., Ltd. have been pledged as collateral for the indulgence of income tax prepayment.

(\*2) As of December 31, 2008, government bonds and bonds issued by Seoul Metropolitan Rapid Transit Corp, amounting to ₩ 29,693 million and ₩ 1,860 million, respectively, was provided as collateral to the Gyeongsangbuk-do Province Office as guarantee for environmental remediation of POSCO No. 4 disposal site.

(b) Details of loans from foreign financial institutions guaranteed by a financial institution as of December 31, 2008 and 2007 are as follows:

<i>(in millions of Won)</i>	<b>2008</b>		<b>2007</b>	
	<b>Foreign Currency</b>	<b>Won Equivalent</b>	<b>Foreign Currency</b>	<b>Won Equivalent</b>
<b>Financial instruments</b>				
Korea Development Bank	EUR 4,600,591	₩ 8,171	EUR 5,236,941	₩ 7,234

(c) As of December 31, 2008, POSCO and its subsidiaries are provided with guarantees amounting to ₩1,144,166 million from Korea Exchange Bank and others for their contract commitments.

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**11. Other Assets**

Other assets as of December 31, 2008 and 2007 are as follows:

<i>(in millions of Won)</i>	<u>2008</u>	<u>2007</u>
<b>Other current assets</b>		
Short-term loans receivable (note 28)	₩ 95,918	54,985
Accrued income	58,003	53,600
Prepaid expenses	82,891	58,319
Others	150,016	86,237
	<u>386,828</u>	<u>253,141</u>
Less: Allowance for doubtful accounts	(34,086)	(34,436)
	<u>₩ 352,742</u>	<u>218,705</u>
<b>Other long-term assets</b>		
Other investment assets (note 5)	₩ 294,033	116,409
Less: Allowance for doubtful accounts	(3,308)	(789)
Less: Present value discount	-	(503)
	<u>₩ 290,725</u>	<u>115,117</u>

**12. Short-Term Borrowings and Current Portion of Long-Term Debts**

(a) Short-term borrowings as of December 31, 2008 and 2007 are as follows:

<i>(in millions of Won)</i>	<u>Annual Interest Rate (%)</u>	<u>2008</u>	<u>2007</u>
<b>Short-term borrowings</b>			
Domestic borrowing			
ABN AMRO and others	0.72 ~ 8.77	₩ 509,129	247,598
Foreign currency borrowings			
Bank of America	2.60	157,435	8,110
Shinhan Bank and others	0.83 ~ 17.00	2,587,791	1,316,312
		<u>2,745,226</u>	<u>1,324,422</u>
		<u>₩ 3,254,355</u>	<u>1,572,020</u>

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(b) Current portion of long-term debts as of December 31, 2008 and 2007 are as follows:

<i>(in millions of Won)</i>	<u>Annual Interest Rate (%)</u>		<u>2008</u>	<u>2007</u>
<b>Debentures</b>				
Domestic and foreign debentures	4.02 ~ 5.60	₩	332,102	460,192
Less: Discount on debentures issued			(205)	(527)
			<u>331,897</u>	<u>459,665</u>
<b>Long-term debt</b>				
Korea Exchange Bank and others	1.00 ~ 6.98		9,475	3,147
Development Bank of Japan and others	0.55 ~ 7.04		427,640	19,711
			<u>437,115</u>	<u>22,858</u>
<b>Loans from foreign financial institutions</b>				
NATIXIS	2.00		1,130	879
		₩	<u>770,142</u>	<u>483,402</u>

**13. Long-Term Debts**

(a) Debentures as of December 31, 2008 and 2007 are as follow:

<i>(in millions of Won)</i>	<u>Issue date</u>	<u>Maturity</u>	<u>Annual Interest Rate</u>		<u>2008</u>		<u>2007</u>
Domestic Debentures	10/21/2004 ~ 08/05/2008	10/04/2008 ~ 08/05/2013	4.02 ~ 6.55	₩	3,137,102	₩	1,967,953
9th Samurai Bonds	06/28/2006	06/28/2013	2.05		696,945		416,665
1st Samurai Bonds	12/29/2008	12/29/2011	Tibor +1.6		696,945		-
1th FRN	11/11/2008	11/11/2013	Tibor +2.6		278,778		-
1st Euro Bonds			5.88		377,250		281,460
Exchangeable Bonds	08/20/2003	08/20/2008	-		-		430,182
Exchangeable Bonds (*)	08/19/2008	08/19/2011	-		735,904		-
					<u>5,922,924</u>		<u>3,096,260</u>
Add: Premium on bond redemption					11,112		-
Less: Current portion					(332,102)		(460,192)
Less: Discount on debentures issued					(74,990)		(12,194)
				₩	<u>5,526,944</u>	₩	<u>2,623,874</u>

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(\*)The Company issued exchangeable bonds, which is exchangeable with 17,603,801 SK Telecom Co., Ltd. ADRs, on August 19, 2008. Details of exchangeable bonds are as follows:

Issuance date:	August 19, 2008
Maturity date:	August 19, 2013
Rate:	Interest rate of zero percent
Face value:	JPY 52,795,000,000
Issuance price:	JPY 52,424,229,136
Premium on bond redemption	JPY 797,204,500 (redeemed on put date or maturity date)
Exchangeable price:	JPY 2,999.11/ADR
Fair value of exchangeable right	JPY 2,867,605,334
Exercise call period by bondholders:	Commencing ten business days following the issuance date until ten business days prior to maturity date
Exercise put period by bondholders:	Exactly three years following the payment date

(b) Long-term borrowings as of December 31, 2008 and 2007 are as follows:

<u>Financial Institutions</u>	<u>Annual Interest Rate (%)</u>	<u>2008</u>	<u>2007</u>
<b>Won currency borrowings</b>			
The Korea Resources Corporation	Representative Borrowing Rate(*1) - 2.25	₩ 49,308	45,100
The Korea Development Bank and others	1.00 ~ 7.10	595,037	155,259
Less: Current portion		<u>(9,475)</u>	<u>(3,147)</u>
		<u>634,870</u>	<u>197,212</u>
<b>Foreign currency borrowings(*2)</b>			
The Korea Resources Corporation and others	Representative Borrowing Rate(*1) - 2.25	1,154,647	498,757
Less: Current portion		<u>(427,640)</u>	<u>(19,711)</u>
		<u>727,007</u>	<u>479,046</u>
<b>Loans from foreign financial institutions</b>			
NATIXIS	2.00	8,171	7,234
Less: Current portion		<u>(1,130)</u>	<u>(879)</u>
		<u>7,041</u>	<u>6,355</u>
		<u>₩ 1,368,918</u>	<u>682,613</u>

(\*1) The average yield of 3-year government bond is utilized for the annual interest rate calculation. The average yield of 3-year government bond is rounded off to the nearest 0.25%

(\*2) Foreign currency borrowings include long-term borrowing amounting to ₩ 2,923 million, the repayment of which depends on the result of the oil exploration in the Aral Sea in Uzbekistan with Korea National Oil Corporation. (note 16)

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(c) Aggregate maturities of long-term debts as of December 31, 2008 are as follows:

(in millions of Won)

<u>Period</u>	<u>Debentures (*)</u>	<u>Borrowings</u>	<u>Foreign Currency Borrowings</u>	<u>Loans from Foreign Financial Institutions</u>	<u>Total</u>
2009	₩ 332,102	₩ 9,475	₩ 427,640	₩ 1,130	₩ 770,347
2010	265,175	147,552	243,535	1,130	657,392
2011	2,983,786	77,265	38,775	1,130	3,100,956
2012	500,000	21,580	22,072	1,130	544,782
Thereafter	1,852,973	388,473	422,625	3,651	2,667,722
	<u>₩ 5,934,036</u>	<u>₩ 644,345</u>	<u>₩ 1,154,647</u>	<u>₩ 8,171</u>	<u>₩ 7,741,199</u>

(\*) The amount includes premium on bond redemption.

**14. Accrued Severance Benefits**

The changes in accrued severance benefits for the year ended December 31, 2008 and 2007 are as follows:

(in millions of Won)

	<u>2008</u>	<u>2007</u>
<b>Estimated severance benefits at beginning of period</b>	₩ 986,956	834,047
Provision for severance benefits	314,156	214,720
Payment	(125,374)	(63,264)
Others (*)	332	1,453
<b>Estimated severance benefits at end of period</b>	<u>₩ 1,176,070</u>	<u>986,956</u>
Transfer to National Pension Fund	(1,959)	(2,275)
Deposit for severance benefits	<u>(790,393)</u>	<u>(648,586)</u>
<b>Net balance at end of period</b>	<u>₩ 383,718</u>	<u>336,095</u>

(\*) Includes foreign currency adjustments, changes in consolidation scope and others.

