

POSCO

**Non-Consolidated Financial Statements
December 31, 2008**

Table of Contents

| | Page |
|---|-------------|
| Independent Auditors' Report | 1 |
| Non-Consolidated Financial Statements | |
| Non-Consolidated Balance Sheets | 3 |
| Non-Consolidated Statements of Income | 5 |
| Non-Consolidated Statements of Appropriation of Retained Earnings | 6 |
| Non-Consolidated Statements of Changes in Equity | 7 |
| Non-Consolidated Statements of Cash Flows | 8 |
| Notes to the Non-Consolidated Financial Statements | 10 |
| Independent Accountants' Review Report on Internal Accounting Control System ... | 60 |
| Report on the Operations of Internal Accounting Control System | 62 |

Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors and Shareholders of
POSCO:

We have audited the accompanying non-consolidated balance sheet of POSCO (the "Company") as of December 31, 2008, and the related non-consolidated statements of income, appropriation of retained earnings, changes in equity and cash flows for the year ended December 31, 2008. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audit. The accompanying non-consolidated financial statements of the Company as of December 31, 2007, were audited by other auditors, whose report thereon dated February 11, 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 non-consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the non-consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall non-consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the non-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, appropriation of its retained earnings, 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.

The following matters may be helpful to the readers in their understanding of the financial statements:

As discussed in note 2 to the non-consolidated financial statements, accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-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 non-consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying non-consolidated financial statements are for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.

Seoul, Korea
February 9, 2009

This report is effective as of February 9, 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 non-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
Non-Consolidated Balance Sheets
As of December 31, 2008 and 2007

(in millions of Won)

| | <u>2008</u> | <u>2007</u> |
|---|---------------------|-------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents (note 3) | ₩ 941,687 | 691,034 |
| Short-term financial instruments (note 3) | 1,524,598 | 1,443,301 |
| Trading securities (note 6) | 1,236,185 | 1,239,290 |
| Current portion of held-to-maturity securities (note 7) | 20,000 | 191,995 |
| Trade accounts and notes receivable, net of allowance for doubtful accounts (note 4) | 3,228,679 | 1,894,850 |
| Inventories (note 5) | 6,415,601 | 3,221,279 |
| Other accounts receivable, net of allowance for doubtful accounts (note 4) | 278,301 | 48,777 |
| Other current assets (note 11) | 48,173 | 37,369 |
| | <u>13,693,224</u> | <u>8,767,895</u> |
| Total current assets | | |
| Property, plant and equipment at cost (notes 8 and 31) | 36,504,565 | 33,881,421 |
| Less accumulated depreciation | (22,038,647) | (20,679,772) |
| Property, plant and equipment, net | <u>14,465,918</u> | <u>13,201,649</u> |
| Investment securities, net (note 7) | 8,625,939 | 8,163,413 |
| Intangible assets, net (notes 9 and 31) | 170,095 | 211,975 |
| Long-term trade accounts and notes receivable, net of allowance for doubtful accounts (note 4) | 4,154 | 19,364 |
| Long-term financial instruments (note 3) | 40 | 47 |
| Other long-term assets, net of allowance for doubtful accounts (note 11) | 74,083 | 128,455 |
| | <u>23,340,229</u> | <u>21,724,903</u> |
| Total non-current assets | | |
| Total assets | <u>₩ 37,033,453</u> | <u>30,492,798</u> |

See accompanying notes to non-consolidated financial statements.

POSCO
Non-Consolidated Balance Sheets
As of December 31, 2008 and 2007

(in millions of Won)

| | 2008 | 2007 |
|---|---------------------|-------------------|
| Liabilities | | |
| Trade accounts payable | ₩ 1,108,856 | 632,047 |
| Short-term borrowings (note 12) | 340,827 | 81,293 |
| Current portion of long-term debt, net of discount on debentures issued (notes 12 and 13) | 203,641 | 432,134 |
| Accrued expenses | 139,494 | 87,949 |
| Other accounts payable (note 30) | 694,681 | 599,166 |
| Withholdings | 40,042 | 27,131 |
| Income tax payable | 1,628,262 | 823,723 |
| Deferred income tax liabilities (note 27) | 90,307 | 96,673 |
| Other current liabilities (note 15) | 37,088 | 31,690 |
| Total current liabilities | 4,283,198 | 2,811,806 |
| Long-term debt, net of current portion and discount on debentures issued (note 13) | 4,584,681 | 2,240,879 |
| Accrued severance benefits, net (note 14) | 260,368 | 225,405 |
| Deferred income tax liabilities (note 27) | 36,533 | 557,749 |
| Other long-term liabilities | 85,016 | 153,727 |
| Total non-current liabilities | 4,966,598 | 3,177,760 |
| Total liabilities | 9,249,796 | 5,989,566 |
| Shareholders' Equity | | |
| Capital stock (note 19) | 482,403 | 482,403 |
| Capital surplus | 4,291,355 | 4,128,839 |
| Capital adjustments (note 21) | (2,502,014) | (2,715,964) |
| Accumulated other comprehensive income | 51,790 | 839,727 |
| Retained earnings (note 22) | 25,460,123 | 21,768,227 |
| Total shareholders' equity | 27,783,657 | 24,503,232 |
| Total liabilities and shareholders' equity | ₩ 37,033,453 | 30,492,798 |

See accompanying notes to non-consolidated financial statements.

POSCO
Non-Consolidated Statements of Income
For the years Ended December 31, 2008 and 2007

| <i>(in millions of Won except per share amounts)</i> | 2008 | 2007 |
|--|--------------------|------------------|
| Sales (note 31) | ₩ 30,642,409 | 22,206,685 |
| Cost of goods sold (note 24) | 22,706,984 | 16,606,087 |
| Gross profit | 7,935,425 | 5,600,598 |
| Selling and administrative expenses (note 25) | 1,395,366 | 1,292,323 |
| Operating profit | 6,540,059 | 4,308,275 |
| Non-operating income | | |
| Interest income | 191,086 | 126,423 |
| Dividend income | 95,382 | 59,058 |
| Gain on valuation of trading securities | 16,185 | 9,290 |
| Gain on disposal of trading securities | 52,923 | 55,046 |
| Gain on disposal of property, plant and equipment | 11,970 | 13,160 |
| Gain on valuation of derivatives | 17,985 | 301 |
| Gain on disposal of derivatives transactions (note 17) | 1,356 | 13,380 |
| Gain on foreign currency transactions | 827,198 | 80,365 |
| Gain on foreign currency translation | 71,476 | 3,857 |
| Equity in earnings of equity method accounted investments (note 7) | 399,436 | 605,844 |
| Reversal of allowance for doubtful accounts | 7,655 | - |
| Gain on disposal of other long-term assets | 29,336 | 9,950 |
| Reversal of stock compensation expense (note 18) | 55,155 | - |
| Others | 102,425 | 72,273 |
| | <u>1,879,568</u> | <u>1,048,947</u> |
| Non-operating expenses | | |
| Interest expense | 143,160 | 103,324 |
| Other bad debt expense | 4,892 | 5,448 |
| Loss on foreign currency transactions | 987,361 | 89,859 |
| Loss on foreign currency translation | 694,011 | 58,840 |
| Donations | 112,856 | 150,543 |
| Loss on disposal of property, plant and equipment | 67,191 | 59,287 |
| Loss on disposal of derivatives transactions (note 17) | 526 | 5,742 |
| Equity in losses of equity method accounted investments (note 7) | 422,784 | 33,343 |
| Loss on sales of accounts and notes receivable | 8,829 | 10,550 |
| Loss on impairment of investments (note 7) | 96,785 | - |
| Others | 51,702 | 48,277 |
| | <u>2,590,097</u> | <u>565,213</u> |
| Income before income taxes | 5,829,530 | 4,792,009 |
| Income tax expense (note 27) | 1,382,597 | 1,112,578 |
| Net income | <u>₩ 4,446,933</u> | <u>3,679,431</u> |
| Basic earnings per share (note 29) | <u>₩ 58,905</u> | <u>48,444</u> |

See accompanying notes to non-consolidated financial statements.

POSCO

Non-Consolidated Statements of Appropriation Retained Earnings For the years Ended December 31, 2008 and 2007 (Dates of Appropriations : February 27, 2009 and February 22, 2008 for the years ended December 31, 2008 and 2007, respectively)

(in millions of Won)

| | <u>2008</u> | <u>2007</u> |
|--|------------------|------------------|
| Retained earnings before appropriation | | |
| Unappropriated retained earnings carried over from prior year | ₩ 230,611 | 160,767 |
| Interim dividends (note 23) | (188,485) | (189,541) |
| Dividends (ratio) per share | | |
| ₩2,500 (50%) in 2008, | | |
| ₩2,000 (50%) in 2007 | | |
| Net income | <u>4,446,933</u> | <u>3,679,431</u> |
| | <u>4,489,059</u> | <u>3,650,657</u> |
| Transfer from discretionary reserve | | |
| Reserve for technology and human resource development | <u>351,667</u> | <u>373,333</u> |
| Appropriations of retained earnings | | |
| Cash dividends (note 23) | 574,274 | 566,552 |
| Dividends (ratio) per share | | |
| ₩7,500 (150%) in 2008 | | |
| ₩7,500 (150%) in 2007 | | |
| Appropriated retained earnings for business expansion | 3,800,000 | 3,000,000 |
| Appropriated retained earnings for dividends | <u>228,828</u> | <u>226,827</u> |
| | <u>4,603,102</u> | <u>3,793,379</u> |
| Unappropriated retained earnings carried forward to subsequent year | <u>₩ 237,624</u> | <u>230,611</u> |

See accompanying notes to non-consolidated financial statements.

POSCO

Non-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>Total</u> |
|---|--------------------------|----------------------------|--------------------------------|---|------------------------------|---------------------|
| Balance as of January 1, 2007 | ₩ 482,403 | ₩ 3,934,588 | ₩ (1,670,690) | ₩ 301,463 | ₩ 18,743,894 | ₩ 21,791,658 |
| Cumulative effect of changes in accounting policy (note 34) | - | 2,468 | - | (2,468) | - | - |
| Year-end dividends | - | - | - | - | (465,557) | (465,557) |
| Net income | - | - | - | - | 3,679,431 | 3,679,431 |
| Interim dividends | - | - | - | - | (189,541) | (189,541) |
| Changes in capital surplus of equity method accounted investments | - | 16,552 | - | - | - | 16,552 |
| Acquisition of treasury stock | - | - | (1,291,363) | - | - | (1,291,363) |
| Disposal of treasury stock | - | 175,231 | 246,089 | - | - | 421,320 |
| Gain on valuation of available-for-sale securities, net | - | - | - | 381,722 | - | 381,722 |
| Changes in capital adjustment arising from equity method accounted investments | - | - | - | 159,010 | - | 159,010 |
| Balance as of December 31, 2007 | <u>₩ 482,403</u> | <u>₩ 4,128,839</u> | <u>₩ (2,715,964)</u> | <u>₩ 839,727</u> | <u>₩ 21,768,227</u> | <u>₩ 24,503,232</u> |
| <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>Total</u> |
| Balance as of January 1, 2008 | ₩ 482,403 | ₩ 4,128,839 | ₩ (2,715,964) | ₩ 839,727 | ₩ 21,768,227 | ₩ 24,503,232 |
| Year-end dividends | - | - | - | - | (566,552) | (566,552) |
| Net income | - | - | - | - | 4,446,933 | 4,446,933 |
| Interim dividends | - | - | - | - | (188,485) | (188,485) |
| Changes in capital surplus of equity method accounted investments | - | 40,578 | - | - | - | 40,578 |
| Acquisition of treasury stock | - | - | (36,832) | - | - | (36,832) |
| Disposal of treasury stock | - | 121,938 | 250,782 | - | - | 372,720 |
| Loss on valuation of available-for-sale securities, net | - | - | - | (1,140,947) | - | (1,140,947) |
| Changes in capital adjustment arising from equity method accounted investments | - | - | - | 353,010 | - | 353,010 |
| Balance as of December 31, 2008 | <u>₩ 482,403</u> | <u>₩ 4,291,355</u> | <u>₩ (2,502,014)</u> | <u>₩ 51,790</u> | <u>₩ 25,460,123</u> | <u>₩ 27,783,657</u> |

See accompanying notes to non-consolidated financial statements.

POSCO
Non-Consolidated Statements of Cash Flows
For the years Ended December 31, 2008 and 2007

(in millions of Won)

| | 2008 | 2007 |
|--|--------------------|------------------|
| Cash flows from operating activities | | |
| Net income | ₩ 4,446,933 | 3,679,431 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 1,908,805 | 1,720,991 |
| Accrual of severance benefits | 221,748 | 132,373 |
| Gain on valuation of trading securities | (16,185) | (9,290) |
| Gain on disposal of trading securities | (52,923) | (55,046) |
| Loss (gain) on disposal of investments, net | (13,882) | 7,620 |
| Loss on disposal of property, plant and equipment, net | 55,221 | 46,127 |
| Gain on valuation of derivatives | (17,985) | (301) |
| Equity in earnings of equity method accounted investments, net | 23,348 | (572,501) |
| Stock compensation expense, net | (55,155) | 123,881 |
| Loss on foreign currency translation, net | 618,739 | 56,797 |
| Loss on disposal of notes receivable | 8,829 | 10,550 |
| Provision for (reversal of) allowance for doubtful accounts, net | (2,762) | 14,399 |
| Loss on impairment of investments | 96,785 | - |
| Other employee benefit | 60,352 | 66,824 |
| Interest expense | 6,396 | 3,130 |
| Interest income | (2,423) | (2,884) |
| Loss on valuation of inventories | 4,003 | - |
| Others, net | 4,001 | (6,794) |
| | <u>2,846,912</u> | <u>1,535,876</u> |
| Changes in operating assets and liabilities | | |
| Trade accounts and notes receivable | (1,341,169) | (101,096) |
| Other accounts and notes receivable | (234,489) | 38,966 |
| Accrued income | (3,653) | (14,295) |
| Prepaid expenses | (2,789) | (1,128) |
| Inventories | (3,202,404) | (486,575) |
| Trade accounts and notes payable | 507,672 | 111,010 |
| Other accounts payable | 97,269 | 289,035 |
| Accrued expenses | 51,545 | (112,147) |
| Income tax payable | 804,539 | 194,606 |
| Advances received | 407 | (5,282) |
| Payment of severance benefits | (53,043) | (24,392) |
| Deferred income tax assets and liabilities | (256,305) | 10,951 |
| Retirement insurance deposits | (133,747) | (109,118) |
| Other current liabilities | 4,097 | (44) |
| Dividends from equity method accounted investments | 64,455 | 67,731 |
| Others, net | 17,197 | (855) |
| | <u>(3,680,418)</u> | <u>(142,633)</u> |
| Net cash provided by operating activities | <u>3,613,427</u> | <u>5,072,674</u> |

See accompanying notes to non-consolidated financial statements.

POSCO
Non-Consolidated Statements of Cash Flows
For the years Ended December 31, 2008 and 2007

(in millions of Won)

| | <u>2008</u> | <u>2007</u> |
|---|--------------------|--------------------|
| Cash flows from investing activities | | |
| Disposal of short-term financial instruments | ₩ 4,580,674 | 1,424,407 |
| Disposal of trading securities | 6,867,212 | 8,687,503 |
| Redemption of current portion of held-to-maturity securities | 272,000 | 182,000 |
| Disposal of available-for-sale securities | 1,700 | - |
| Disposal of other long-term assets | 88,066 | 56,857 |
| Disposal of property, plant and equipment | 37,573 | 15,982 |
| Disposal of equity method accounted investments | 8,606 | 11,338 |
| Acquisition of short-term financial instruments | (4,661,971) | (2,241,262) |
| Acquisition of trading securities | (6,795,000) | (7,940,000) |
| Acquisition of available-for-sale securities | (1,401,658) | (878,144) |
| Acquisition of equity method accounted investments | (318,843) | (451,617) |
| Acquisition of current portion of held-to-maturity securities | (100,000) | (150,000) |
| Acquisition of other long-term assets | (12,003) | (42,061) |
| Acquisition of property, plant and equipment | (3,172,009) | (2,464,890) |
| Cost of removal of property, plant and equipment | (36,032) | (37,055) |
| Acquisition of intangible assets | (20,986) | (20,531) |
| Others, net | (6,029) | (6) |
| | <u>(4,668,700)</u> | <u>(3,847,479)</u> |
| Net cash used in investing activities | | |
| Cash flows from financing activities | | |
| Proceeds from derivatives | - | 13,380 |
| Proceeds from short-term borrowings | 766,094 | 282,887 |
| Proceeds from long-term borrowings | 5,886 | 957 |
| Proceeds from issuance of debentures | 1,939,634 | 497,897 |
| Proceeds from treasury stock | 364,753 | 406,991 |
| Increase in other long-term liabilities | 27,357 | 19,866 |
| Acquisition of treasury stock | (36,832) | (1,291,363) |
| Repayment of short-term borrowings | (542,074) | (201,437) |
| Repayment of long-term borrowings | - | (20,927) |
| Repayment of current portion of long-term debts | (432,661) | (9,419) |
| Payment of cash dividends | (755,037) | (655,099) |
| Decrease in other long-term liabilities | (20,915) | (84,573) |
| Others, net | (10,279) | (5,742) |
| | <u>1,305,926</u> | <u>(1,046,582)</u> |
| Net cash provided by (used in) financing activities | | |
| Net increase in cash and cash equivalents | 250,653 | 178,613 |
| Cash and cash equivalents | | |
| Cash and cash equivalents at beginning of the year | 691,034 | 512,421 |
| Cash and cash equivalents at end of the year (note 3) | <u>₩ 941,687</u> | <u>691,034</u> |

See accompanying notes to non-consolidated financial statements.

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

1. The Company

POSCO (the “Company”) was incorporated on April 1, 1968, under the Commercial Code of the Republic of Korea to manufacture and sell steel rolled products and plates in the domestic and overseas markets. The Company owns and operates two steel plants in Korea. 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 the Company have been listed on the Korea Stock Exchange since 1988. The Company’s head office is located in Pohang, Korea, and it also operates internationally through seven of its overseas liaison offices.

As of December 31, 2008, the Company’s major 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 (*) | 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> |

(*) 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 the Company are listed on the Korea Stock Exchange, while its depository receipts are listed on the New York, Tokyo and London Stock Exchanges.

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

Basis of Presenting Financial Statements

The Company maintains its accounting records in Korean won and prepares statutory non-consolidated financial statements in Korean language (Hangul) in conformity with the 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 non-consolidated financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying non-consolidated financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

The Company prepares the non-consolidated financial statements in accordance with generally accepted accounting principles in the Republic of Korea. Except for the items explained in note 34 related to accounting changes and the application of changes to Statements of Korean Accounting Standards (“SKAS”) No. 15, *Investments in Associates*, the Company applied the same accounting policies that were adopted in the previous year’s non-consolidated financial statements.

Revenue recognition

The Company’s revenue categories consist of goods sold, 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.

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.

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

2. Summary of significant accounting policies and basis of presenting financial statements, continued

Inventories

The costs of inventories are determined using the moving-weighted average method. Valuation loss incurred when the market price of inventories fall below its carrying amount are reported as a contra inventory account and added to cost of goods sold and 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 the cost of goods sold if it is incurred in the ordinary course of business. Loss on valuation of inventories amounting to ₩ 4,003 million for the year ended December 31, 2008, is added to cost of goods sold.

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.

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. Investments in available-for-sale securities that do not have readily determinable fair values are recognized at cost less impairment, if any. 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.

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

2. Summary of significant accounting policies and basis of presenting financial statements, continued

Investments in securities, continued

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. All other available-for-sale securities and held-to-maturity securities are presented as long-term investments.

Equity method investments

Investments in equity securities of companies over which the Company exercises significant control or influence are recorded using the equity method of accounting. Differences between the initial purchase price and the Company's initial proportionate ownership in the net book value of the investee are amortized using the straight-line method over its estimated useful life.

The Company's share of its post-acquisition profits or losses in investments in associates and subsidiaries is recognized in the income statement, and its share of post-acquisition movements in equity is recognized in equity. The cumulative post-acquisition movements are adjusted against the carrying amount of each investment. Changes in the carrying amount of an investment resulting from dividends by an associate or subsidiary are recognized when the associate or subsidiary declares the dividend. 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.

The Company's investments in associates and subsidiaries include goodwill identified on acquisition (net of any accumulated impairment loss). Goodwill is calculated as the excess of the acquisition cost of an investment in an associate or subsidiary over the Company's share of the fair value of the identifiable net assets acquired. Goodwill is amortized using the straight-line method over its estimated useful life. Amortization of goodwill is recorded together with equity income (losses).

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, exchange rates on the date of transaction for equity and annual average exchange rates for income and expenses. Any resulting translation gain or loss is included under the capital adjustment account, a component of shareholders' equity.

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

2. Summary of significant accounting policies and basis of presenting financial statements, continued

Property, plant and equipment, and related depreciation

Property, plant and equipment are stated at cost, except in the case of revaluations made in accordance with the Asset Revaluation Law, which allowed for asset revaluation prior to the Law being revoked.

Depreciation is computed by the declining-balance method using rates based on the useful lives of the respective as follows:

| | <u>Estimated useful lives</u> |
|--------------------------|-------------------------------|
| Buildings and structures | 20-40 years |
| Machinery and equipment | 8 years |
| Vehicles | 4-9 years |
| Tools | 4 years |
| Furniture and fixtures | 4 years |
| Finance Lease Assets | 18 years |

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.

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

2. Summary of significant accounting policies and basis of presenting financial statements, continued

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 over the estimated useful lives as described below.

| | <u>Estimated useful lives</u> |
|------------------------------|-------------------------------|
| Intellectual property right | 5-10 years |
| Port facilities usage rights | 1-75 years |
| Other intangibles | 4-20 years |

The Company has estimated useful life of Port facilities usage rights for the period that the Company has been granted to use Port facilities exclusively in accordance with an agreement with Government office.

Discounts on debentures

Discounts on debentures are amortized over the term of the debentures using the effective interest rate method. Amortization of the discount is recorded as part of 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 with the Company 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. Through March 1999, under the National Pension Scheme of Korea, the Company transferred a certain portion of retirement allowances for employees to the National Pension Fund. The amount transferred will reduce the retirement and severance benefit amount to be paid to the employees when they leave the Company and is accordingly reflected in the accompanying non-consolidated financial statements as a reduction of the retirement and severance benefits liability. However, due to a regulation effective April 1999, such transfers to the National Pension Fund are no longer required.

Valuation of receivables at present value

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.

2. Summary of significant accounting policies and basis of presenting financial statements, continued

Foreign Currency Translation

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Korean Won at the foreign exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the rates of exchange in effect at the balance sheet date, and the resulting translation gains and losses are recognized in current 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.

Treasury stock

In accordance with the cost method, the acquisition cost of the Company's treasury stocks are recorded as an adjustment to shareholders' equity. Gain on disposal of treasury stock is recorded as other capital surplus and loss on disposal of treasury stock is first deducted from the 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.

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

2. Summary of significant accounting policies and basis of presenting financial statements, continued

Sale of receivables

The Company sells or discounts certain amounts or notes receivable to financial institutions and accounts for these transactions as a sale 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.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, disclosures of contingent liabilities and others, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

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> | <u>Annual Interest Rate (%)</u> | <u>2008</u> | <u>2007</u> |
|--|---------------------------------|--------------------|------------------|
| Cash and cash equivalents | | | |
| Checking accounts | - | ₩ 1,356 | 1,539 |
| Money market deposit accounts | 4.25 ~ 5.40 | 241,000 | 103,800 |
| Time deposits | 5.30 ~ 6.20 | 560,000 | - |
| Time deposits in foreign currency | 1.94 ~ 3.25 | 139,331 | 215,692 |
| Repurchase agreement | - | - | 370,000 |
| Others | - | - | 3 |
| | | <u>₩ 941,687</u> | <u>691,034</u> |
| Short-term financial instruments | | | |
| Ordinary deposits (*1) | 0.10 | 5,887 | 5,140 |
| Time deposits | 5.70 ~ 7.15 | 910,000 | 540,000 |
| Certificates of deposit | 3.30 ~ 6.85 | 490,000 | 747,930 |
| Repurchase agreement | 6.40 ~ 6.50 | 60,000 | 15,000 |
| Specified money in trust | - | 58,711 | 135,231 |
| | | <u>₩ 1,524,598</u> | <u>1,443,301</u> |
| Long-term financial instruments | | | |
| Guarantee deposits for opening accounts (*2) | - | <u>₩ 40</u> | <u>47</u> |

(*1) In relation to projects outsourced to the Company by the Korea Government, these deposits are restricted in use.

(*2) The Company is required to provide deposits amounting to ₩ 40 million and ₩ 47 million as of December 31, 2008 and 2007, respectively, to maintain checking accounts and accordingly, the withdrawal of these deposits is restricted.