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**15. Other Liabilities**

Other liabilities as of December 31, 2008 and 2007 are as follows:

<i>(in millions of Won)</i>	<u>2008</u>	<u>2007</u>
<b>Other current liabilities</b>		
Unearned revenue	₩ 2,292	1,725
Others	286,873	54,085
	<u>₩ 289,165</u>	<u>55,810</u>
<b>Other long-term liabilities</b>		
Reserve for allowance	₩ 35,558	29,176
Others	222,184	205,682
	<u>₩ 257,742</u>	<u>234,858</u>

**16. Commitments and Contingencies**

(a) As of December 31, 2008, contingent liabilities for outstanding guarantees provided for the repayment of loans of affiliated companies are as follows:

<i>(in millions of Won)</i>				
<u>Grantors</u>	<u>Entity Being Guaranteed</u>	<u>Financial Institution</u>	<u>Amount</u>	
POSCO	BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	Bank of China and others	CNY	423,440,000
	Zhangjiagang Pohang Stainless Steel Co., Ltd.	Bank of China and others	USD	15,840,000
	POSCO Investment Co., Ltd.	Bank of Tokyo-Mitsubishi and others	CNY	29,000,000
			USD	142,000,000
			MYR	180,000,000
		POSCO-Vietnam Co., Ltd.	The Export-Import Bank of Korea	USD
POSCO E&C Co., Ltd.	Taegisan Wind Power Corporation	SC Korea First Bank	KRW	48,000
	IBC Corporation	The Export-Import Bank of Korea	USD	20,000,000
	POSLILAMA Steel Structure Co., Ltd.	The Export-Import Bank of Korea and others	USD	55,155,000
	Daewoo Engineering Company	-	USD	217,440,000
Posteel Co., Ltd.	POSCO Canada Ltd.	Shinhan Bank	USD	12,484,500
Zhangjiagang Pohang Stainless Steel Co., Ltd.	Qingdao Pohang Stainless Steel Co., Ltd.	China Construction Bank Corporation	USD	14,000,000
POSCO E&C (Zhangjiagang) Engineering & Co., Ltd.	POSCO E&C(Beijing) Co., Ltd.	Korea Exchange Bank	CNY	8,000,000
POSCO Investment Co., Ltd.	Zhangjiagang Pohang Stainless Steel Co., Ltd.	ING and others	USD	120,000,000
	Qingdao Pohang Stainless Steel Co., Ltd.	Bank of Tokyo-Mitsubish	USD	42,000,000
	POSCO-Mexico Co., Ltd.	HSBC	USD	100,000,000
	POSCO-MPC S.A. de.C.V.	Bank of Tokyo-Mitsubish	USD	30,600,000
	POSCO Poland Wroclaw Steel Processing Center Co., Ltd.	HSBC	USD	5,929,690
	Zhongyue POSCO (Qinhuangdao)	HSBC		
	Tinplate Industrial Co., Ltd.		USD	3,693,120
	POSCO-Malaysia SDN BHD	HSBC and others	USD	63,306,150

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(in millions of Won)

Grantors	Entity Being Guaranteed	Financial Institution	Amount	Won Equivalent
POSCO-Japan Co., Ltd.	POSMETAL Co., Ltd.	Mizuho Bank and others	JPY 1,740,000,000	24,254
	POSCO-JOPC Co., Ltd.	Mizuho Bank and others	JPY 2,800,000,000	39,029
	POSCO-JNPC Co., Ltd.	Mizuho Bank and others	JPY 4,800,000,000	66,907
	POSCO-JYPC Co., Ltd.	Mizuho Bank and others	JPY 3,100,000,000	43,211
				₩ 1,933,521

As of December 31, 2007, contingent liabilities on outstanding guarantees provided for the payment of loans of affiliated companies amounted to ₩577,487 million.

(b) As of December 31, 2008, contingent liabilities on outstanding guarantees provided to non-affiliated companies for the repayment of loans are as follows:

Grantors	Entity Being Guaranteed	Financial Institution	Amount Guaranteed	Won Equivalent (in millions)
POSCO	DC Chemical Co., Ltd.	EI Coporation	KRW 320	₩ 320
	Zeus	Related creditors	JPY 52,795,000,000	735,904
POSCO E & C Co., Ltd.	The first district of Minrak, Busan	Kookmin Bank	KRW 38,680	38,680
	Association of the first district of Mokdong, Daejeon	Woori Bank	KRW 5,060	5,060
Posteel Co., Ltd.	Pan Pacific Corp.	Korea Exchange Bank	KRW 10,998	10,998
	GIPI	Qatar National Bank and others	USD 12,000,000	15,090
POSCON Co., Ltd.	Asia Speciality Steel Co., Ltd.	Yamaguchi Bank and others	JPY 2,700,000,000	37,635
	Dalian Poscon Dongbang Automatic Co., Ltd.	STX Construction(dalian) Co., Ltd. and others	KRW 1,878	1,878
POSCO Machinery & Engineering Co., Ltd.	Jaesan Energy Co., Ltd.	Hana Bank	KRW 7,189	7,189
	Changhwan Dep. Co.,Ltd.	Hana Bank	KRW 6,980	6,980
	Halla Precision Eng. Co.,Ltd.	Shinhan Bank	KRW 5,712	5,712
Samjung Packing & Aluminum Co., Ltd.	Pyungsan Si Co.,Ltd.	Seoul Guarantee Insurance Company	KRW 963	963
Daewoo Engineering Company	Dongwon Systems Corporation	Korean National Housing Coporation	KRW 17,100	17,100
	Daewoo Technology Inc.	POSCON Co., Ltd.	KRW -	-
	Vasis Corp.	Hyundai Rotem Company and others	KRW 754	754
	Sen Structural Engineers Co.,Ltd.	Youngdong Construction Co., Ltd. and others	KRW 69	69
	Kocen Co.,Ltd.	Korea Power Engineering Co., Inc. and others	KRW 13,121	13,121
	Hyundai ENG Co.,Ltd.	Samsung C&T Corporation and others	KRW 44,915	44,915
				₩ 942,368

As of December 31, 2007, the Company has outstanding payment guarantees for related companies and others amounting to ₩526,304 million.

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(c) As of December 31, 2008, the Company and certain subsidiaries acquired certain tools and equipment under operating lease agreements with Macquarie Capital Korea Co., Ltd. The Company's lease expenses, with respect to the above lease agreements, amounted to ₩7,937 million for the year ended December 31, 2008. Future lease payments under the above lease agreements are as follows:

*(in millions of Won)*

Period	Amount
2009	₩ 6,467
2010	3,453
2011	1,210
2012	376
2013	8
Thereafter	2
	₩ 11,516

(d) As of December 31, 2008, the Company and certain subsidiaries are defendants in legal actions arising from the normal course of business. Details as follows:

*(in millions of Won)*

Company	Plaintiff	Amount	Description
POSCO	Songdo Construction Co.,Ltd. and others	6,898	9 lawsuits including claim for operation damages due to loss of the sands at beach
POSCO E & C Co., Ltd.	National Tax Service and others	42,339	Litigation on penalties levied and 47 other litigations(*)
POSCO Machinery & Engineering Co., Ltd.	Wonwoo Construction Co.,Ltd.	188	Claims on fees payable for the construction provided
Daewoo Engineering Company	Dong Yang Cement Corp.	5,792	Provision for construction warranty of Dong-Yang Cement Power Plant.
POSCO Architects & Consultants Co., Ltd.	Miwha Concrete Co.,Ltd./	38	Claims on consulting fees payable
POSCON Co., Ltd.	Korea Labor Welfare Corporation	106	Claims on indemnity
POS-Tianjin Coil Center Co., Ltd.	Beijing Tian Yu	CNY 505,798	Claim of accounts receivable collection.

(\*) The legal actions brought by a third party against POSCO E&C Co., Ltd. to the extent the South-East Distribution Complex Project are lost in the case on January 8, 2009, and the POSCO E&C Co., Ltd. has appealed the decision to the Court

The Company believes that although the outcome of these matters is uncertain, they would not result in a material loss for the Company.

(e) 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, 2008, 384 million tons of iron ore and 51 million tons of coal remained to be purchased under such long-term contracts.



## **POSCO and Subsidiaries**

### **Notes to Consolidated Financial Statements**

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(f) On July 1, 2005, 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. Purchase price is subject to change, following change of monthly standard oil price (JCC) and also price of ceiling is applicable.

(g) POSCO entered into a commitment of foreign currency long-term borrowings which is limited up to the amount of USD6.86 million. The borrowing is related to the exploration of gas hydrates in Aral Sea, Uzbekistan and the repayment of which depends on the success of the project. POSCO is not liable for the repayment of full or part of money borrowed if the project is resulted in fail and also POSCO has agreed to pay certain portion of its profits when the project is resulted in success.

(h) POSCO Power Corp. provides its whole capacity to Korea Electric Power Corp. in accordance with a long term contract. The price of electric power provided by POSCO Power Corp. is decided using the method of compensating fixed payments and expenses for the cost of production and the investment on electric power production equipment based on the contract. In addition, the Company has been provided with payment guarantee of ₩36,160 million from Seoul Guarantee Insurance as electric power supply collateral to Korea Electric Power Corp.

(i) As of December 31, 2008, contingent liabilities and commitment for outstanding guarantees provided for the repayment of loans of non-affiliated companies are as follows:

- 1) As of December 31, 2008, POSCO has bank overdraft agreements of up to ₩310,000 million with Woori Bank and other six banks. In addition, POSCO entered into a credit purchase loan agreement with Industrial Bank of Korea and five other banks for credit lines of up to ₩205,000 million and short-term borrowing agreement of up to ₩25,000 million with Woori Bank and four other banks. POSCO has an agreement with Woori Bank and others to open letters of credit, documents against acceptance and documents against payment amounting to USD1,520 million and to borrow USD320 million in foreign short-term borrowings. The accounts receivables in foreign currency sold to financial institutions and outstanding as of December 31, 2008, amount to USD89 million for which POSCO is contingently liable upon the issuers' default.
- 2) As of December 31, 2008, POSCO E&C Co., Ltd. has provided 20 blank promissory notes and nine other notes, approximately amounting to ₩116,804 million, to other financial institutions as collaterals for agreements and outstanding loans. POSCO E&C Co., Ltd. has provided nine blank checks as collaterals for agreements and outstanding loans as of December 31, 2008.
- 3) POSCO E&C Co., Ltd. has provided the completion guarantees for Samsung Corporation amounting to ₩1,572,712 million while Samsung Corporation provides the completion guarantees and payment guarantees on customers' borrowings on behalf of POSCO E&C Co., Ltd. amounting to ₩1,150,167 million as of December 31, 2008. Also, POSCO E&C Co., Ltd. has provided the guarantee of debts for Ilgun Co., Ltd. and 14 other companies amounting to ₩1,444,832 million and USD22 million.