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

4. Accounts and Notes Receivable

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

| <i>(in millions of Won)</i> | <u>2008</u> | <u>2007</u> |
|---------------------------------------|--------------------|------------------|
| Trade accounts and notes receivable | ₩ 3,232,490 | 1,896,352 |
| Less: Allowance for doubtful accounts | (3,811) | (1,502) |
| | <u>₩ 3,228,679</u> | <u>1,894,850</u> |
| Other accounts receivable | ₩ 290,015 | 77,104 |
| Less: Allowance for doubtful accounts | (11,714) | (28,327) |
| | <u>₩ 278,301</u> | <u>48,777</u> |
| Long-term trade accounts receivable | ₩ 4,353 | 31,831 |
| Less: Allowance for doubtful accounts | (199) | (12,467) |
| | <u>₩ 4,154</u> | <u>19,364</u> |

(b) Accounts stated at present value under long-term deferred payment terms are as follows:

| <u>Company</u> | <u>Interest Rate(%)</u> | <u>Period</u> | <u>Face Value</u> | <u>Present Value</u> | <u>Discount at Present Value (*)</u> |
|----------------------|-------------------------|---------------|-------------------|----------------------|--------------------------------------|
| BNG Steel Co., Ltd. | 8.62 | Nov. 30, 2009 | ₩ 12,900 | ₩ 11,974 | ₩ 926 |
| DK Dongsin Co., Ltd. | 4.65 | Oct. 31, 2010 | 9,087 | 8,704 | 383 |
| | | | <u>₩ 21,987</u> | <u>₩ 20,678</u> | <u>₩ 1,309</u> |

(*) Discount at present value is presented as allowance for doubtful accounts. Bad debt expense arising from a reduction in the present value of the future cash flow and interest income recovered for the year ended December 31, 2008 amounted to ₩ 613 million and ₩ 2,304 million, respectively.

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

5. Inventories

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

| <i>(in millions of Won)</i> | 2008 | | 2007 |
|-----------------------------|-------------|------------------|------------------|
| | <u>₩</u> | <u></u> | <u></u> |
| Finished goods | ₩ | 1,190,585 | 490,817 |
| By-products | | 16,034 | 5,376 |
| Semi-finished goods | | 1,542,922 | 862,831 |
| Raw materials | | 1,644,500 | 770,572 |
| Fuel and materials | | 428,466 | 416,608 |
| Materials-in-transit | | 1,592,502 | 674,429 |
| Others | | 592 | 646 |
| | <u>₩</u> | <u>6,415,601</u> | <u>3,221,279</u> |

6. Trading Securities

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

| <i>(in millions of Won)</i> | 2008 | | 2007 | |
|-----------------------------|-------------------------|-------------------|-------------------|-------------------|
| | <u>Acquisition Cost</u> | <u>Fair Value</u> | <u>Book Value</u> | <u>Book Value</u> |
| Beneficiary certificates | <u>₩ 1,220,000</u> | <u>1,236,185</u> | <u>1,236,185</u> | <u>1,239,290</u> |

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> | 2008 | | 2007 |
|-------------------------------|-------------|------------------|------------------|
| | <u>₩</u> | <u></u> | <u></u> |
| Available-for-sale securities | ₩ | 3,580,651 | 3,818,714 |
| Held-to-maturity securities | | 31,553 | 31,440 |
| Equity-method investments | | 5,013,735 | 4,313,259 |
| | <u>₩</u> | <u>8,625,939</u> | <u>8,163,413</u> |

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

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> | <u>2008</u> | <u>2007</u> |
|----------------------------------|--------------------|------------------|
| Available-for-sale securities | | |
| Marketable equity securities | ₩ 2,818,507 | 3,680,054 |
| Non-marketable equity securities | 761,644 | 138,036 |
| Investments in bonds | - | 124 |
| Investments in capital | 500 | 500 |
| | <u>₩ 3,580,651</u> | <u>3,818,714</u> |

(b) Investments in marketable equity securities 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>Percentage of ownership (%)</u> | <u>Acquisition Cost</u> | <u>Book Value</u> | <u>Fair Value</u> | <u>Book Value</u> |
| SK Telecom Co., Ltd. (*1) | 4,297,549 | 5.29 | ₩ 1,208,676 | ₩ 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) | 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 Ltd. | 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) | 3,600,000 | 2.70 | 153,000 | 23,400 | 23,400 | - |
| | | | <u>₩ 3,518,768</u> | <u>₩ 2,818,507</u> | <u>₩ 2,818,507</u> | <u>₩ 3,680,054</u> |

(*1) Certain portion of SK Telecom Co., Ltd. has 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 was reclassified to marketable equity securities from non- marketable equity securities.

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

(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 Stainless Steel Industry (*2) | 29,610,000 | 70.00 | 9,474 | 1,567 | | 1,567 |
| The Korea Economic Daily Co., Ltd. | 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 |
| Jeonnam Pro Football 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. (formerly, Dae Kyeong Special 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 Co., Ltd. | 11,076 | 18.46 | 55 | 55 | | 55 |
| Taihan ST Co., 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 (*3) | - | 20.00 | 998 | 998 | | 998 |
| Keo Yang Shipping Co., Ltd. (*5) | - | - | - | - | | 780 |
| LG Powercom Corporation (*6) | - | - | - | - | | 53,370 |
| ESCO Professionals Co., Ltd. | - | - | - | - | | 21 |
| TFS Global Co., Ltd. | - | - | - | - | | 26 |
| CTA Co., Ltd. | - | - | - | - | | 37 |

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

(in millions of Won)

| Company | 2008 | | | 2007 | |
|---|------------------|-----------------------------|------------------|------------------|------------------|
| | Number of Shares | Percentage of Ownership (%) | Acquisition Cost | Book Value | Book Value |
| POSCO-SK Steel Pinghu Processing Center Co., Ltd.(formerly, POSCO STEEL Processing Center Co., Ltd.) (*4) | - | - | - | - | 1,869 |
| POSCO Poland Steel Processing Center Co., Ltd. (*4) | - | - | - | - | 3,803 |
| POSCO (Chongqing) Automotive Processing Center Co., Ltd. (*4) | - | - | - | - | 6,201 |
| POSCO-SAMSUNG Slovakia Processing Center Co., Ltd. (*4) | - | - | - | - | 1,794 |
| | | | <u>₩ 753,321</u> | <u>₩ 761,644</u> | <u>₩ 138,036</u> |

(*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.

(d) Investments in bond as of December 31, 2008 and 2007 are as follows:

(in millions of Won)

| Maturity | 2008 | | | 2007 | |
|------------------|------------------|------------|------------|------------|--------------|
| | Acquisition Cost | Fair Value | Book Value | Book Value | Book Value |
| Government bonds | 1-5 years | ₩ - | ₩ - | ₩ - | ₩ 76 |
| | 5-10 years | - | - | - | 48 |
| | | <u>₩ -</u> | <u>₩ -</u> | <u>₩ -</u> | <u>₩ 124</u> |

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

(e) Investments in capital as of December 31, 2008 and 2007 are as follows:

(in millions of Won)

| | 2008 | | 2007 | |
|-----------------|------------------|------------|------------|-----|
| | Acquisition Cost | Book Value | Book Value | |
| Purunichildcare | ₩ 500 | ₩ 500 | ₩ | 500 |

(e) Available-for-sale securities are stated at fair market value, and the difference between the acquisition cost and fair market value is accounted for in the capital adjustment account. The movements of such differences during the years ended December 31, 2008 and 2007 are as follows:

(in millions of Won)

| Company | 2008 | | | 2007 | | |
|---|-------------------|---------------------|----------------|-------------------|---------------------|----------------|
| | Beginning Balance | Increase (Decrease) | Ending Balance | Beginning Balance | Increase (Decrease) | Ending Balance |
| Marketable equity securities | | | | | | |
| 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) |
| Se AH Steel Corp. | 5,246 | (1,582) | 3,664 | - | 5,246 | 5,246 |
| Thainox Stainless Public Company Ltd. | 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 (*1) | (72,232) | (28,856) | (101,088) | - | - | - |
| | 688,385 | (1,159,439) | (471,054) | 371,728 | 388,889 | 760,617 |
| Non-marketable equity securities | | | | | | |
| THE SIAM UNITED STEEL | - | 18,492 | 18,492 | - | - | - |
| Myanmar POSCO Steel Co., Ltd. | - | - | - | (618) | 618 | - |
| LG Powercom Corporation (*1) | - | - | - | (64,447) | (7,785) | (72,232) |
| | - | 18,492 | 18,492 | (65,065) | (7,167) | (72,232) |
| | ₩ 688,385 | ₩ (1,140,947) | ₩ (452,562) | ₩ 306,663 | ₩ 381,722 | ₩ 688,385 |

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

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

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, etc | Less than 1 year | ₩ 20,000 | ₩ 20,000 | ₩ 191,995 |
| Held-to-maturity securities | | | | |
| Government bonds, etc (*1) | 1 ~ 5 years | 31,090 | 31,553 | 1,810 |
| | 5 ~10 years | - | - | 29,630 |
| | | 31,090 | 31,553 | 31,440 |
| | | <u>₩ 51,090</u> | <u>₩ 51,553</u> | <u>₩ 223,435</u> |

(*1) The Company provided government bonds and bonds issued by Seoul Metropolitan Rapid Transit Corp, amounting to ₩ 29,693 million and ₩ 1,860 million, respectively, to the Gyeongbuk municipal government as collateral for the recovery commitment of the Pohang No. 4 disposal site.

(b) Total interest income earned from investment securities amounted to ₩ 6,990 million and ₩ 12,577 million for the years ended December 31, 2008 and 2007, respectively.

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

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 |
| POSCO E&C Co., Ltd. | 27,281,080 | 89.53 | ₩ 365,789 | ₩ 1,422,620 | ₩ 864,030 | ₩ 657,107 |
| Posteel Co., Ltd. | 17,155,000 | 95.31 | 113,393 | 426,688 | 319,914 | 283,509 |
| POSCON Co., Ltd. | 3,098,610 | 88.04 | 49,822 | 140,761 | 49,099 | 46,261 |
| POSCO Coated & Color Steel Co., Ltd.(formerly, Pohang Steel Co., Ltd.) | 3,412,000 | 56.87 | 82,017 | 120,730 | 103,912 | 155,769 |
| POSCO Machinery & Engineering Co., Ltd. | 1,700,000 | 100.00 | 17,052 | 57,612 | 30,824 | 27,005 |
| POSDATA Co., Ltd. | 50,440,720 | 61.85 | 52,749 | 52,029 | 39,544 | 95,191 |
| POSCO Research Institute | 3,800,000 | 100.00 | 19,000 | 23,391 | 23,356 | 23,196 |
| Seung Kwang Co., Ltd. | 2,737,000 | 69.38 | 28,408 | 27,956 | 27,957 | 28,916 |
| POSCO Architects & Consultants Co., Ltd. | 230,000 | 100.00 | 1,043 | 37,025 | 14,838 | 9,972 |
| POSCO Specialty Steel Co., Ltd. | 26,000,000 | 100.00 | 260,000 | 566,796 | 564,515 | 487,376 |
| POSCO Machinery Co., Ltd. | 1,000,000 | 100.00 | 10,000 | 26,511 | 13,363 | 11,264 |
| POSTECH Venture Capital Corp. | 5,700,000 | 95.00 | 28,500 | 33,059 | 33,059 | 36,792 |
| eNtoB Corporation(*3) | 560,000 | 17.50 | 2,800 | 4,678 | 4,178 | 4,163 |
| POSCO Refractories & Environment Co., Ltd. | 3,544,200 | 60.00 | 41,210 | 96,066 | 74,329 | 74,627 |
| POSCO Terminal Co., Ltd. | 2,550,000 | 51.00 | 12,750 | 19,678 | 19,681 | 18,172 |
| POSMATE Co., Ltd. | 214,286 | 30.00 | 7,233 | 11,378 | 10,436 | 9,531 |
| Samjung Packing & Aluminum Co., Ltd.(*3) | 270,000 | 9.00 | 2,781 | 5,456 | 4,035 | 5,138 |
| POSCO Power Corp. | 40,000,000 | 100.00 | 597,170 | 572,008 | 619,037 | 618,048 |
| SNNC Co., Ltd. | 18,130,000 | 49.00 | 90,650 | 64,171 | 67,410 | 89,516 |
| PNR Co., Ltd. | 5,467,686 | 70.00 | 27,338 | 27,499 | 27,498 | - |
| POSCO America Corporation | 354,531 | 99.45 | 297,221 | 176,607 | 133,944 | 86,093 |
| POSCO Australia Pty. Ltd. | 761,775 | 100.00 | 37,352 | 102,145 | 165,573 | 199,968 |
| POSCO Asia Co., Ltd. | 9,360,000 | 100.00 | 7,425 | 33,730 | 29,158 | 19,380 |
| VSC-POSCO Steel Corporation(*2) | - | 35.00 | 4,758 | 6,427 | 6,343 | 4,750 |
| Dalian POSCO-CFM Coated Steel Co., Ltd.(*2) | - | 30.00 | 7,189 | 4,346 | 3,756 | 1,657 |
| POS-Tianjin Coil Center Co., Ltd.(*2,3) | - | 10.00 | 653 | 1,498 | 1,303 | 926 |
| Zhangjiagang Pohang Stainless Steel Co., Ltd.(*2) | - | 58.60 | 234,204 | 330,619 | 323,170 | 338,703 |
| Guangdong Pohang Coated Steel Co., Ltd.(*2) | - | 86.55 | 43,501 | 55,251 | 20,901 | 17,313 |