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- 4) As of December 31, 2008, Posteel Co., Ltd. has entered into local and foreign credit agreements, of up to ₩681,546 million and with Hana Bank and other banks of which ₩390,656 million remains unused. In addition, Posteel Co., Ltd. has an unsettled document against acceptance amounting to USD64 million, an unsettled document against payment in relation to exports amounting to USD17 million and balance of usance amounting to USD3 million.
- 5) As of December 31, 2008, POSCON Co., Ltd. has credit purchase loan agreements with Shinhan Bank and other banks for credit lines of up to ₩113,411 million and USD14 million and revolving loan agreements of which ₩106,697 million and USD9 million remains unused. As of December 31, 2008, POSCON Co., Ltd. has provided a note amounting to ₩1,518 million to Gyeonggi CES Co., Ltd. as a guarantee for execution of a contract.
- 6) As of December 31, 2008, 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 local credit loan agreements, credit purchase loan agreements and letters of credit in relation to trade of up to ₩14,000 million and USD0.5 million with Shinhan Bank and other banks. Pohang Coated Steel Co., Ltd. has entered into an agreement with the Export and Import Bank of Korea for export financing of up to ₩50,000 million, and has entered into an agreement to discount accounts receivables of up to ₩1,000 million with Hana Bank.
- 7) As of December 31, 2008, POSCO Machinery & Engineering Co., Ltd. has entered into a local credit loan agreements, credit purchase loan agreements and overseas credit loan agreement of up to ₩44,000 million with Shinhan Bank and ₩38,709 million remains unused. In addition, POSCO Machinery & Engineering Co., Ltd. has entered into an agreement with Shinhan Bank for NTD up to ₩600 million and ₩147 million remains unused. POSCO Machinery & Engineering Co., Ltd. has entered into an agreement to open a foreign letter of credit up to USD10 million and USD3 million are used as of December 31, 2008.
- 8) As of December 31, 2008, POSDATA Co., Ltd. entered into loan on bills agreements of up to ₩155,000 million and USD10 million with Shinhan Bank and other four banks.
- 9) As of December 31, 2008, POSCO Architects & Consultants Co., Ltd. has entered into an agreement of discounting notes receivables of up to ₩3,000 million, B2B plus of up to ₩2,000 million and foreign guarantees provided of up to USD1 million.

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- 10) As of December 31, 2008, POSCO Specialty Steel Co., Ltd. has a loan agreement, secured by trade accounts receivable, of up to ₩80,000 million with Woori Bank and POSCO Specialty Steel Co., Ltd. has used ₩38,085 million of this loan agreement. In addition, POSCO Specialty Steel Co., Ltd. has agreements with Woori Bank and seven other banks for opening letters of credit of up to USD54.5 million, and for a loan of up to ₩150,000 million and POSCO Specialty Steel Co., Ltd. has used USD4.4 million, JPY203 million and EUR0.3 million.
- 11) As of December 31, 2008, POSCO Refractories & Environment Co., Ltd. has a bank overdraft agreement and has entered into a credit purchase loan, foreign letter of credit of up to ₩24,000 million and USD8 million with Bu-San Bank.
- 12) As of December 31, 2008, POSMATE Co., Ltd. has provided a blank promissory note to Hyundai Motor Service as a guarantee for the maintenance of vehicles. In addition, POSMATE Co., Ltd. has a bank overdraft agreements of up to ₩3,000 million with Woori Bank.
- 13) As of December 31, 2008, Samjung Packing & Aluminum Co., Ltd. has a credit purchase loan of up to ₩45,000 million with Woori Bank and an other bank and has entered into loan on bills agreement of up to USD20 million with Export and Import Bank of Korea related to investment to mine of molybden. Samjung Packing & Aluminum Co., Ltd. has entered into an agreement with Woori Bank and an other bank for usance transaction in relation to trade of up to USD60 million. Also, Samjung Packing & Aluminum Co., Ltd. has a loan agreement with Korea Exchange Bank of up to ₩9,000 million and a B2B loan agreement with Woori Bank of up to ₩7,000. The accounts receivable in foreign currency sold to financial institutions and outstanding as of December 31, 2008 amount to ₩10,175,387 million for which Samjung Packing & Aluminum Co., Ltd. is contingently liable upon the issuers' default.
- 14) As of December 31, 2008, POSCORE Co., Ltd. entered into credit purchase loan agreements of up to ₩31,000 million with Kookmin Bank and other two banks, and trade account receivables discounting agreements of up to ₩4,060 million with Hana Bank and an other bank. The accounts receivable in foreign currency sold to financial institutions and outstanding as of December 31, 2008 amount to ₩1,516 million for which Poscore Co., Ltd. is contingently liable upon the issuers' default. As of December 31, 2008, 7 promissory notes and a check of POSCORE Co., Ltd. are still outstanding and voided after work out.

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- 15) As of December 31, 2008, Daewoo Engineering Company has provided four notes, approximately amounting to ₩5,752 million, to other financial institutions as collaterals for agreements. In addition, Daewoo Engineering Company has overdraft agreements and credit purchase loan agreements of up to ₩64,612 million, and loan agreement up to ₩28,700 million with Citibank Korea Inc. Daewoo Engineering Company has a loan agreement of up to ₩10,000 million with Korea Exchange Bank.
- 16) As of December 31, 2008, POSCO America Corporation has loan agreements of up to USD85 million with Bank of America and other banks and has used USD78.5 million.
- 17) As of December 31, 2008, POSCO Asia Co., Ltd. has loan agreements of up to USD230 million with Bank of America and other banks and has used USD71 million.
- 18) As of December 31, 2008, POS-Tianjin Coil Center Co., Ltd. has loan agreements of up to CNY 90 million and USD7 million with HSBC and has used CNY 66 million and USD7 million, respectively.
- 19) As of December 31, 2008, IBC Corporation has loan agreements of up to USD43 million with Export and Import Bank of Korea.
- 20) As of December 31, 2008, Zhangjiagang Pohang Stainless Steel Co., Ltd. has loan agreements of up to CNY6,490 million and USD320 million with Bank of China and other banks.
- 21) As of December 31, 2008, Qingdao Pohang Stainless Steel Co., Ltd. has a loan agreement up to CNY1,150 million with Bank of China and others, and has outstanding balance of USD60 million and CNY100 million.
- 22) As of December 31, 2008, POSCO (Suzhou) Automotive Processing center Co., Ltd. has a loan agreement up to USD71 million with China Agriculture Bank and has outstanding balance of USD31 million.
- 23) As of December 31, 2008, POS-Qingdao Coil Center Co., Ltd. has a loan agreement up to USD16 million and CNY63 million with HSBC and others, and has outstanding balance of USD16 million and CNY9 million.
- 24) As of December 31, 2008, POSCO-Japan Co., Ltd. has bank overdraft agreements for working capital of up to JPY54,420 million with MIZUHO bank and has outstanding balance of JPY40,073 million.
- 25) As of December 31, 2008, POSCO-Foshan steel processing center Co., Ltd. has a loan agreement up to USD170 million and has outstanding balance of USD32 million.
- 26) As of December 31, 2008, POS-MPC S.A. de C.V. has a loan agreement up to USD60.6 million with Standard Chartered and has outstanding balance of USD45.6 million.

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**17. Capital Stock**

Under in Articles of Incorporation, the Company is authorized to issue 200 million shares of capital stock with a per value of ₩ 5,000 per share. As of December 31, 2008, exclusive of retired stock, 87,186,835 shares of common stock have been issued.

The Company is authorized, with the Board of Directors' approval, to retire treasury stock in accordance with applicable laws up to the maximum amount of certain undistributed earnings. The 9,293,790 shares of common stock were retired with the Board of Directors' approval.

As of December 31, 2008, ending balance of capital stock is amounted to ₩ 482,403 million; however, it is different from par value amounted to ₩ 435,934 million due to retirement of treasury stock.

As of December 31, 2008, total shares of ADRs are 62,994,368 shares, equivalent to 15,748,592 of common shares.