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

| <i>(in millions of Won)</i> | 2008 | | | | 2007 | |
|---|-------------------------|------------------------------------|-------------------------|------------------------|-------------------|-------------------|
| | Number of Shares | Percentage of Ownership (%) | Acquisition Cost | Net Asset Value | Book Value | Book Value |
| POSCO Thailand Bangkok Processing Center Co., Ltd.(formerly, POSCO Thailand Co., Ltd.) | 12,721,734 | 85.62 | 39,677 | 38,387 | 32,934 | 9,696 |
| Myanmar-POSCO Steel Co., Ltd. | 13,440 | 70.00 | 2,192 | 3,691 | 3,796 | 2,612 |
| KOBRASCO | 2,010,719,185 | 50.00 | 32,950 | 68,667 | 60,429 | 40,509 |
| POSCO Investment Co., Ltd. | 5,000,000 | 100.00 | 53,189 | 88,684 | 91,303 | 67,036 |
| Poschrome (Proprietary) Limited | 21,675 | 25.00 | 4,859 | 9,037 | 9,575 | 5,056 |
| Guangdong Xingpu Steel Center Co., Ltd.(*2,3) | - | 10.50 | 927 | 2,807 | 2,669 | 1,454 |
| POS-Hyundai Steel Manufacturing India Private Limited.(*3) | 2,345,558 | 10.00 | 1,057 | 1,598 | 1,600 | 1,363 |
| POSVINA Co., Ltd.(*2) | - | 50.00 | 1,527 | 2,600 | 2,104 | 2,096 |
| POSCO-MKPC SDN BHD (formerly, POSMITT Steel Center Co., Ltd.) | 25,269,900 | 44.69 | 12,574 | 19,115 | 18,037 | 4,587 |
| PT POSMI Steel Indonesia(*3) | 1,193 | 9.47 | 782 | 1,013 | 1,020 | 803 |
| Qingdao Pohang Stainless Steel Co., Ltd.(*2) | - | 70.00 | 71,463 | 77,736 | 75,888 | 51,257 |
| POSCO (Suzhou) Automotive Processing Center Co., Ltd.(*2) | - | 90.00 | 31,023 | 50,291 | 48,401 | 30,181 |
| POSCO-China Holding Corp.(*2) | - | 100.00 | 165,233 | 231,586 | 228,489 | 173,158 |
| POSCO-Japan Co., Ltd. | 90,438 | 100.00 | 50,558 | 101,382 | 65,457 | 45,878 |
| POSCO-India Private Ltd. | 225,000,000 | 100.00 | 52,627 | 54,651 | 54,651 | 49,386 |
| POS-India Pune Processing Center Private Limited | 74,787,080 | 65.00 | 17,017 | 18,668 | 14,096 | 12,160 |
| POSCO-Foshan Steel Processing Center Co., Ltd.(*2) | - | 39.60 | 9,408 | 13,293 | 12,971 | 8,545 |
| Nickel Mining Company | 3,234,698 | 49.00 | 157,585 | 228,691 | 219,879 | 200,622 |
| POSCO-Vietnam Co., Ltd.(*2) | - | 100.00 | 198,578 | 232,646 | 232,647 | 146,421 |
| POSCO-Mexico Co., Ltd. | 1,304,955,672 | 84.67 | 117,950 | 102,535 | 103,485 | 21,078 |
| POSCO INDIA DELHI STEEL PROCESSING CENTER PRIVATE LIMITED(*5) | 42,532,980 | 76.40 | 9,089 | 6,573 | - | 10,759 |
| Zhongyue POSCO(Qinhuangdao) Tinplate Industrial Co., Ltd.(*2) | - | 24.00 | 6,718 | 12,095 | 11,959 | 7,128 |
| POSCO-VIETNAM PROCESSING CENTER CO., LTD.(*2) | - | 80.00 | 8,192 | 8,971 | 6,234 | 7,893 |
| BX STEEL POSCO Cold Rolled Sheet Co., Ltd.(*2) | - | 25.00 | 61,961 | 82,487 | 92,064 | 63,238 |
| POSCO Malaysia SDN. BHD.(*6) | 16,200,000 | 60.00 | 16,524 | (13,656) | - | - |
| POSCO-SK Steel Pinghu Processing Center Co., Ltd. (formerly, POSCO STEEL Processing Center Co., Ltd.(*2,4)) | - | 20.00 | 1,869 | 2,947 | 2,977 | - |

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

| <i>(in millions of Won)</i> | 2008 | | | | 2007 | |
|--|-------------------------|------------------------------------|-------------------------|------------------------|--------------------|--------------------|
| | Number of Shares | Percentage of Ownership (%) | Acquisition Cost | Net Asset Value | Book Value | Book Value |
| POSCO Poland Steel Processing Center Co., Ltd.(*4) | 30,000 | 30.00 | 3,803 | 3,796 | 3,225 | - |
| POSCO (Chongqing) Automotive Processing Center Co., Ltd.(*2,4) | - | 90.00 | 6,201 | 8,933 | 7,618 | - |
| POSCO-SAMSUNG Slovakia Steel Processing Center Co., Ltd.(*2,4) | - | 30.00 | 1,794 | 3,266 | 3,109 | - |
| POSCO (Wuhu) Automotive Processing Center Co., Ltd.(*2) | - | 68.57 | 10,026 | 12,658 | 11,955 | - |
| | | | <u>₩ 3,589,361</u> | <u>₩ 5,921,883</u> | <u>₩ 5,013,735</u> | <u>₩ 4,313,259</u> |

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

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

(*3) Equity method of accounting is applied as the Company has significant influence on investees directly or indirectly through its affiliates by owning more than 20% of outstanding shares of investees.

(*4) Those securities were reclassified from available-for-sales securities to equity method accounted investments as total assets of each investee are greater than ₩ 7,000 million as of December 31, 2007.

(*5) The carrying amount of common stock was reduced to zero due to the equity in loss of the investee. The remaining equity in loss was the amount of ₩ 651 million.

(*6) Acquisition cost of this investee consist of ₩ 2,071 million of common stock and ₩ 14,453 million of preferred stock. The carrying amount of common stock was reduced to zero due to the equity in loss of the investee. The remaining equity in loss in the amount of ₩ 2,102 million was applied to reduce the carrying amount of preferred stock.

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

(b) 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, 2006 Book Value | Equity method Profit(Loss) | Other Increase (Decrease) (*) | Dec. 31, 2007 Book Value | Equity method Profit(Loss) | Other Increase (Decrease) (*) | Dec. 31, 2008 Book Value |
|---|-----------------------------|-------------------------------|----------------------------------|-----------------------------|-------------------------------|----------------------------------|-----------------------------|
| POSCO E&C Co., Ltd. | ₩ 365,458 | ₩ 299,478 | ₩ (7,829) | ₩ 657,107 | ₩ 113,389 | ₩ 93,534 | ₩ 864,030 |
| Posteel Co., Ltd. | 257,192 | 17,499 | 8,818 | 283,509 | 26,262 | 10,143 | 319,914 |
| POSCON Co., Ltd. | 17,826 | 31,540 | (3,105) | 46,261 | 5,153 | (2,315) | 49,099 |
| POSCO Coated & Color Steel Co., Ltd.(formerly, Pohang Steel Co., Ltd.) | 163,955 | 4,199 | (12,385) | 155,769 | (37,209) | (14,648) | 103,912 |
| POSCO Machinery & Engineering Co., Ltd. | 20,974 | 5,182 | 849 | 27,005 | (341) | 4,160 | 30,824 |
| POSDATA Co., Ltd. | 89,160 | 5,326 | 705 | 95,191 | (55,921) | 274 | 39,544 |
| POSCO Research Institute | 22,995 | 201 | - | 23,196 | 160 | - | 23,356 |
| Seung Kwang Co., Ltd. | 30,493 | (1,577) | - | 28,916 | (958) | (1) | 27,957 |
| POSCO Architects & Consultants Co., Ltd. | - | 9,972 | - | 9,972 | 4,737 | 129 | 14,838 |
| POSCO Specialty Steel Co., Ltd. | 433,950 | 58,082 | (4,656) | 487,376 | 79,633 | (2,494) | 564,515 |
| POSCO Machinery Co., Ltd. | 17,101 | (5,837) | - | 11,264 | 2,099 | - | 13,363 |
| POSTECH Venture Capital Corp. | 31,105 | 6,470 | (783) | 36,792 | (2,117) | (1,616) | 33,059 |
| eNtoB Corporation | 3,349 | 813 | 1 | 4,163 | 15 | - | 4,178 |
| POSCO Refractories & Environment Co., Ltd. | 64,858 | 12,405 | (2,636) | 74,627 | 1,806 | (2,104) | 74,329 |
| POSCO Terminal Co., Ltd. | 16,705 | 1,466 | 1 | 18,172 | 1,510 | (1) | 19,681 |
| POSMATE Co., Ltd. | 8,433 | 1,450 | (352) | 9,531 | 1,147 | (242) | 10,436 |
| Samjung Packing & Aluminum Co., Ltd. | 4,228 | 1,113 | (203) | 5,138 | (76) | (1,027) | 4,035 |
| POSCO Power Corp. | 611,854 | 8,919 | (2,725) | 618,048 | 17,381 | (16,392) | 619,037 |
| SNNC Co., Ltd. | 18,886 | (951) | 71,581 | 89,516 | (22,106) | - | 67,410 |
| PNR Co., Ltd. | - | - | - | - | 160 | 27,338 | 27,498 |
| POSCO America Corporation | 90,456 | (14,363) | 10,000 | 86,093 | (24,034) | 71,885 | 133,944 |
| POSCO Australia Pty. Ltd. | 101,324 | 8,036 | 90,608 | 199,968 | 79,065 | (113,460) | 165,573 |
| POSCO Asia Co., Ltd. | 18,267 | 374 | 739 | 19,380 | 1,493 | 8,285 | 29,158 |
| VSC-POSCO Steel Corporation Dalian POSCO-CFM Coated Steel Co., Ltd. | 3,304 | 1,526 | (80) | 4,750 | 1,147 | 446 | 6,343 |
| POS-Tianjin Coil Center Co., Ltd. | 668 | 187 | 71 | 926 | (65) | 442 | 1,303 |
| Zhangjiagang Pohang Stainless Steel Co., Ltd. | 263,340 | 34,039 | 41,324 | 338,703 | (78,675) | 63,142 | 323,170 |
| Guangdong Pohang Coated Steel Co., Ltd. | 15,124 | 646 | 1,543 | 17,313 | (20,086) | 23,674 | 20,901 |
| POSCO Thailand Bangkok Processing Center Co., Ltd.(formerly, POSCO Thailand Co., Ltd.) | 5,840 | (1,641) | 5,497 | 9,696 | (10,664) | 33,902 | 32,934 |
| Myanmar-POSCO Steel Co., Ltd. | - | (855) | 3,467 | 2,612 | 285 | 899 | 3,796 |
| KOBRASCO | 32,981 | 18,621 | (11,093) | 40,509 | 40,606 | (20,686) | 60,429 |
| POSCO Investment Co., Ltd. | 64,862 | 1,981 | 193 | 67,036 | 1,596 | 22,671 | 91,303 |
| Poschrome (Proprietary) Limited | 5,375 | 1,933 | (2,252) | 5,056 | 7,959 | (3,440) | 9,575 |
| Guangdong Xingpu Steel Center Co., Ltd. | 1,199 | 142 | 113 | 1,454 | 452 | 763 | 2,669 |
| POS-Hyundai Steel Manufacturing India Private Limited. | 921 | 303 | 139 | 1,363 | 100 | 137 | 1,600 |