**18. Capital Surplus**

Capital surplus as of December 31, 2008 and 2007 are as follows:

<i>(in millions of Won)</i>	<u>2008</u>	<u>2007</u>
Additional paid-in capital	₩ 463,825	463,205
Revaluation surplus	3,224,770	3,224,770
Others	630,488	488,617
	<u>₩ 4,319,083</u>	<u>4,176,592</u>

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**19. Retained Earnings**

Retained earnings as of December 31, 2008 and 2007 are as follows:

<i>(in millions of Won)</i>	<u>2008</u>	<u>2007</u>
Appropriated		
Legal reserve	₩ 241,202	241,202
Appropriated retained earnings for business rationalization	918,300	918,300
Reserve under Korean Tax Law	1,071,667	1,445,000
Voluntary reserve	18,739,895	15,513,068
	<u>20,971,064</u>	<u>18,117,570</u>
Unappropriated	4,478,648	3,649,732
	<u>₩ 25,449,712</u>	<u>21,767,302</u>

**20. Dividends**

(a) Details of interim and year-end dividends for the years ended December 31, 2008, and 2007 are as follows:

**Interim Dividends**

<i>(in millions of Won)</i>	<u>2008</u>		<u>2007</u>	
	<u>Dividend Ratio (%)</u>	<u>Dividend Amount</u>	<u>Dividend Ratio (%)</u>	<u>Dividend Amount</u>
Common shares	50	₩ 188,485	50	189,541

**Year-end Cash Dividends**

<i>(in millions of Won)</i>	<u>2008</u>		<u>2007</u>	
	<u>Dividend Ratio (%)</u>	<u>Dividend Amount</u>	<u>Dividend Ratio (%)</u>	<u>Dividend Amount</u>
Common shares	150	₩ 574,274	150	566,552

(b) Details of the dividend payout ratio and dividend yield ratio for the years ended December 31, 2008 and 2007 are as follows:

	<u>2008</u>		<u>2007</u>	
	<u>Dividend payout Ratio (%)</u>	<u>Dividend yield Ratio (%)</u>	<u>Dividend payout Ratio (%)</u>	<u>Dividend yield Ratio (%)</u>
Common shares	17.42	2.63	21.25	1.74

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**21. Capital Adjustments**

(a) Capital adjustments as of December 31, 2008 and 2007 are as follows:

<i>(in millions of Won)</i>	<u>2008</u>	<u>2007</u>
Treasury stock	₩ (2,502,014)	(2,715,964)
Others	(7,067)	(11,183)
	<u>₩ (2,509,081)</u>	<u>(2,727,147)</u>

(b) Treasury stocks which are maintained for stabilization of stock price in accordance with decision made by board of directors as of December 31, 2008 and 2007 are as follows:

<i>(in millions of Won)</i>	<u>2008</u>		<u>2007</u>
	<u>Number of shares</u>	<u>Book value</u>	<u>Book value</u>
Treasury stock	8,255,034	₩ 1,760,819	2,011,601
Specified money in trust	2,361,885	741,195	704,363
	<u>10,616,919</u>	<u>₩ 2,502,014</u>	<u>2,715,964</u>

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 402,520 shares of its treasury stock to the association of employee stock ownership on October 28, 2007, as approved by the Board of Directors on October 10, 2008, and the difference between the fair value and the proceeds from the sale was recognized as other employee benefit expense.

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**22. Stock Appreciation Rights**

(a) The Company granted stock options to its executive officers in accordance with the stock option plan approved by the Board of Directors. The details of the stock options granted are as follows:

	1 <sup>st</sup> Grant	2 <sup>nd</sup> Grant	3 <sup>rd</sup> Grant	4 <sup>th</sup> Grant	5 <sup>th</sup> Grant	6 <sup>th</sup> Grant	Total
<b>Before the modifications (*)</b>							
Number of shares	498,000 shares	60,000 shares	22,000 shares	141,500 shares	218,600 shares	90,000 shares	1,030,100 shares
Exercise price	₩ 98,400 per share	₩ 135,800 per share	₩ 115,600 per share	₩ 102,900 per share	₩ 151,700 per share	₩ 194,900 per share	
<b>After the modifications (*)</b>							
Grant date	July 23, 2001	April 27, 2002	September 18, 2002	April 26, 2003	July 23, 2004	April 28, 2005	
Exercise price	₩ 98,900 per share	₩ 136,400 per share	₩ 116,100 per share	₩ 102,900 per share	₩ 151,700 per share	₩ 194,900 per share	
Number of shares granted	453,576 shares	55,896 shares	20,495 shares	135,897 shares	214,228 shares	90,000 shares	970,092 shares
Number of shares cancelled	19,409 shares	-	-	-	-	-	19,409 shares
Number of shares exercised	434,167 shares	50,511 shares	6,931 shares	118,909 shares	79,864 shares	62,000 shares	752,382 shares
Number of shares outstanding	-	5,385 shares	13,564 shares	16,988 shares	134,544 shares	28,000 shares	198,481 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	

(\*) The Company changed the number of shares granted and the exercise price, as presented above (1st, 2nd, 3rd, 4th and 5th), in accordance with the resolutions of the Board of Directors on April 26, 2003, October 17, 2003 and October 22, 2004.

(b) Expense (or income) related to stock appreciation rights granted to executives incurred for the year ended December 31, 2008 are as follows:

<i>(in millions of Won)</i>	1 <sup>st</sup> Grant	2 <sup>nd</sup> Grant	3 <sup>rd</sup> Grant	4 <sup>th</sup> Grant	5 <sup>th</sup> Grant	6 <sup>th</sup> Grant	Total
Prior periods	₩ 60,825	₩ 14,050	₩ 7,837	₩ 35,145	₩ 88,823	₩ 34,000	₩ 240,680
Current period	(880)	(3,249)	(2,994)	(5,375)	(34,143)	(8,514)	(55,155)
	₩ 59,945	₩ 10,801	₩ 4,843	₩ 29,770	₩ 54,680	₩ 25,486	₩ 185,525

As of December 31, 2008 and 2007, liabilities related to stock appreciation rights which are stated as current and long-term accrued expenses amounted to ₩ 42,779 million and ₩ 123,479 million, respectively.



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**23. Derivatives**

The Company has entered into cross currency swap agreements to reduce interest rates and currency risks and currency forward contracts with financial institutions to hedge the fluctuation risk of future cash flows. The gains and losses on currency swap and currency forward contracts for the years ended December 31, 2008 and 2007 and related contracts outstanding as of December 31, 2008 and 2007 are as follows:

(in millions of Won) Company	Type of Transaction	Purpose of Transaction	Financial Institutions	Income Statement		Comprehensive Income (*2)		Income Statement	
				2008	2007	2008	2007	2008	2007
POSCO	Currency forward Embedded derivative (*1)	Hedge Exchangeable Bonds	Woori Bank and others Related creditors	₩ -	₩ 301	₩ -	₩ -	₩ 830	₩ 7,638
POSCO E&C Co., Ltd.	Currency forward Currency Swap Interest Swap Valuation of Fixed contract	Fair market value Fair market value Cash flow hedge Fair market value hedge	HSBC and others Calyon Bank and Calyon Bank and -	17,985 (124,870) 72,182 -	- (1,394) -	- -	- -	- (53,070) 1,718 -	- 185 -
Posteel Co., Ltd.	Currency forward	Trading	SC Korea First Bank	177,940	-	-	-	-	-
Pohang Coated Steel Co., Ltd.	Currency forward Currency Option Currency Swap	Trading Trading Trading	Shinhan Bank SC Korea First Bank and others SC Korea First Bank and others	- (138,472) 10,451	- 1,329 58	- -	- -	2,659 (19,228) 9,570	(3) 2,860 -
POSCO Machinery & Engineering Co., Ltd.	Currency forward	Trading	Korea Exchange Bank and others	(2,482)	-	-	-	(3,606)	-
POSDATA Co., Ltd.	Currency forward	Cash flow hedge	Korea Exchange Bank	-	-	-	-	-	(10)
Posco Specialty Steel Co., Ltd.	Currency forward Currency Swap Currency Swap	Trading Fair market value Cash flow hedge	SC Korea First Bank SC Korea First Bank	(2) -	1 65	- -	- (524)	- 9,186	(47) -
Samjung Packing & Aluminum Co., Ltd.	Currency future	Fair market value hedge	Woori Bank and others	215	-	-	-	-	-
POSCO Power Corp.	Currency forward Currency Swap Currency Swap	Trading Cash flow hedge Cash flow hedge	Nong Hyup Bank and others Calyon Bank and Bank of Tokyo- Mitsubishi UFJ	- 28,737 23,063	- 1,368 -	- (6,035) (131)	- (3,510) -	(1,365) -	431 274 -
Daewoo engineering Company	Currency forward	Trading	Citi Bank	(5,886)	-	-	-	(5,385)	-
POSCO Australia Pty. Ltd.	Derivatives	Trading	MML	(584)	7,359	-	-	-	-
POS-MPC S.A. de C.V.	Currency future	Cash flow hedge	Standard Chartered	-	37	-	-	(149)	-
				₩ 58,277	₩ 9,124	₩ (10,800)	₩ (4,034)	₩ (62,165)	₩ 11,377

(\*1) The Company applied derivative accounting as exchangeable right to investors related to exchangeable bond issued in August 19, 2008 meets certain criteria of embedded derivatives. Fair values of exchangeable right are ₩ 27,184 million (JPY 2,867,605,334) at the date of issue and ₩ 9,199 million (JPY 659,937,500) as of December 31, 2008. This exchangeable right is included in other long-term liabilities.

(\*2) Gain and loss on valuation from cash flow hedge transactions are recorded as other comprehensive income, net of tax effect.

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**24. Selling and Administrative Expenses**

Selling and administrative expenses for the years ended December 31, 2008 and 2007 are as follows:

<i>(in millions of Won)</i>	<b>2008</b>	<b>2007</b>
Selling expenses	₩ 882,901	689,600
Fees and charges	124,123	97,100
Salaries and wages	256,959	218,206
Advertising	98,780	103,979
Research and development	94,571	52,846
Depreciation	34,681	30,604
Amortization	71,590	56,653
Rent	24,204	19,389
Other employee benefit	159,732	123,584
Provision for severance benefits	52,433	44,779
Supplies	8,482	9,053
Travel	30,537	25,870
Training	24,397	20,094
Repairs	13,135	12,693
Communications	4,950	3,666
Vehicle expenses	4,626	3,947
Taxes and dues	29,595	29,519
Entertainment	12,542	10,561
Subscriptions and printing	4,674	5,326
Utilities	3,232	2,345
Insurance	15,515	9,832
Stock compensation expense	-	123,881
Provision for allowance for doubtful accounts	24,033	62,026
Others	30,676	29,664
	<u>₩ 2,006,368</u>	<u>1,785,217</u>

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**25. Income Taxes**

(a) Income tax expense for the years ended December 31, 2008 and 2007 are as follows:

<i>(in millions of Won)</i>	<u>2008</u>	<u>2007</u>
Current income taxes(*)	₩ 2,181,238	1,341,252
Deferred income taxes	(712,233)	294,418
Carryforward income tax	(9,976)	2,714
Items charged directly to shareholders' equity	303,060	(304,580)
Tax effect due to consolidation entries	(28,106)	(59,578)
	<u>₩ 1,733,983</u>	<u>1,274,226</u>

(\*) Additional tax payments (or tax returns) arising from finalized tax assessment are added or deducted in current income taxes.

Deferred tax assets and liabilities are computed on such temporary differences by applying enacted statutory tax rates applicable to the years when such differences are expected to reverse. The effect of tax amendment amounting to ₩ 24,431 million were recorded in income tax expenses.

(b) The following table reconciles the expected amount of income tax expense based on statutory rates to the actual amount of taxes recorded by the Company for the years ended December 31, 2008 and 2007:

<i>(in millions of Won)</i>	<u>2008(*)</u>	<u>2007</u>
Net income before income tax expense	₩ 6,095,639	4,898,932
Income tax expense computed at statutory rate	1,676,301	1,347,206
Adjustments:		
Tax credit	(167,962)	(159,816)
Effect of changes in tax rate	6,552	-
Others, net	219,092	(86,836)
Income tax expense	<u>₩ 1,733,983</u>	<u>1,274,226</u>
Effective rate (%)	<u>28.4</u>	<u>26.0</u>

(\*) Amount of ₩ 215,920 million from changes in deferred income tax assets subject to possibility of realization are included in others.

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(c) Changes in temporary differences and deferred income taxes for the year ended December 31, 2008 and 2007 are as follows:

<i>(in millions of Won)</i>	Temporary differences			Deferred income tax		
	Dec. 31, 2007	Inc. (dec.)	Dec. 31, 2008	Dec. 31, 2007	Inc. (dec.)	Dec. 31, 2008
Deductible temporary differences:						
Reserve for special repairs	₩ (301,751)	₩ 19,926	₩ (281,825)	₩ (82,982)	₩ 20,560	₩ (62,422)
Allowance for doubtful accounts	292,762	(191)	292,571	80,532	(16,746)	63,786
Reserve for technology developments	(1,101,734)	1,092,270	(9,464)	(302,976)	300,826	(2,150)
Dividend income from related companies	366,233	65,264	431,497	100,714	(5,785)	94,929
Depreciation expense	(147,991)	(126,677)	(274,668)	(40,115)	(20,079)	(60,194)
Valuation of equity method investments	(1,296,879)	(79,166)	(1,376,045)	(274,370)	63,566	(210,804)
Prepaid expenses	34,431	34,796	69,227	9,467	6,822	16,289
Impairment loss on property, plant	420,085	(294,058)	126,027	121,483	(78,816)	42,667
Gain/Loss on foreign currency	-	634,028	634,028	-	140,283	140,283
Accrued severance benefits	161,924	13,314	175,238	44,574	(5,198)	39,376
Group severance insurance deposits	(44,276)	(70,465)	(114,741)	(12,175)	(13,746)	(25,921)
Provision for construction losses	21,227	15,016	36,243	5,836	2,276	8,112
Provision for construction warranty	21,065	5,530	26,595	5,794	58	5,852
Appropriated retained earnings for technological development	(2,833)	833	(2,000)	(780)	318	(462)
Accrued income	(8,328)	5,584	(2,744)	(2,313)	2,328	15
Accrued on valuation of Inventories	695	11,426	12,121	190	2,754	2,944
Others	293,857	(18,488)	275,369	73,419	(41,171)	32,248
	₩ (1,291,513)	₩ 1,308,942	₩ 17,429	₩ (273,702)	₩ 358,250	₩ 84,548
Deferred tax from tax credit transferred prior year and others:						
Tax credit transferred prior year	₩ 22,725	₩ (7,569)	₩ 15,156	₩ 19,949	₩ (3,478)	₩ 16,471
Deficit carried forward	9,187	(25,102)	(15,915)	2,526	5,287	7,813
Others	-	-	-	(8,167)	8,167	-
	₩ 31,912	₩ (32,671)	₩ (759)	₩ 14,308	₩ 9,976	₩ 24,284
Current and deferred income taxes recognized directly to equity:						
Capital adjustment arising from equity method investments	₩ (272,947)	₩ (448,801)	₩ (721,748)	₩ (75,060)	₩ (84,440)	₩ (159,500)
Gain on valuation of available-for-sale securities	(1,315,772)	975,546	(340,226)	(364,373)	290,151	(74,222)
Loss on valuation of available-for-sale securities	239,451	723,091	962,542	65,891	146,249	212,140
Others	4,276	10,342	14,618	1,176	2,023	3,199
	₩ (1,344,992)	₩ 1,260,178	₩ (84,814)	₩ (372,366)	₩ 353,983	₩ (18,383)
Tax effect on elimination of intercompany profit and others				237,683	28,106	265,789
				₩ (394,077)	₩ 750,315	₩ 356,238

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<i>(in millions of Won)</i>	Temporary differences			Deferred income tax		
	Dec. 31, 2006	Inc. (dec.)	Dec. 31, 2007	Dec. 31, 2006(*1)	Inc. (dec.)	Dec. 31, 2007
Deductible temporary differences:						
Reserve for special repairs	₩ (403,384)	₩ 101,633	₩ (301,751)	₩ (110,930)	₩ 27,948	₩ (82,982)
Allowance for doubtful accounts	345,789	(53,026)	292,762	94,977	(14,445)	80,532
Reserve for technology developments	(1,484,767)	383,033	(1,101,734)	(408,311)	105,335	(302,976)
Dividend income from related companies	304,162	62,071	366,233	83,644	17,070	100,714
Depreciation expense	7,091	(155,084)	(147,991)	2,684	(42,799)	(40,115)
Valuation of equity method investments	(718,357)	(578,523)	(1,296,879)	(166,730)	(107,640)	(274,370)
Prepaid expenses	42,084	(7,653)	34,431	11,555	(2,088)	9,467
Impairment loss on property, plant and equipment	516,305	(96,220)	420,085	147,973	(26,490)	121,483
Accrued severance benefits	124,582	37,344	161,924	34,298	10,276	44,574
Group severance insurance deposits	(37,376)	(6,899)	(44,276)	(10,278)	(1,897)	(12,175)
Provision for construction losses	15,133	6,094	21,227	4,161	1,675	5,836
Provision for construction warranty	18,935	2,130	21,065	5,154	640	5,794
Appropriated Retained Earnings for Technological Development	(3,500)	667	(2,833)	(963)	183	(780)
Accrued income	(7,952)	122	(8,328)	(2,206)	(107)	(2,313)
Accrued on valuation of Inventories	441	254	695	121	69	190
Accrued on guarantee loss securities	41,300	(41,300)	-	11,358	(11,358)	-
Others	333,308	(39,448)	293,857	81,188	(7,769)	73,419
	₩ (906,206)	₩ (384,805)	₩ (1,291,513)	₩ (222,305)	₩ (51,397)	₩ (273,702)
Deferred tax from tax credit						
Tax credit transferred from prior year	₩ 20,137	₩ 2,588	₩ 22,725	₩ 19,004	₩ 945	₩ 19,949
Deficit carried forward	12,487	(3,299)	9,187	3,434	(908)	2,526
Others	-	-	-	(5,416)	(2,751)	(8,167)
	₩ 32,624	₩ (711)	₩ 31,912	₩ 17,022	₩ (2,714)	₩ 14,308
Current and deferred income taxes						
Capital adjustment arising from equity method investments	₩ (112,643)	₩ (160,305)	₩ (272,947)	₩ (30,975)	₩ (44,085)	₩ (75,060)
Gain on valuation of available-for-sale securities	(751,593)	(564,179)	(1,315,772)	(206,689)	(157,684)	(364,373)
Loss on valuation of available-for-sale securities	394,401	(154,950)	239,451	108,319	(42,428)	65,891
Others	-	4,276	4,276	-	1,176	1,176
	₩ (469,835)	₩ (875,158)	₩ (1,344,992)	₩ (129,345)	₩ (243,021)	₩ (372,366)
Tax effect on elimination of intercompany profit and others				178,105	59,578	237,683
				₩ (156,523)	₩ (237,554)	₩ (394,077)

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**26. Earnings Per Share**

Basic earnings per share for the years ended December 31, 2008 and 2007 were as follows:

<i>(in millions of Won except per share information)</i>	<u>2008</u>	<u>2007</u>
Net income	₩ 4,378,751	3,558,660
Weighted-average number of common shares outstanding (*)	<u>75,493,523</u>	<u>75,952,869</u>
Basic earnings per share	<u>₩ 58,002</u>	<u>46,854</u>

(\*) Basic earnings per share is computed by dividing net income allocated to common stock, by the weighted-average number of common shares outstanding for the years ended December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Total number of common shares issued	87,186,835	77,592,942
Weighted-average number of treasury shares	<u>(11,693,312)</u>	<u>(1,640,073)</u>
Weighted-average number of common shares outstanding	<u>75,493,523</u>	<u>75,952,869</u>

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**27. Comprehensive income**

Comprehensive incomes for the years ended December 31, 2008 and 2007 are as follows:

<i>(in millions of Won)</i>	<u>2008</u>	<u>2007</u>
Net income	₩ 4,350,104	3,677,964
Other comprehensive income		
Gain (loss) on valuation of available-for-sale securities, net	(1,714,939)	690,805
Less: tax effect	427,512	(192,094)
Changes in capital adjustments arising from equity method accounted investments	48,139	27,243
Less: tax effect	(11,903)	(34,698)
Foreign currency translation adjustments	576,489	99,408
Less: tax effect	(75,291)	(11,451)
Gain on valuation of derivative instruments	(9,175)	(5,365)
Less: tax effect	1,868	1,331
	<u>(757,300)</u>	<u>575,179</u>
Comprehensive income	₩ 3,592,804	4,253,143
Controlling interest	₩ 3,571,833	4,118,011
Minority interest	₩ 20,971	135,132

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**28. Assets and Liabilities Denominated in Foreign Currencies**

Monetary assets and liabilities denominated in foreign currencies as of December 31, 2008 and 2007 are as follows:

<i>(in millions of Won, other currencies in</i>	2008		2007	
	Foreign Currency (*2)	Won Equivalent	Foreign Currency (*2)	Won Equivalent
<b>Assets</b>				
Cash and cash equivalents	USD	129,977 ₩	USD	231,556 ₩
	JPY	574,721	JPY	74,355
	EUR	2,313	EUR	27
	Overseas subsidiaries	728,786	Overseas subsidiaries	430,853
		916,448		404,226
Trade accounts and notes receivable	USD	370,388	USD	323,175
	JPY	6,855,809	JPY	6,042,643
	EUR	14,802	EUR	7,796
	Overseas subsidiaries	807,654	Overseas subsidiaries	773,033
		1,015,625		725,259
Other accounts and notes receivable	USD	5,740	USD	5,235
	JPY	8,879	JPY	16,960
	EUR	-	EUR	11
	Overseas subsidiaries	101,680	Overseas subsidiaries	73,300
		127,863		68,770
Short-term and long-term loans receivable	Overseas subsidiaries	331,900	Overseas subsidiaries	186,380
		417,365		174,862
Long-term trade accounts and notes receivable	Overseas subsidiaries	71	Overseas subsidiaries	71
		89		66
Investment securities (*1)	Overseas subsidiaries	96,983	Overseas subsidiaries	205,885
		121,956		193,161
Guarantee deposits	USD	553	USD	427
	EUR	129	EUR	41
	Overseas subsidiaries	7,355	Overseas subsidiaries	6,955
		9,249		6,526
		₩ 3,380,045		₩ 2,160,212

(\*1) Presented at face value.

(\*2) Currencies other than US dollars, Japanese yen, and Euros are converted into US dollars. The amounts of overseas subsidiaries are converted into US dollars.



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	2008				2007			
	Foreign Currency (*2)		Won Equivalent		Foreign Currency (*2)		Won Equivalent	
<i>(in millions of Won, other currencies in</i>								
<b>Liabilities</b>								
Trade accounts and notes payable	USD	432,531	₩	543,907	USD	410,215	₩	384,863
	JPY	5,308,193		73,990	JPY	1,509,059		12,576
	EUR	3,455		6,136	EUR	1,042		1,440
	Overseas subsidiaries	439,043		552,097	Overseas subsidiaries	520,780		488,595
Other accounts and notes payable	USD	37,652		47,347	USD	45,304		42,505
	JPY	2,861,507		39,886	JPY	636,330		5,302
	EUR	9,256		16,441	EUR	446		617
	Overseas subsidiaries	76,183		95,800	Overseas subsidiaries	44,335		41,595
Accrued expenses	USD	1,573		1,977	USD	2,552		2,394
	JPY	2,322		32	JPY	-		-
	Overseas subsidiaries	26,472		33,289	Overseas subsidiaries	27,297		25,610
Short-term borrowings	USD	304,956		383,482	USD	194,394		182,380
	Overseas subsidiaries	1,926,753		2,422,892	Overseas subsidiaries	1,355,638		1,271,860
Withholdings	USD	19,349		24,331	USD	5,122		4,805
	JPY	161,870		2,256	JPY	145,910		1,216
	EUR	5,179		9,199	EUR	2,047		2,828
	Overseas subsidiaries	3,688		4,638	Overseas subsidiaries	2,864		2,687
Debentures (*1)	USD	640,000		804,800	USD	390,000		365,898
	JPY	182,592,205		2,545,134	JPY	101,622,000		846,847
	Overseas subsidiaries	15,776		19,838	Overseas subsidiaries	-		-
Loans from foreign financial institutions	USD	36,134		45,439	USD	34,829		32,677
	JPY	192,000		2,676	JPY	384,000		3,200
	Overseas subsidiaries	923,439		1,161,224	Overseas subsidiaries	538,323		505,055
Foreign currency loans	EUR	4,601		8,172	EUR	5,237		7,234
			₩	8,844,983			₩	4,232,184

(\*1) Presented at face value.

(\*2) Currencies other than US dollars, Japanese yen, and Euros are converted into US dollars. The amounts of overseas subsidiaries are converted into US dollars.

# POSCO and Subsidiaries

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#### 29. Related Party Transactions

(a) As of December 31, 2008, the subsidiaries of the Company are as follows:

**Domestic  
(25)**

POSCO E&C Co., Ltd., Posteel Co., Ltd., POSCON Co., Ltd., POSCO Coated & Color Steel Co., Ltd., POSCO Machinery & Engineering Co., Ltd., POSDATA Co., Ltd., POSCO Research Institute, Seung Kwang Co., Ltd., POSCO Architects & Consultants Co., Ltd., POSCO Specialty Steel Co., Ltd., POSCO Machinery Co., Ltd., POSTECH Venture Capital Corp, POSTECH 2006 Energy Fund, POSCO Refractories & Environment Co., Ltd. (POSREC), POSCO Terminal Co., Ltd., POSMATE Co., Ltd., Samjung Packing & Aluminum Co., Ltd., POSCO Power Corp., PHP Co., Ltd., PNR Co., Ltd., Megaasset Co., Ltd., Daewoo engineering Company, Metapolis Co., Ltd., POSCORE Co., Ltd. Universal Studio Resort Development Co., Ltd.

**Foreign  
(48)**

POSCO America Corporation(POSAM), POSCO Australia Pty. Ltd.(POSA), POSCO Canada Ltd.(POSCAN), POSCAN Elkview Coal Ltd., POSCO Asia Co., Ltd.(POA), VSC POSCO Steel Corporation(VPS), Dalian POSCO-CFM Coated Steel Co., Ltd., POS-Tianjin Coil Center Co., Ltd., POSMETAL Co., Ltd., Shanghai Real Estate Development Co., Ltd., IBC Corporation, POSLILAMA Steel Structure Co., Ltd., Zhangjiagang Pohang Stainless Steel Co., Ltd., POSCO(Guangdong) Coated Steel Co., Ltd., POSCO Thailand Bangkok Processing Center Co., Ltd., Myanmar POSCO Steel Co., Ltd., Zhangjiagang POSHA Steel Port Co., Ltd.(ZPSP), POSCO-JOPC Co., Ltd., POSCO Investment Co., Ltd., POSCO-MKPC SDN BHD, Qingdao Pohang Stainless Steel Co., Ltd., POSCO(Suzhou) Automotive Processing Center Co., Ltd., POSEC-Hawaii Inc., POS-Qingdao Coil Center Co., Ltd., POS-Ore Pty. Ltd., POSCO-China Holding Corp., POSCO-Japan Co., Ltd., POSCO E&C(Zhangjiagang) Engineering & Consulting Co., Ltd., POS-CD Pty. Ltd., POS-GC Pty. Ltd., POSCO-India Private Ltd., POS-India Pune Steel Processing Centre Pvt. Ltd., POSCO-JNPC Co., Ltd., POSCO-Foshan Steel Processing Center Co.,Ltd., POSCO E&C (Beijing) Co., Ltd., POS-MPC S.A. de C.V.,

Zhangjiagang Pohang Port Co., Ltd., POSCO-Vietnam Co., Ltd., POSS India Delhi Steel Processing Centre Private Limited, POS-NP Pty. Ltd., POSCO Vietnam Processing Center Co., Ltd., POSCO(Chongqing) Automotive Processing Center Co, Ltd., Suzhou POSCORE Technology Co., Ltd., POSCO-JYPC Co., Ltd., POSCO-Malaysia SDN. BHD., POS-Minerals Corporation, POSCO(Wuhu) Automotive Processing Center Co., Ltd.