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

(in millions of Won)

| Investees | Dec. 31, 2006 Book Value | Equity method Profit(Loss) | Other Increase (Decrease) (*) | Dec. 31, 2007 Book Value | Equity method Profit(Loss) | Other Increase (Decrease) (*) | Dec. 31, 2008 Book Value |
|--|-----------------------------|-------------------------------|----------------------------------|-----------------------------|-------------------------------|----------------------------------|-----------------------------|
| POSVINA Co., Ltd. | 2,060 | 83 | (47) | 2,096 | (316) | 324 | 2,104 |
| POSCO-MKPC SDN BHD (formerly, POSMMIT Steel Center Co., Ltd.) | 3,844 | 454 | 289 | 4,587 | 704 | 12,746 | 18,037 |
| PT POSMI Steel Indonesia | 829 | (33) | 7 | 803 | 101 | 116 | 1,020 |
| Qingdao Pohang Stainless Steel Co., Ltd. | 36,502 | 10,905 | 3,850 | 51,257 | (21,747) | 46,378 | 75,888 |
| POSCO (Suzhou) Automotive Processing Center Co., Ltd. | 18,269 | (98) | 12,010 | 30,181 | 3,522 | 14,698 | 48,401 |
| POSCO-China Holding Corp. | 146,254 | 18,414 | 8,490 | 173,158 | (29,964) | 85,295 | 228,489 |
| POSCO-Japan Co., Ltd. | 30,384 | 7,015 | 8,479 | 45,878 | (15,712) | 35,291 | 65,457 |
| POSCO-India Private Ltd. | 43,872 | (575) | 6,089 | 49,386 | 105 | 5,160 | 54,651 |
| POS-India Pune Processing Center Private Limited | 8,340 | 2,485 | 1,335 | 12,160 | (7,303) | 9,239 | 14,096 |
| POSCO-Foshan Steel Processing Center Co., Ltd. | - | (1,039) | 9,584 | 8,545 | 648 | 3,778 | 12,971 |
| Nickel Mining Company | - | 32,218 | 168,404 | 200,622 | (37,608) | 56,865 | 219,879 |
| POSCO-Vietnam Co., Ltd. | 34,554 | (2,853) | 114,720 | 146,421 | (8,082) | 94,308 | 232,647 |
| POSCO-Mexico Co., Ltd. | - | (1,062) | 22,140 | 21,078 | (15,634) | 98,041 | 103,485 |
| POSCO INDIA DELHI STEEL PROCESSING CENTER PRIVATE LIMITED | - | 558 | 10,201 | 10,759 | (11,608) | 849 | - |
| Zhongyue POSCO(Qinhuangdao) Tinplate Industrial Co., Ltd. | - | - | 7,128 | 7,128 | 1,496 | 3,335 | 11,959 |
| POSCO-VIETNAM PROCESSING CENTER CO., LTD. | - | (416) | 8,309 | 7,893 | (3,417) | 1,758 | 6,234 |
| BX STEEL POSCO Cold Rolled Sheet Co., Ltd. | - | 1,809 | 61,429 | 63,238 | 5,339 | 23,487 | 92,064 |
| POSCO Malaysia SDN BHD | - | - | - | - | (16,524) | 16,524 | - |
| POSCO-SK Steel Pinghu Processing Center Co., Ltd. (formerly, POSCO STEEL Processing Center Co., Ltd.) | - | - | - | - | (1,321) | 8,939 | 7,618 |
| POSCO Poland Steel Processing Center Co., Ltd. | - | - | - | - | (1,010) | 4,235 | 3,225 |
| POSCO (Chongqing) Automotive Processing Center Co., Ltd. | - | - | - | - | 86 | 2,891 | 2,977 |
| POSCO-SAMSUNG Slovakia Steel Processing Center Co., Ltd. | - | - | - | - | 460 | 2,649 | 3,109 |
| POSCO (Wuhu) Automotive Processing Center Co., Ltd. | - | - | - | - | (286) | 12,241 | 11,955 |
| | ₩ 3,110,547 | ₩ 572,501 | ₩ 630,211 | ₩ 4,313,259 | ₩ (23,348) | ₩ 723,824 | ₩ 5,013,735 |

(*) Other increase (decrease) represents the changes in investment securities primarily due to acquisitions (disposals), dividends received, changes in capital adjustments arising from equity method accounted investments and others. In 2008, the changes in investment securities are primarily due to acquisitions and dividend received amounted to ₩ 318,843 million and ₩ 64,455 million, respectively.

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

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

(in millions of Won)

| Investees | Dec 31, 2006 Balance | Increase (Decrease) | Amortization (Recovery) | Dec 31, 2007 Balance | Increase (Decrease) | Amortization (Recovery) | Dec 31, 2008 Balance |
|---|-------------------------|------------------------|----------------------------|-------------------------|------------------------|----------------------------|-------------------------|
| POSCO Refractories & Environment Co., Ltd. | ₩ (93) | ₩ - | ₩ (93) | ₩ - | ₩ - | ₩ - | ₩ - |
| POSMATE Co., Ltd. | (548) | - | (157) | (391) | - | (156) | (235) |
| Samjung Packing & Aluminum Co., Ltd. | (1,492) | - | (427) | (1,065) | - | (426) | (639) |
| POSCO Power Corp. | 79,517 | 10,592 | 21,203 | 68,906 | - | 21,203 | 47,703 |
| SNNC Co., Ltd. | - | 209 | 21 | 188 | - | 42 | 146 |
| POSCO America Corporation | 246 | (1) | 150 | 95 | - | 95 | - |
| Guangdong Pohang Coated Steel Co., Ltd. | (21) | - | (18) | (3) | - | (3) | - |
| POSCO-MKPC SDN BHD (formerly, POSMMIT Steel Center Co., Ltd.) | 19 | - | 19 | - | - | - | - |
| PT POSMI Steel Indonesia | 50 | 1 | 42 | 9 | - | 3 | 6 |
| POSCO Poland Steel Processing Center Co., Ltd. | - | - | - | - | 243 | 243 | - |
| POSCO (Chongqing) Automotive Processing Center Co., Ltd. | - | - | - | - | (86) | (86) | - |
| BX Steel POSCO Cold Rolled Sheet Co., Ltd. | - | 13,363 | 1,114 | 12,249 | - | 2,672 | 9,577 |
| POSCO Malaysia SDN BHD | - | - | - | - | 12,406 | 2,274 | 10,132 |
| POSCO (Wuhu) Automotive Processing Center Co., Ltd. | - | - | - | - | (3) | - | (3) |
| | ₩ 77,678 | ₩ 24,164 | ₩ 21,854 | ₩ 79,988 | ₩ 12,560 | ₩ 25,861 | ₩ 66,687 |

(d) Details on changes in unrealized profit from intercompany transactions for the years ended December 31, 2008 and 2007 are as follows:

(in millions of Won)

| | 2008 | 2007 |
|---|-------------|---------|
| Allowance for doubtful accounts | ₩ 3,201 | 272 |
| Inventories | (191,698) | 28,444 |
| Property, plant and equipment and intangible assets | (50,938) | 155,898 |
| | ₩ (239,435) | 184,614 |

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

(e) Market values of equity-method investments in marketable equity securities as of December 31, 2008 and 2007 are as follows:

(in millions of Won except per share price)

| Investee | 2008 | | | |
|--|------------------|-------------|--------------|------------|
| | Number of Shares | Share Price | Market Value | Book Value |
| POSCO Coated & Color Steel Co., Ltd. (formerly, Pohang Steel Co., Ltd.) | 3,412,000 | ₩ 16,600 | ₩ 56,639 | ₩ 103,912 |
| POSDATA Co., Ltd. | 50,440,720 | 4,450 | 224,461 | 39,544 |
| POSCO Refractories & Environment Co., Ltd. | 3,544,200 | 35,900 | 127,237 | 74,329 |
| Samjung Packing & Aluminum Co., Ltd. | 270,000 | 13,700 | 3,699 | 4,036 |

(in millions of Won except per share price)

| Investee | 2007 | | | |
|--|------------------|-------------|-------------|------------|
| | Number of Shares | Share Price | Fair Market | Book Value |
| POSCO Coated & Color Steel Co., Ltd. (formerly, Pohang Steel Co., Ltd.) | 3,412,000 | ₩ 24,400 | ₩ 83,253 | ₩ 155,769 |
| POSDATA Co., Ltd. | 50,440,720 | 11,150 | 562,414 | 95,191 |
| POSCO Refractories & Environment Co., Ltd. | 3,544,200 | 41,600 | 147,439 | 74,627 |
| Samjung Packing & Aluminum Co., Ltd. | 270,000 | 31,100 | 8,397 | 5,138 |

(f) A 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 | Net Assets (*) | Sales | Net Income |
|---|--------------|-------------------|----------------|-------------|------------|
| POSCO E&C Co., Ltd. | ₩ 4,735,780 | ₩ 3,146,712 | ₩ 1,589,068 | ₩ 4,521,588 | ₩ 164,018 |
| Posteel Co., Ltd. | 912,339 | 460,825 | 451,514 | 2,479,568 | 115,552 |
| POSCON Co., Ltd. | 372,062 | 213,500 | 158,562 | 474,757 | 11,459 |
| POSCO Coated & Color Steel Co., Ltd.(formerly, Pohang Steel Co., Ltd.) | 489,119 | 270,957 | 218,162 | 956,381 | (47,173) |
| POSCO Machinery & Engineering Co., Ltd. | 142,173 | 84,561 | 57,612 | 295,492 | 3,268 |
| POSDATA Co., Ltd. | 285,293 | 201,174 | 84,119 | 384,506 | (80,414) |
| POSCO Research Institute | 26,488 | 3,097 | 23,391 | 19,742 | 207 |
| Seung Kwang Co., Ltd. | 76,971 | 36,677 | 40,294 | 12,671 | (1,698) |
| POSCO Architects & Consultants Co., Ltd. | 54,483 | 17,458 | 37,025 | 73,021 | 6,576 |
| POSCO Specialty Steel Co., Ltd. | 1,007,607 | 440,811 | 566,796 | 1,679,748 | 77,405 |
| POSCO Machinery Co., Ltd. | 60,141 | 33,630 | 26,511 | 142,124 | 3,741 |
| POSTECH Venture Capital Corp. | 35,417 | 618 | 34,799 | 2,239 | (2,232) |
| eNtoB Corporation | 71,904 | 45,173 | 26,731 | 734,960 | 2,243 |
| POSCO Refractories & Environment Co., Ltd. | 242,531 | 62,734 | 179,797 | 446,942 | 25,231 |
| POSCO Terminal Co., Ltd. | 50,642 | 12,057 | 38,585 | 66,420 | 11,275 |
| POSMATE Co., Ltd. | 59,846 | 21,920 | 37,926 | 79,026 | 2,037 |
| Samjung Packing & Aluminum Co., Ltd. | 152,740 | 95,896 | 56,844 | 373,579 | (9,909) |
| POSCO Power Corp. | 1,181,628 | 628,757 | 552,871 | 744,027 | 47,275 |
| SNNC Co., Ltd. | 412,847 | 278,387 | 134,460 | 34,360 | (47,749) |

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

(in millions of Won)

| Investee | Total Assets | Total Liabilities | Net Assets (*) | Sales | Net Income |
|---|---------------------|--------------------------|-----------------------|--------------|-------------------|
| PNR Co., Ltd. | 51,486 | 12,202 | 39,284 | - | 229 |
| POSCO America Corporation | 300,669 | 109,711 | 190,958 | 208,846 | 13,036 |
| POSCO Australia Pty. Ltd. | 309,184 | 169,507 | 139,677 | 122,733 | 38,651 |
| POSCO Asia Co., Ltd. | 71,044 | 39,298 | 31,746 | 1,715,372 | 3,319 |
| VSC-POSCO Steel Corporation | 72,160 | 53,796 | 18,364 | 207,393 | 1,804 |
| Dalian POSCO-CFM Coated Steel Co., Ltd. | 51,822 | 37,336 | 14,486 | 151,952 | 596 |
| POS-Tianjin Coil Center Co., Ltd. | 48,990 | 34,012 | 14,978 | 107,480 | 566 |
| Zhangjiagang Pohang Stainless Steel Co., Ltd. | 1,551,082 | 915,467 | 635,615 | 2,206,084 | (131,020) |
| Guangdong Pohang Coated Steel Co., Ltd. | 153,524 | 89,687 | 63,837 | 138,024 | 7,474 |
| POSCO Thailand Bangkok Processing Center Co., Ltd.(formerly, POSCO Thailand Co., Ltd.) | 163,573 | 118,740 | 44,833 | 218,448 | (8,639) |
| Myanmar-POSCO Co., Ltd. | 11,872 | 6,600 | 5,272 | 16,017 | 415 |
| KOBRASCO | 250,936 | 113,602 | 137,334 | 308,985 | 93,714 |
| POSCO Investment Co., Ltd. | 492,447 | 399,848 | 92,599 | 12,248 | 561 |
| Poschrome (Proprietary) Limited | 93,918 | 57,772 | 36,146 | 86,843 | 23,377 |
| Guangdong Xingpu Steel Center Co., Ltd. | 67,311 | 40,580 | 26,731 | 97,396 | 4,607 |
| POS-Hyundai Steel Manufacturing India Private Limited | 20,802 | 4,817 | 15,985 | 22,824 | 973 |
| POSVINA Co., Ltd. | 8,913 | 3,713 | 5,200 | 39,753 | 88 |
| POSCO-MKPC SDN BHD(formerly, POSMMIT Steel Center Co., Ltd.) | 97,272 | 54,496 | 42,776 | 122,625 | 5,762 |
| PT POSMI Steel Indonesia | 94,447 | 83,751 | 10,696 | 98,386 | 985 |
| Qingdao Pohang Stainless Steel Co., Ltd. | 256,315 | 123,582 | 132,733 | 449,276 | (21,346) |
| POSCO (Suzhou) Automotive Processing Center Co., Ltd. | 128,923 | 73,044 | 55,879 | 184,297 | 2,899 |
| POSCO-China Holding Corp. | 267,534 | 15,862 | 251,672 | 88,552 | (22,919) |
| POSCO-Japan Co., Ltd. | 697,872 | 593,792 | 104,080 | 1,249,583 | 5,908 |
| POSCO-India Private Ltd. | 59,731 | 758 | 58,973 | - | - |
| POS-India Pune Processing Center Private Limited | 122,801 | 88,183 | 34,618 | 253 | (938) |
| POSCO-Foshan Steel Processing Center Co., Ltd. | 170,718 | 137,104 | 33,614 | 379,229 | 3,600 |
| Nickel Mining Company | 623,963 | 106,837 | 517,126 | 155,258 | (2,942) |
| POSCO-Vietnam Co., Ltd. | 504,505 | 271,859 | 232,646 | - | (5,069) |
| POSCO-Mexico Co., Ltd. | 210,142 | 89,045 | 121,097 | - | (18,582) |
| POSCO INDIA DELHI STEEL PROCESSING CENTER PRIVATE LIMITED | 54,603 | 45,921 | 8,682 | 40,217 | (5,720) |
| Zhongyue POSCO(Qinhuangdao) Tinplate Industrial Co., Ltd. | 125,521 | 75,125 | 50,396 | 137,991 | 6,802 |
| POSCO-VIETNAM PROCESSING CENTER CO., LTD. | 11,599 | 384 | 11,215 | 669 | (907) |
| BX STEEL POSCO Cold Rolled Sheet Co., Ltd. | 1,147,596 | 817,647 | 329,949 | 980,467 | 28,185 |
| POSCO Malaysia SDN BHD | 67,011 | 89,770 | (22,759) | 50,444 | (18,526) |
| POSCO-SK Steel Pinghu Processing Center Co., Ltd. (formerly, POSCO STEEL Processing Center Co., Ltd.) | 60,965 | 46,229 | 14,736 | 68,863 | 623 |