# POSCO and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2008 and 2007

(b) Significant transactions, which occurred in the ordinary course of business, with consolidated subsidiaries for the years ended December 31, 2008 and 2007, and the related account balances as of December 31, 2008 and 2007 are as follows:

(in millions of Won)

	Sales and others(*1)		Purchase and others(*1)		Receivables(*2)		Payables(*2)	
	2008	2007	2008	2007	2008	2007	2008	2007
<b>Subsidiaries</b>								
POSCO E&C Co., Ltd.	₩ 13,626	20,000	₩ 1,121,335	984,030	₩ 396,743	186	₩ 249,792	105,178
Posteel Co., Ltd.	1,455,354	1,072,032	244,908	220,459	220,360	104,624	21,651	12,386
POSCON Co., Ltd.	105	120	229,119	244,365	62,895	7	62,943	24,842
POSCO Coated Steel Co., Ltd.	609,377	436,206	1,916	1,327	48,785	40,431	71	119
POSCO Machinery & Engineering Co., Ltd.	4,309	157	158,275	152,844	18,770	6	26,054	20,431
POSDATA Co., Ltd.	1,685	4,516	187,186	173,660	1,103	10	27,322	31,614
POSCO Research Institute	3	3	18,946	17,280	54	1	3,780	6,394
Seung Kwang Co., Ltd.	3	-	89	69	1,631	-	-	-
POSCO Architects & Consultants Co., Ltd.	936	862	29,455	24,298	235	1	5,470	2,001
POSCO Specialty Steel Co., Ltd.	3,697	5,175	27,122	88,258	1,843	40	4,522	8,067
POSCO Machinery Co., Ltd.	15,302	3,480	79,549	114,378	5,032	50	16,401	10,445
POSTECH Venture Capital Co., Ltd.	83	94	-	-	-	-	68	66
POSCO Refractories & Environment Co., Ltd. (POSREC)	57,189	250	350,153	213,753	19,064	9	57,788	24,265
POSCO Terminal Co., Ltd.	11,716	9,841	803	476	1,394	1,001	277	61
POSIMATE Co., Ltd.	1,484	2,433	38,626	36,666	246	63	5,959	5,038
Samjung Packing & Aluminum Co., Ltd.	25,115	16,985	268,044	233,125	2,578	1,355	23,678	20,612
POSCO Power Corp.	7	9,105	-	-	-	-	-	-
POSCORE Co., Ltd.	131,497	39,002	176	-	20,330	9,500	-	-
PNR Co., Ltd.	2	-	-	-	-	-	-	-
Daewoo Engineering Company	-	-	8,498	-	928	-	1,652	-
POSCO America Corporation (POSAM)	168,663	130,150	93	686	2,818	4,447	-	-
POSCO Australia Pty. Ltd. (POSA)	27,695	18,206	71	231	18	40	-	-
POSCO Canada Ltd. (POSCAN)	40	40	289,015	71,120	20	21	-	9,635
POSCO Asia Co., Ltd. (POA)	951,867	600,059	215,318	121,098	27,224	24,323	2,978	1,922
VSC POSCO Steel Corporation	3	2	-	-	-	-	-	-
POS-Tianjin Coil Center Co., Ltd.	13,139	-	-	-	-	-	-	-
POSMETAL Co., Ltd.	39,524	-	-	-	2,560	-	-	-
IBC Corporation Zhangjiagang Pohang	-	-	-	49	-	-	-	-
Stainless Steel Co., Ltd. (POSCO (Guangdong))	3,145	22,474	-	-	-	-	-	-
Coated Steel Co., Ltd.	-	2	-	-	-	-	-	-
POSCO Thailand Bangkok Processing Center Co., Ltd.	91,077	47,248	-	-	32,415	-	-	-
POSCO-MKPC SDN BHD	27,170	3,923	-	-	983	-	-	-
Qingdao Pohang Stainless Steel Co., Ltd.	93,232	82,581	-	-	12,904	5,153	-	-
POSCO(Suzhou) Automotive Processing Center Co., Ltd.	24,930	-	-	-	-	-	-	-
POS-QINGDAO Coil Center Co., Ltd.	1,748	8,111	-	-	-	1,862	-	-

**POSCO and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
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(in millions of Won)

	Sales and others(*1)		Purchase and others(*1)		Receivables(*2)		Payables(*2)	
	2008	2007	2008	2007	2008	2007	2008	2007
POSCO-China Holding Corp.	2	-	1,699	923	-	-	-	-
POSCO-Japan Co., Ltd.	1,191,222	831,711	23,233	50,939	21,040	30,952	1,104	6
POS-India Pune Steel Processing Centre Pvt. Ltd.	66,931	53,981	-	9	3,831	-	-	-
POSCO-Foshan Steel Processing Center Co., Ltd.	23,940	-	-	-	-	-	-	-
POSCO MPC S.A. de C.V.	61,279	-	-	-	-	-	-	-
POSCO Vietnam Co., Ltd.	1,026	-	-	-	1,024	-	-	-
POSS India Delhi Steel Processing Centre Private Limited	20,844	-	318	346	565	-	-	-
POSCO Vietnam Processing Center Co., Ltd.	36,026	-	-	-	11,653	-	-	-
POSCO(Chongqing) Automotive Processing Center Co., Ltd.	4,686	-	-	-	-	-	-	-
POSCO-Malaysia SDN. BHD.	45,619	-	-	-	7,410	-	-	-
	<u>₩ 5,225,298</u>	<u>3,418,749</u>	<u>₩ 3,293,947</u>	<u>2,750,389</u>	<u>₩ 926,456</u>	<u>224,082</u>	<u>₩ 511,510</u>	<u>283,082</u>
<b>Equity method investees</b>								
eNtoB Corporation	₩ -	-	₩ 288,604	216,920	₩ -	-	₩ 6,016	2,999
MIDAS Information Technology Co., Ltd.	-	-	-	-	-	-	-	-
SNNC Co., Ltd.	2,245	343	33,867	-	19	1	1,926	-
KOBRASCO	4,115	-	63,968	72,514	4,115	-	-	4,048
USS - POSCO Industries (UPI)	428,092	245,814	-	-	-	8	-	-
Poschrome (Proprietary) Limited	98	35	91,467	41,735	-	-	-	-
Guangdong Xingpu Steel Processing Center Co., Ltd.	10,011	3,094	-	-	1,825	4,276	-	-
POSVINA Co., Ltd.	12,550	5,056	-	-	-	-	-	-
POSCO-SK Steel Pinghu Processing Center Co., Ltd.	1	-	-	-	-	-	-	-
	<u>₩ 457,112</u>	<u>254,342</u>	<u>₩ 477,906</u>	<u>331,169</u>	<u>₩ 5,959</u>	<u>4,285</u>	<u>₩ 7,942</u>	<u>7,047</u>
	<u>₩ 5,682,410</u>	<u>3,673,091</u>	<u>₩ 3,771,853</u>	<u>3,081,558</u>	<u>₩ 932,415</u>	<u>228,367</u>	<u>₩ 519,452</u>	<u>290,129</u>

(\*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.

**POSCO and Subsidiaries**  
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(c) Eliminations of inter-company revenues and expenses for the years ended December 31, 2008 and 2007, and receivables and payables as of December 31, 2008 and 2007 are as follows:

<i>(in millions of Won)</i>	<b>Sales and others(*1)</b>		<b>Purchase and others(*1)</b>		<b>Receivables(*2)</b>		<b>Payables(*2)</b>	
<b>Subsidiaries</b>								
POSCO	₩	5,225,298	₩	3,293,947	₩	926,456	₩	511,510
POSCO E&C Co., Ltd.		1,711,219		200,040		330,325		769,571
Posteel Co., Ltd.		479,042		1,739,816		103,151		227,596
POSCON Co., Ltd.		285,717		25,021		90,499		82,757
POSCO Coated Steel Co., Ltd.		140,313		615,459		5,590		51,098
POSCO Machinery & Engineering Co., Ltd.		177,064		11,920		36,241		21,271
POSDATA Co., Ltd.		226,459		6,860		41,184		1,891
POSCO Specialty Steel Co., Ltd.		118,480		52,415		9,498		17,051
POSCO Machinery Co., Ltd.		88,118		17,828		21,622		6,280
POSCO Refractories & Environment Co., Ltd. (POSREC)		365,429		59,201		64,168		19,304
POSMATE Co., Ltd.		54,946		3,627		7,460		246
Samjung Packing & Aluminum Co., Ltd.		287,345		27,610		31,779		2,684
POSCORE Co., Ltd.		213		138,654		13		20,330
POSCO America Corporation (POSAM)		9,731		201,742		2,782		2,827
POSCO Canada Ltd. (POSCAN)		289,015		40		-		20
POSCO Asia Co., Ltd. (POA)		690,482		1,209,891		40,363		32,170
Zhangjiagang Pohang Stainless Steel Co., Ltd.		484,395		16,632		25,987		1,121
Qingdao Pohang Stainless Steel Co., Ltd.		186,536		380,401		2,407		16,418
POSCO-Japan Co., Ltd.		213,715		1,226,022		59,667		23,235
POSS-India Delhi Steel Processing Centre Private Limited		-		21,553		-		4,930
Others		407,165		2,192,003		659,458		646,340
	₩	<u>11,440,682</u>	₩	<u>11,440,682</u>	₩	<u>2,458,650</u>	₩	<u>2,458,650</u>

(\*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.

**POSCO and Subsidiaries**  
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(d) For the years ended December 31, 2008 and 2007, details of compensation to key management officers are as follows:

<i>(in millions of Won)</i>	<b>2008</b>	<b>2007</b>
Salaries	₩ 46,142	36,740
Severance benefits	11,481	13,053
Management achievement awards	37,347	27,865
Stock compensation expense	(55,155)	123,881
Total	₩ 39,815	201,539

Key management officers include directors (including non-standing directors), executive officials and fellow officials who have significant influence and responsibilities in the Company's business and operations.

**30. Significant non-cash Transaction**

Significant non-cash transaction for the year ended December 31, 2008 includes increase in inventories which were transferred to the Company as settlement for trade accounts receivable in relation to POSCO E&C Co., Ltd., in the amount of ₩ 272,496 million.

**31. Segment and Regional Information**

(a) The following table provides information on the significant financial status of each operating segment of the consolidated subsidiaries as of and for the year ended December 31, 2008:

<i>(in millions of Won)</i>	<b>Steel</b>	<b>Engineering and construction</b>	<b>Trading</b>	<b>Others</b>	<b>Consolidation Adjustment</b>	<b>Consolidated</b>
Sales						
Total sales	₩ 38,448,113	5,528,105	5,656,959	3,749,459	(11,640,000)	₩ 41,742,636
Inter-company sales	(6,547,017)	(1,855,696)	(1,392,356)	(1,844,931)	11,640,000	-
Net sales	₩ 31,901,096	3,672,409	4,264,603	1,904,528	-	₩ 41,742,636
Operating income	₩ 6,628,789	283,973	49,117	488,078	(276,028)	₩ 7,173,929
Inventories	₩ 7,569,508	847,481	323,164	219,574	(298,006)	₩ 8,661,721
Investments (non-current)	8,722,560	1,067,694	603,289	1,027,891	(6,143,269)	5,278,165
Property, plant and equipment	17,393,603	614,477	231,164	1,637,042	(1,807,187)	18,069,099
Intangible assets	223,177	21,825	957	157,206	320,602	723,767
Total Assets	₩ 42,894,665	6,558,334	1,978,977	4,922,354	(9,393,048)	₩ 46,961,282
Depreciation and amortization (*)	₩ 2,171,387	17,710	5,660	150,176	35,124	₩ 2,380,057

**POSCO and Subsidiaries**  
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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 year ended December 31, 2007:

<i>(in millions of Won)</i>		<b>Steel</b>	<b>Engineering and construction</b>	<b>Trading</b>	<b>Others</b>	<b>Consolidation Adjustment</b>	<b>Consolidated</b>
<b>Sales</b>							
Total sales	₩	27,910,722	3,801,882	4,018,003	3,989,066	(8,111,932)	₩ 31,607,741
Inter-company sales		(4,738,741)	(1,092,309)	(874,520)	(1,406,362)	8,111,932	-
Net sales	₩	<u>23,171,981</u>	<u>2,709,573</u>	<u>3,143,483</u>	<u>2,582,704</u>	-	₩ 31,607,741
<b>Operating income</b>	₩	4,523,589	284,632	31,068	198,225	(117,652)	₩ 4,919,862
<b>Inventories</b>	₩	4,258,206	454,338	126,182	145,708	(82,418)	₩ 4,902,016
Investments (non-current)		8,205,751	565,983	333,688	775,105	(4,641,501)	5,239,026
Property, plant and equipment		15,110,911	142,157	198,856	1,341,015	(1,211,174)	15,581,765
Intangible assets		246,932	25,152	897	166,992	130,806	570,779
Total Assets	₩	33,869,372	3,246,818	1,195,492	4,295,711	(6,332,630)	₩ 36,274,763
Depreciation and amortization (*)	₩	1,940,677	16,527	5,591	140,059	24,578	₩ 2,127,432

(\*) Includes depreciation expense of idle property.

(b) The following table provides information on the significant financial status of each operating segments by region of the consolidated subsidiaries as of and for the years ended December 31, 2008 and 2007:

		<b>2008</b>							
		<b>Korea</b>		<b>Asia/Pacific excluding Japan &amp; China</b>			<b>Consolidation adjustments</b>		<b>Consolidated</b>
<i>(in millions of Won)</i>		<b>Domestic</b>	<b>Export</b>	<b>Japan</b>	<b>China</b>	<b>North America</b>	<b>Others</b>		
<b>Statement of income</b>									
Sales	₩	31,754,983	12,593,062	1,492,081	5,783,073	713,292	218,736	827,409	(11,640,000) ₩ 41,742,636
Less: Inter-segment		(6,073,441)	(3,391,790)	(231,230)	(1,611,811)	(34,986)	(9,563)	(287,179)	11,640,000 -
Net sales	₩	<u>25,681,542</u>	<u>9,201,272</u>	<u>1,260,851</u>	<u>4,171,262</u>	<u>678,306</u>	<u>209,173</u>	<u>540,230</u>	- ₩ 41,742,636
<b>Operating income</b>	₩		7,213,994	18,750	(113,524)	8,487	2,583	319,667	(276,028) ₩ 7,173,929
<b>Balance sheet</b>									
Investments (non-current)	₩		10,310,640	38,379	459,562	2,238	296,550	314,066	(6,143,270) ₩ 5,278,165
Property, plant and equipment			40,895,664	285,176	2,220,914	629,395	1,309	545,421	(26,508,780) 18,069,099
Intangible assets			266,807	520	75,432	3,597	-	56,809	320,602 723,767
Total Assets	₩		48,525,094	1,020,050	3,599,729	998,121	456,593	1,502,434	(9,140,739) ₩ 46,961,282
		<b>2007</b>							
		<b>Korea</b>		<b>Asia/Pacific excluding Japan &amp; China</b>			<b>Consolidation adjustments</b>		<b>Consolidated</b>
<i>(in millions of Won)</i>		<b>Domestic</b>	<b>Export</b>	<b>Japan</b>	<b>China</b>	<b>North America</b>	<b>Others</b>		
<b>Statement of income</b>									
Sales	₩	23,980,673	8,273,618	1,127,456	5,388,057	400,294	253,487	296,088	(8,111,932) ₩ 31,607,741
Less: Inter-segment		(4,736,709)	(1,634,221)	(41,789)	(1,573,009)	(7,029)	-	(69,175)	8,111,932 50,000
Net sales	₩	<u>19,243,964</u>	<u>6,639,397</u>	<u>1,085,667</u>	<u>3,815,048</u>	<u>393,265</u>	<u>253,487</u>	<u>226,913</u>	- ₩ 31,607,741
<b>Operating income</b>	₩		4,840,809	13,137	130,145	8,158	10,676	34,589	(117,652) ₩ 4,919,862
<b>Balance sheet</b>									
Investments (non-current)	₩		9,109,371	20,972	324,606	1,881	108,430	315,266	(4,641,501) ₩ 5,239,025
Property, plant and equipment			15,267,669	112,819	1,106,121	129,206	387	176,737	(1,211,174) 15,581,765
Intangible assets			335,767	1,371	47,794	2,792	-	52,249	130,806 570,779
Total Assets	₩		38,037,166	519,246	2,615,441	395,772	233,123	806,645	(6,332,630) ₩ 36,274,763

**POSCO and Subsidiaries**  
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(c) Condensed consolidated balance sheets as of December 31, 2008 and 2007 categorized by type of business are as follows:

<i>(in millions of Won)</i>	<b>Non-financial Institution</b>		<b>Financial Institution</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Assets</b>				
Current assets	₩ 21,819,672	14,315,689	₩ 377,961	77,844
Non-Current assets	24,588,267	21,748,269	175,382	132,961
Investment assets	5,106,522	5,109,363	171,643	129,663
Property, plant and equipment	18,069,079	15,581,387	20	378
Intangible assets	723,724	570,724	43	55
Other non-current assets	688,942	486,795	3,676	2,865
Total Assets	<u>46,407,939</u>	<u>36,063,958</u>	<u>553,343</u>	<u>210,805</u>
<b>Liabilities</b>				
Current liabilities	10,609,425	6,533,867	399,967	90,748
Non-Current liabilities	7,607,183	4,532,167	502	240
Total Liabilities	<u>₩ 18,216,608</u>	<u>11,066,034</u>	<u>₩ 400,469</u>	<u>90,988</u>

(d) Condensed consolidated statements of income for the years ended December 31, 2008 and 2007 categorized by type of business are as follows:

<i>(in millions of Won)</i>	<b>Non-financial Institution</b>		<b>Financial Institution</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Sales	₩ 41,727,093	31,594,856	₩ 15,543	12,885
Cost of goods sold	32,555,721	24,896,387	6,618	6,276
Selling and administrative expenses	1,999,701	1,781,474	6,667	3,743
Operating income	7,171,671	4,916,995	2,258	2,866
Non-operating income	2,368,851	805,060	1,025	13,447
Non-operating expenses	3,441,729	834,844	6,437	4,593
Net income before income tax expense	6,098,793	4,887,211	(3,154)	11,721
Income tax expense	1,734,095	1,273,328	(112)	899
Net income of Subsidiaries				
before purchasing	11,552	(53,259)	-	-
Net income	<u>₩ 4,353,146</u>	<u>3,667,142</u>	<u>₩ (3,042)</u>	<u>10,822</u>
Controlling interest	₩ 4,381,793	3,547,838	₩ (3,042)	10,822
Minority interest	₩ (28,647)	119,304	₩ -	-