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

(in millions of Won)

| Investee | Total Assets | Total Liabilities | Net Assets (*) | Sales | Net Income |
|--|---------------------|--------------------------|-----------------------|--------------|-------------------|
| POSCO Poland Steel Processing Center Co., Ltd. | 64,854 | 52,200 | 12,654 | 55,459 | (2,478) |
| POSCO (Chongqing) Automotive Processing Center Co., Ltd. | 39,382 | 29,467 | 9,915 | 26,909 | 75 |
| POSCO-SAMSUNG Slovakia Steel Processing Center Co., Ltd. | 38,712 | 27,824 | 10,888 | 2,975 | 1,940 |
| POSCO (Wuhu) Automotive Processing Center Co., Ltd. | 22,518 | 4,058 | 18,460 | - | (417) |

(*) The effects of the equity method on the financial information of equity-method investees and the changes in the accounting principles and estimates for the year ended December 31, 2008 are as follows:

(in millions of Won)

| Investee | Reasons for Adjustments | Net Assets before Adjustment | Adjustment Amount | Net Assets after Adjustment |
|---|--|-------------------------------------|--------------------------|------------------------------------|
| Posteel Co., Ltd. | Capitalized costs and others | ₩ 430,318 | ₩ (3,630) | ₩ 426,688 |
| POSCON Co., Ltd. | Depreciation method | 139,591 | 1,170 | 140,761 |
| POSCO Coated & Color Steel Co., Ltd. (formerly, Pohang Steel Co., Ltd.) | Capitalized costs and others | 124,062 | (3,332) | 120,730 |
| POSCO Refractories & Environment Co., Ltd. | Depreciation method and others | 107,878 | (11,812) | 96,066 |
| Samjung Packing & POSCO Power Corp. | Depreciation method and others | 552,871 | 340 | 572,008 |
| SNNC Co., Ltd. | Capitalized costs | 65,886 | (1,715) | 64,171 |
| POSCO America Corporation | Non-application of equity method | 189,903 | (13,296) | 176,607 |
| POSCO Australia Pty. Ltd. | Non-application of equity method | 139,677 | (37,532) | 102,145 |
| POSCO Asia Co., Ltd. | Non-application of equity method and others | 31,745 | 1,985 | 33,730 |
| Zhangjiagang Pohang Stainless Steel Co., Ltd. | Adjustments of residual value of PP&E and others | 372,471 | (41,852) | 330,619 |
| POSCO Investment Co., Ltd. | Provision for allowance for doubtful accounts | 92,599 | (3,915) | 88,684 |
| Qingdao Pohang Stainless Steel Co., Ltd. | Adjustments of residual value of PP&E and others | 92,912 | (15,176) | 77,736 |
| POSCO-China Holding Corp. | Non-application of equity method | 251,672 | (20,086) | 231,586 |
| POSCO-Japan Co., Ltd. | Adjustments of residual value of PP&E and others | 104,080 | (2,698) | 101,382 |
| POSCO-India Private Ltd. | Organization costs | 58,973 | (4,322) | 54,651 |
| POS-India Pune Processing Center Private Limited | Organization costs and others | 22,501 | (3,833) | 18,668 |
| POSCO-Foshan Steel Processing Center Co., Ltd. | Organization costs | 13,312 | (19) | 13,293 |
| Nickel Mining Company | Organization costs and others | 253,392 | (24,701) | 228,691 |
| POSCO INDIA DELHI STEEL PROCESSING CENTER PRIVATE LIMITED | Organization costs | 6,634 | (61) | 6,573 |
| POSCO (Chongqing) Automotive Processing Center Co., Ltd. | Organization costs | 8,923 | 10 | 8,933 |

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

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> | 2008 | 2007 |
|--------------------------------|---------------------|-------------------|
| Buildings and structures | ₩ 6,334,513 | 6,096,097 |
| Machinery and equipment | 26,125,355 | 25,213,729 |
| Tools | 140,634 | 134,821 |
| Vehicles | 169,683 | 170,197 |
| Furniture and fixtures | 173,878 | 152,621 |
| Capital lease assets | 11,466 | 11,466 |
| | <u>32,955,529</u> | <u>31,778,930</u> |
| Less: Accumulated depreciation | (22,038,647) | (20,679,772) |
| | <u>10,916,882</u> | <u>11,099,158</u> |
| Construction-in-progress | 2,640,730 | 1,242,141 |
| Land | 908,306 | 860,350 |
| | <u>₩ 14,465,918</u> | <u>13,201,649</u> |

(b) Changes in property, plant and equipment for the years ended December 31, 2008 and 2007 are as follows:

| <i>(in millions of Won)</i> | 2008 | | | | | | Ending Balance |
|-----------------------------|--------------------------|------------------------|-------------------|-------------------------|----------------------|-----------------------|-----------------------|
| | Beginning Balance | Acquisition(*1) | Disposal | Depreciation(*2) | Others(*3) | Ending Balance | |
| Land | ₩ 860,350 | ₩ 69,379 | ₩ (21,141) | ₩ - | ₩ (282) | ₩ 908,306 | |
| Buildings | 2,019,902 | 138,650 | (9,005) | (168,458) | (2,480) | 1,978,609 | |
| Structures | 1,473,696 | 138,071 | (5,069) | (117,827) | 1,227 | 1,490,098 | |
| Machinery and equipment | 7,508,093 | 1,370,440 | (20,959) | (1,510,333) | (902) | 7,346,339 | |
| Vehicles | 28,729 | 2,056 | (322) | (10,161) | - | 20,302 | |
| Tools | 19,790 | 9,765 | (37) | (12,201) | - | 17,317 | |
| Furniture and fixtures | 38,119 | 32,768 | (80) | (16,711) | (71) | 54,025 | |
| Finance lease assets | 10,829 | - | - | (637) | - | 10,192 | |
| Construction-in-progress | 1,242,141 | 3,172,009 | - | - | (1,773,420) | 2,640,730 | |
| | <u>₩ 13,201,649</u> | <u>₩ 4,933,138</u> | <u>₩ (56,613)</u> | <u>₩ (1,836,328)</u> | <u>₩ (1,775,928)</u> | <u>₩ 14,465,918</u> | |

(*1) Includes acquisition cost transferred from construction-in-progress amounting to ₩ 1,761,129 million.

(*2) Includes depreciation expense of temporarily idle assets due to routine maintenance.

(*3) Represent assets transferred from construction-in-progress to intangible assets and other property, plant and equipment.

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

| <i>(in millions of Won)</i> | 2007 | | | | | | Ending Balance |
|-----------------------------|----------------------|--------------------|--------------------|----------------------|----------------------|---------------------|-------------------|
| | Beginning Balance | Acquisition | Disposal | Depreciation | Others | | |
| Land | ₩ 852,352 | ₩ 8,530 | ₩ (96) | ₩ - | ₩ (436) | ₩ 860,350 | |
| Buildings | 1,848,729 | 333,659 | (11,808) | (159,494) | 8,816 | 2,019,902 | |
| Structures | 1,256,554 | 355,716 | (10,831) | (111,012) | (16,731) | 1,473,696 | |
| Machinery and equipment | 5,594,743 | 3,257,276 | (364,184) | (1,331,777) | 352,035 | 7,508,093 | |
| Vehicles | 32,644 | 7,665 | (7,469) | (11,592) | 7,481 | 28,729 | |
| Tools | 27,707 | 5,773 | (4,914) | (13,591) | 4,815 | 19,790 | |
| Furniture and fixtures | 41,896 | 10,035 | (5,583) | (14,595) | 6,366 | 38,119 | |
| Finance Lease Assets | - | 11,466 | - | (637) | - | 10,829 | |
| Construction-in-progress | 2,811,491 | 2,468,010 | - | - | (4,037,360) | 1,242,141 | |
| | <u>₩ 12,466,116</u> | <u>₩ 6,458,130</u> | <u>₩ (404,885)</u> | <u>₩ (1,642,698)</u> | <u>₩ (3,675,014)</u> | <u>₩ 13,201,649</u> | |

- (c) The value of the land based on the posted price issued by the Korean tax authority amounted to ₩ 3,134,715 million and ₩ 2,830,724 million as of December 31, 2008 and 2007, respectively.
- (d) Construction-in-progress includes capital investments in Gwangyang No.2 Minimill. Through a resolution of the Board of Directors in May 1998, the construction on the Minimill was temporarily suspended due to the decline in the economy in the Republic of Korea and the Asia Pacific region. The continuing unstable economic condition and related decrease in sales price of products, resulting in the deterioration in profitability, drove the management's operation committee to cease the construction of the No. 2 Minimill in April 2002. In June 2006, the Company entered into an initial contract with Al-Tuwairqi Trading & Contracting Establishment in Saudi Arabia to sell the No. 2 Minimill equipment for an estimate of US\$ 96 million. Disposal of No. 2 Minimill equipment has been completed by making seventeen shipments.
- (e) In 2007, the Company entered into a capital lease contract with Ilshin Shipping Co., Ltd. acquiring a ro-ro ship for the exclusive use of transporting plates. As of December 31, 2008, book values of the assets and minimum lease payments under such capital lease are as follows:

| <i>(in millions of Won)</i> | Minimum Lease Payments | |
|-----------------------------|---------------------------|---------------|
| Less than 1 year | ₩ | 1,043 |
| 1~5 year | | 4,682 |
| Over 5 year | | 7,193 |
| | | <u>12,918</u> |

- (f) As of December 31, 2008 and 2007, property, plant and equipment are insured against fire and other casualty losses for up to ₩ 9,648,958 million and ₩ 6,869,572 million, respectively.

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

9. Intangible Assets

(a) The changes in the carrying value of intangible assets for the years ended December 31, 2008 and 2007 are as follows:

| <i>(in millions of Won)</i> | For the year ended December 31, 2008 | | | | |
|------------------------------|---|----------------------------|---------------------|-------------------|-----------------------|
| | Beginning Balance | Increase (Decrease) | Amortization | Others | Ending Balance |
| Intellectual property rights | ₩ 1,514 | ₩ 1,410 | ₩ (296) | ₩ (149) | ₩ 2,479 |
| Port facilities usage rights | 130,596 | 7,562 | (21,604) | - | 116,554 |
| Other intangible assets | 79,865 | 41,732 | (50,577) | (19,958) | 51,062 |
| | <u>₩ 211,975</u> | <u>₩ 50,704</u> | <u>₩ (72,477)</u> | <u>₩ (20,107)</u> | <u>₩ 170,095</u> |

| <i>(in millions of Won)</i> | For the year ended December 31, 2007 | | | | |
|------------------------------|---|----------------------------|---------------------|-------------------|-----------------------|
| | Beginning Balance | Increase (Decrease) | Amortization | Others | Ending Balance |
| Intellectual property rights | ₩ 1,085 | ₩ 678 | ₩ (249) | ₩ - | ₩ 1,514 |
| Port facilities usage rights | 112,101 | 37,153 | (18,658) | - | 130,596 |
| Other intangible assets | 116,232 | 43,946 | (59,386) | (20,927) | 79,865 |
| | <u>₩ 229,418</u> | <u>₩ 81,777</u> | <u>₩ (78,293)</u> | <u>₩ (20,927)</u> | <u>₩ 211,975</u> |

(b) Amortization of intangible assets is charged to the following accounts:

| <i>(in millions of Won)</i> | 2008 | 2007 |
|-------------------------------------|-----------------|---------------|
| Cost of goods sold | ₩ 57,729 | 63,513 |
| Selling and administrative expenses | 14,748 | 14,780 |
| Total | <u>₩ 72,477</u> | <u>78,293</u> |

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

| <i>(in millions of Won)</i> | Description | 2008 | 2007 | Residual useful lives |
|------------------------------|--------------------------------------|-------------|-------------|------------------------------|
| Port facilities usage rights | Masan distribution base usage rights | ₩ 22,860 | ₩ 24,742 | 12 years |
| Other intangible assets | Pohang · Gwangyang MES | - | 30,719 | - |

(d) Research expenses related to development of software and others recorded as other intangible assets are amounted to ₩ 33,763 million and ₩ 23,622 million as of and for the year ended December 31, 2008, respectively. Research and development costs incurred for the years ended December 31, 2008 and 2007 were ₩ 419,105 million and ₩ 308,157 million, respectively.

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

10. Pledged assets

- (a) 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 Gyunggangbuk-do Province Office as guarantee for environmental remediation of POSCO No. 4 disposal site.
- (b) 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.
- (c) Guarantees provided by third parties on behalf of the Company as of December 31, 2008 and 2007 were as follows:

| <i>(in millions of Won)</i> | <u>2008</u> | | <u>2007</u> | |
|-----------------------------|---------------|----------------|---------------|--------------|
| Korea Development Bank | EUR 4,600,591 | <u>₩ 8,171</u> | EUR 5,236,941 | <u>7,234</u> |

- (d) As of December 31, 2008, Seoul Guarantee Insurance Company has provided guarantees amounting to ₩8,251 million for the company’s execution of contracts and others.

11. Other Assets

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

| <i>(in millions of Won)</i> | <u>2008</u> | | <u>2007</u> | |
|---------------------------------------|-------------|---------------|-------------|----------------|
| Other current assets | | | | |
| Short-term loans receivable | ₩ | 14 | | 14 |
| Accrued income | | 34,396 | | 30,743 |
| Prepaid expenses | | 8,784 | | 248 |
| Advance payments | | 3,729 | | 5,995 |
| Others | | 1,250 | | 369 |
| | ₩ | <u>48,173</u> | | <u>37,369</u> |
| Other long-term assets | | | | |
| Long-term loans | ₩ | 6,637 | | 1,856 |
| Guarantee deposits (note 29) | | 1,412 | | 975 |
| Other investment assets (note 8) | | 66,067 | | 125,654 |
| | | 74,116 | | 128,485 |
| Less: Allowance for doubtful accounts | | (33) | | (30) |
| | ₩ | <u>74,083</u> | | <u>128,455</u> |

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

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> | |
|-----------------------------|-----------------------------|-----|-------------|-------------|---------|-------------|--------|
| Foreign currency borrowings | 3.67 ~ 5.68 | USD | 271,035,408 | ₩ | 340,827 | 86,647,526 | 81,293 |

(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> | |
|---|-----------------------------|-----|-------------|-------------|---------|----------------|---------|
| Exchangeable bonds | - | JPY | - | ₩ | - | 51,622,000,000 | 430,182 |
| Debentures | 4.66 | KRW | 200,000 | | 200,000 | - | - |
| Foreign currency borrowings | 4.60 | JPY | 192,000,000 | | 2,676 | 192,000,000 | 1,600 |
| Loans from foreign financial institutions | 2.00 | EUR | 636,350 | | 1,130 | 636,350 | 879 |
| | | | | | 203,806 | | 432,661 |
| Less: Discount on debentures issued | | | | | (165) | | (527) |
| | | | | | ₩ | 203,641 | 432,134 |

13. Long-Term Debts

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

| <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 | Mar. 28, 2006~ Aug. 5, 2008 | Sep. 29, 2009~ Aug. 5, 2013 | 4.66 ~ 6.52 | KRW | 2,000,000 | ₩ | 2,000,000 | 1,500,000 | 1,500,000 |
| 9th Samurai Bonds | Jun. 28, 2006 | Jun. 28, 2013 | 2.05 | JPY | 50,000,000,000 | | 696,945 | 50,000,000,000 | 416,665 |
| 1th Euro Bonds | Aug. 10, 2006 | Aug. 10, 2016 | 5.88 | USD | 300,000,000 | | 377,250 | 300,000,000 | 281,460 |
| Exchangeable bonds | Aug. 20, 2003 | Aug. 20, 2008 | - | JPY | - | | - | 51,622,000,000 | 430,182 |
| Exchangeable bonds (*1) | Aug. 19, 2008 | Aug. 19, 2013 | - | JPY | 52,795,000,000 | | 735,904 | - | - |
| 1th FRN | Nov. 11, 2008 | Nov. 11, 2013 | Six-month Tibor+2.60 | JPY | 20,000,000,000 | | 278,778 | - | - |
| 1th Samurai Bonds | Dec. 29, 2008 | Dec. 29, 2011 | Six-month Tibor+1.60 | JPY | 50,000,000,000 | | 696,945 | - | - |
| | | | | | | | 4,785,822 | | 2,628,307 |
| Add: Premium on bond redemption | | | | | | | 11,112 | | - |
| Less: Current portion | | | | | | | (200,000) | | (430,182) |
| Discount on debentures issued | | | | | | | (71,525) | | (11,258) |
| | | | | | | | ₩ | 4,525,409 | 2,186,867 |

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

(*1) 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 (note 17) |
| 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 |

The underlying assets of above exchangeable bonds are SK Telecom Co., Ltd. ADRs which were pledged as collateral for the exchangeable bonds previously redeemed on August 20, 2008. The transaction between the Company and Zeus (Cayman) Ltd. is deemed to be a borrowing transaction under generally accepted accounting principles in the Republic of Korea.

(b) Long-term domestic borrowing 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> |
|-----------------------------|---|-------------|-------------|
| Korea Resources Corporation | Representitive borrowing rate (*1)-2.25 | ₩ 49,308 | 45,100 |

(*1) Indexed to the average yield of 3-year government bond which is rounded off to the nearest 0.25%.

(c) Long-term foreign currency borrowing 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> |
|-------------------------------------|----------------------------------|-----------------|-------------|
| Korea National Oil Corporation (*1) | Representive borrowing rate-2.25 | USD 2,324,540 | ₩ 2,923 |
| Development Bank of Japan | 4.60 | JPY 192,000,000 | ₩ 2,676 |
| | | | ₩ 5,599 |
| Less: Current portion | | | ₩ (2,676) |
| | | | ₩ 2,923 |
| | | | ₩ 1,019,784 |
| | | | ₩ 957 |
| | | | ₩ 3,200 |
| | | | ₩ 4,157 |
| | | | ₩ (1,600) |
| | | | ₩ 2,557 |

(*1) The borrowing is related to the exploration of gas field in the Aral Sea (note 16).

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

(d) Loans from foreign financial institutions 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> | | | |
|-----------------------------|-----------------------------|-------------|-----------|-------------|--------------|--------------|--------------|
| Natixis | 2.00 | EUR | 4,600,591 | ₩ | 8,171 | 5,236,941 | 7,234 |
| Less: Current portion | | EUR | (636,350) | | (1,130) | (636,350) | (879) |
| | | | <u>₩</u> | | <u>7,041</u> | <u>6,355</u> | <u>6,355</u> |

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

| <i>(in millions of Won)</i> | | | <u>Foreign Currency</u> | <u>Loans from foreign</u> | | |
|-----------------------------|----------------------|-------------------|-------------------------|-------------------------------|--------------|------------------|
| Period | <u>Debentures(*)</u> | <u>Borrowings</u> | <u>Borrowings</u> | <u>financial institutions</u> | <u>Total</u> | |
| 2009 | ₩ 200,000 | ₩ - | ₩ 2,676 | ₩ 1,130 | ₩ | 203,806 |
| 2010 | - | - | - | 1,130 | | 1,130 |
| 2011 | 1,775,723 | 750 | - | 1,130 | | 1,777,603 |
| 2012 | 500,000 | 4,931 | - | 1,130 | | 506,061 |
| Thereafter | 2,321,211 | 43,627 | 2,923 | 3,651 | | 2,371,412 |
| | <u>₩ 4,796,934</u> | <u>₩ 49,308</u> | <u>₩ 5,599</u> | <u>₩ 8,171</u> | <u>₩</u> | <u>4,860,012</u> |

(*) The amount includes premium on bond redemption.

14. Severance Benefits

Changes in the retirement and severance benefits for the years ended December 31, 2008 and 2007 are as follows:

| <i>(in millions of Won)</i> | <u>2008</u> | <u>2007</u> |
|--|------------------|----------------|
| Estimated severance benefits at beginning of period | ₩ 682,686 | 572,445 |
| Provision for severance benefits | 221,748 | 134,632 |
| Payment | (53,043) | (24,391) |
| Estimated severance benefits at end of period | <u>₩ 851,391</u> | <u>682,686</u> |
| Transfer to National Pension Fund | (84) | (89) |
| Deposit for severance benefits trust | (590,939) | (457,192) |
| Net balance at end of period | <u>₩ 260,368</u> | <u>225,405</u> |

As of December 31, 2008 and 2007, the Company has funded approximately 69% and 67% of the total severance benefits through group severance insurance deposits with Samsung Life Insurance Company and others. The beneficiaries of the severance insurance deposits are the Company's employees.

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

15. Other Current 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> |
|-----------------------------|-----------------|---------------|
| Advances received | ₩ 25,162 | 24,755 |
| Unearned revenue | 2,472 | 1,579 |
| Others | 9,454 | 5,356 |
| | <u>₩ 37,088</u> | <u>31,690</u> |

16. Commitments and Contingencies

(a) As of December 31, 2008, contingent liabilities for outstanding guarantees provided by the Company for the repayment of loans of related companies and others are as follows:

| <i>(in millions of Won)</i> | | <u>2008</u> | | <u>2007</u> | | |
|---|--|-------------------|-----------------------|-------------------|-----------------------|---------|
| <u>Company</u> | <u>Financial Institution</u> | <u>Guaranteed</u> | <u>Won Equivalent</u> | <u>Guaranteed</u> | <u>Won Equivalent</u> | |
| Related companies | | | | | | |
| POSCO Investment Co., Ltd. | Bank of Tokyo-Mitsubish | USD | 42,000,000 | 42,000,000 | | |
| | | CNY | 29,000,000 | ₩ 58,154 | 87,000,000 | 50,580 |
| | HSBC | MYR | 180,000,000 | | - | |
| | | USD | 100,000,000 | 190,822 | - | - |
| Zhangjiagang Pohang Stainless Steel Co., Ltd. | Bank of China and others | USD | 199,925,000 | 251,406 | 199,925,000 | 187,570 |
| POSCO-Vietnam Co., Ltd. | The export-Import Bank of Korea | USD | 200,000,000 | 251,500 | - | - |
| | | | | 751,882 | | 238,150 |
| Others | | | | | | |
| DC Chemical Co., Ltd. | EI Co., Ltd. | KRW | 320 | 320 | 640 | 640 |
| The Siam United Steel Co. Ltd. | Japan Bank for International Corporation | USD | - | - | 5,120,535 | 4,804 |
| | | JPY | 52,795,000,000 | 735,904 | 51,622,000,000 | 430,182 |
| BX STEEL POSCO Cold Rolled Sheet Co., Ltd. | Bank of China and others | USD | 15,840,000 | | 17,000,000 | |
| | | CNY | 423,440,000 | 97,870 | 145,200,000 | 34,600 |
| Zhongyue POSCO(Qinhuangdao) Tinsplate Industrial Co., Ltd | Industrial & Commercial Bank of China | USD | - | - | 10,200,000 | 9,570 |
| | | | | 834,094 | | 479,796 |
| | | | | ₩ 1,585,976 | | 717,946 |

(b) As of December 31, 2008, the Company issued three blank promissory notes to Korea Resources Corporation as collaterals for borrowings, and issued three blank promissory notes to Korea National Oil Corporation as collaterals for foreign currency borrowings.

(c) As of December 31, 2008, the Company acquired certain tools and equipment under operating lease agreements from Macquarie Capital Korea Company Limited and others. The Company's rent expenses, with respect to these lease agreements, amounted to ₩5,392 million for the year ended December 31, 2008. Future lease payments under these lease agreements are as follows:

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

(in millions of Won)

| <u>Period</u> | <u>Amount</u> |
|---------------|----------------|
| 2009 | ₩ 4,178 |
| 2010 | 1,865 |
| 2011 | 459 |
| | <u>₩ 6,502</u> |

- (d) The Company is involved in nine lawsuits and claims for alleged damages aggregating to ₩ 6,898 million as of December 31, 2008 which arose in the ordinary course of business. The Company is unable to predict the possible outcome of the above claims. However, in the opinion of management, the foregoing lawsuits and claims will not have a material adverse effect on the Company's financial position, operating results or cash flows. No provision is recorded in connection with the above lawsuits and claims as of December 31, 2008.
- (e) The Company entered into long-term contracts to purchase iron ore, coal, nickel and chrome. These contracts generally have terms of five to ten years and provide for periodic price adjustments to 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.
- (f) The Company entered into an agreement with Tangguh LNG Consortium in Indonesia regarding the commitment to purchase 550 thousand tons of LNG annually for 20 years commencing in August 2005. This agreement provides for monthly price adjustments to market price (Japan JCC), and the ceiling price is applied when the market price exceeds the certain price level provided in the agreement.
- (g) The Company has a bank overdraft agreement with Woori Bank and others amounting to ₩ 310,000 million as of December 31, 2008. In addition, the Company entered into a credit purchase loan agreement for credit lines of up to ₩ 205,000 million and ₩ 25,000 million in short-term borrowings.
- (h) As of December 31, 2008, the Company has an agreement with Woori Bank and others to open letters of credit, documents against acceptance and documents against payment amounting to US\$ 1,520 million and US\$ 320 million in foreign short-term borrowings.
- (i) The accounts receivable in foreign currency sold to financial institutions and outstanding as of December 31, 2008, amount to US\$ 89 million for which the Company is contingently liable upon the issuers' default.
- (k) The Company entered into a foreign currency borrowing agreement of up to US\$ 6.86 million with Korea National Oil Corporation ("KNOC") related to the exploration of gas field in the Aral Sea. The repayment obligation is subject to results of the exploration. If the exploration fails, the Company will be exempted from all or portion of the repayment obligation. But if it succeeds, the portion of the project income is payable to the KNOC.

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

17. Derivatives

| <u>Type of Transaction</u> | <u>Purpose of Transaction</u> | <u>Financial Institutions</u> | <u>Description of contract</u> |
|----------------------------|-------------------------------|---------------------------------|-------------------------------------|
| Currency forward (Swaps) | Hedge | Woori Bank and others | Currency forward (Forward exchange) |
| Embedded derivative (*) | Issuing exchangeable bonds | Investee for exchangeable bonds | Exchangeable rights for stock |

(*) 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.

(b) Details of the gains and losses on derivatives for the years ended December 31, 2008 and 2007 are as follows:

| <i>(in millions of Won)</i> <u>Type of Transaction</u> | <u>Valuation Gain (Loss)</u> | | <u>Transaction Gain (Loss)</u> | |
|---|------------------------------|-------------|--------------------------------|--------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| Currency forward (Swaps) | ₩ - | 301 | ₩ 830 | 7,638 |
| Embedded derivative | 17,985 | - | - | - |
| | <u>₩ 17,985</u> | <u>301</u> | <u>₩ 830</u> | <u>7,638</u> |

The risk hedge accounting according to KFAS Interpretation 53-70, Accounting for Derivatives, are not applied on the derivative transactions.

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

18. 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:

| | <u>1st Grant</u> | <u>2nd Grant</u> | <u>3rd Grant</u> | <u>4th Grant</u> | <u>5th Grant</u> | <u>6th Grant</u> | <u>Total</u> |
|-------------------------------------|----------------------------------|------------------------------------|-----------------------------------|------------------------------------|----------------------------------|------------------------------------|------------------|
| Before the modifications (*) | | | | | | | |
| 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 | |
| After the modifications (*) | | | | | | | |
| 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> | <u>1st Grant</u> | <u>2nd Grant</u> | <u>3rd Grant</u> | <u>4th Grant</u> | <u>5th Grant</u> | <u>6th Grant</u> | <u>Total</u> |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|------------------|
| Cumulative expense in prior periods | ₩ 60,825 | ₩ 14,050 | ₩ 7,837 | ₩ 35,145 | ₩ 88,823 | ₩ 34,000 | ₩ 240,680 |
| Reversal of expense recognized in current period | (880) | (3,249) | (2,994) | (5,375) | (34,143) | (8,514) | (55,155) |
| | <u>₩ 59,945</u> | <u>₩ 10,801</u> | <u>₩ 4,843</u> | <u>₩ 29,770</u> | <u>₩ 54,680</u> | <u>₩ 25,486</u> | <u>₩ 185,525</u> |

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

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

19. 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.

20. Capital Surplus

(a) In accordance with the Asset Revaluation Law, the Company had revalued three times a substantial portion of its property, plant and equipment since December 31, 1989. The remaining revaluation increments amounting to ₩3,173 billion, net of revaluation tax, were recorded as revaluation surplus, a component of shareholders' equity.

(b) Other capital surplus consists of gain on sale of treasury stock and adjustment capital surplus by equity method.

21. Capital Adjustments

(a) Details of capital adjustments of the Company as of December 31, 2008 and 2007 are as follows:

(in millions of Won)

| | 2008 | | 2007 |
|--------------------------|-------------------------|-------------------|--------------------|
| | <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> |

(b) 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, 2008, as approved by the Board of Directors on October 10, 2008. The differences between the fair values and the proceeds from the sales were recognized as other employ benefit expense.

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

22. 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 |
| Reserve for technology and human resource development | 1,071,667 | 1,445,000 |
| Appropriated retained earnings for business rationalization | 918,300 | 918,300 |
| Appropriated retained earnings for business expansion | 17,757,500 | 14,757,500 |
| Appropriated retained earnings for dividends | 982,395 | 755,568 |
| | <u>20,971,064</u> | <u>18,117,570</u> |
| Unappropriated | 4,489,059 | 3,650,657 |
| | <u>₩ 25,460,123</u> | <u>21,768,227</u> |

Legal Reserve

The Commercial Code of the Republic of Korea requires the Company to appropriate annually, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid, until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock, or used to reduce accumulated deficit, if any, with the ratification of the Company's majority shareholders.

Appropriated retained earnings for business rationalization

Until December 10, 2002, under the Special Tax Treatment Control Law, investment tax credits were allowed for certain investments. The Company was, however, required to appropriate from retained earnings the amount of tax benefits received and transfer such amount into a appropriated retained earnings for business rationalization

Effective December 11, 2002, the Company was no longer required to establish a appropriated retained earnings for business rationalization despite tax benefits received for certain investments and, consequently, the existing balance is now regarded as a voluntary reserve.

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

23. Dividend

(a) Details of interim and year-end dividends in 2008 and 2007 are as follows:

Interim Cash Dividends

| <i>(in millions of Won)</i> | 2008 | | 2007 | |
|-----------------------------|---------------------------|------------------------|---------------------------|------------------------|
| | <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> | 2008 | | 2007 | |
|-----------------------------|---------------------------|------------------------|---------------------------|------------------------|
| | <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 are as follows:

| <i>(in millions of Won)</i> | 2008 | | 2007 | |
|-----------------------------|------------------------|-----------------------------|------------------------|-----------------------------|
| | <u>Dividend payout</u> | <u>Dividend yield Ratio</u> | <u>Dividend payout</u> | <u>Dividend yield Ratio</u> |
| Common shares | 17.15 | 2.63 | 20.55 | 1.74 |

24. Cost of Goods Sold

Cost of goods sold for the years ended December 31, 2008 and 2007 are as follows:

| <i>(in millions of Won)</i> | 2008 | 2007 |
|--|--------------|-------------|
| Finished goods, semi-finished goods and by-products, beginning of the period | ₩ 1,359,025 | 1,184,913 |
| Total manufacturing costs | 24,045,506 | 16,582,565 |
| Transfer from other accounts | 30,135 | 188,594 |
| Finished goods, semi-finished goods and by-products, end of the period | (2,749,541) | (1,359,025) |
| Refunded customs duties | (10,424) | (22,551) |
| Cost of goods sold for finished goods, semi-finished goods and by-products | 22,674,701 | 16,574,496 |
| Others | 32,283 | 31,591 |
| | ₩ 22,706,984 | 16,606,087 |

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

25. Selling, General and Administrative Expenses

Details of selling, general and administrative expenses for the years ended December 31, 2008 and 2007 are as follows:

| <i>(in millions of Won)</i> | <u>2008</u> | <u>2007</u> |
|-----------------------------------|--------------------|------------------|
| Selling expenses | ₩ 741,683 | 604,223 |
| Fees and charges | 139,095 | 128,965 |
| Salaries and wages | 89,605 | 83,712 |
| Advertising | 80,605 | 83,888 |
| Research and development (note 9) | 60,015 | 28,420 |
| Depreciation | 15,629 | 16,423 |
| Amortization (note 9) | 14,748 | 14,779 |
| Rent | 22,396 | 23,073 |
| Other employ benefit | 100,589 | 71,547 |
| Provision for severance benefits | 32,086 | 23,170 |
| Supplies | 4,490 | 4,326 |
| Travel | 14,674 | 13,568 |
| Training | 17,206 | 15,262 |
| Repairs | 10,346 | 9,213 |
| Communications | 7,937 | 7,122 |
| Vehicle expenses | 5,448 | 5,218 |
| Taxes and dues | 5,283 | 4,531 |
| Entertainment | 4,578 | 3,857 |
| Subscriptions and printing | 2,345 | 2,889 |
| Utilities | 991 | 927 |
| Insurance | 8,744 | 5,414 |
| Stock compensation expense | - | 123,881 |
| Others | 16,873 | 17,915 |
| | <u>₩ 1,395,366</u> | <u>1,292,323</u> |

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

26. Assets and Liabilities Denominated in Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies, and gain and loss on foreign currency translation as of December 31, 2008 and 2007 are as follows:

| <i>(in millions of Won)</i> | 2008 | | | 2007 | | | |
|---|------------------|----------------|-----|------------------|----------------|-------------|-----------|
| | Foreign currency | Won Equivalent | Won | Foreign currency | Won Equivalent | Won | |
| Assets | | | | | | | |
| Cash and cash equivalent | USD | 110,800 | ₩ | 139,331 | USD | 229,900 | 215,692 |
| Trade accounts receivable | USD | 233,283 | | 293,353 | USD | 196,407 | 184,269 |
| | JPY | 3,610,125 | | 50,321 | JPY | 5,221,260 | 43,510 |
| | EUR | 6,437 | | 11,433 | EUR | 2,825 | 3,902 |
| Other accounts receivable | USD | 4,564 | | 5,740 | USD | 3,184 | 2,988 |
| | JPY | 8,879 | | 124 | JPY | 16,960 | 141 |
| | others | - | | 38 | others | | 46 |
| Guarantee deposits | USD | 106 | | 134 | USD | 48 | 45 |
| | EUR | 129 | | 229 | EUR | 41 | 57 |
| | others | - | | 36 | others | | 117 |
| | | | ₩ | 500,739 | | | 450,767 |
| Liabilities | | | | | | | |
| Trade accounts payable | USD | 386,859 | ₩ | 486,475 | USD | 328,498 | 308,197 |
| | JPY | 1,401,536 | | 19,536 | JPY | 359,102 | 2,993 |
| | EUR | 18 | | 32 | EUR | 563 | 778 |
| Other accounts payable | USD | 10,265 | | 12,908 | USD | 37,476 | 35,160 |
| | JPY | 2,424,724 | | 33,798 | JPY | 621,294 | 5,177 |
| | EUR | 6,965 | | 12,372 | EUR | 20 | 29 |
| Debentures | USD | 300,000 | | 377,250 | USD | 300,000 | 281,460 |
| | JPY | 173,592,205 | | 2,419,684 | JPY | 101,622,000 | 846,847 |
| Foreign currency short-term borrowings | USD | 271,035 | | 340,827 | USD | 86,648 | 81,293 |
| Foreign currency long-term borrowings | JPY | 192,000 | | 2,676 | JPY | 384,000 | 3,200 |
| Loans from foreign financial institutions | USD | 2,325 | | 2,923 | USD | 1,020 | 957 |
| | EUR | 4,601 | | 8,172 | EUR | 5,237 | 7,234 |
| | | | ₩ | 3,716,653 | | | 1,573,325 |

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

27. 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 (*1) | ₩ 1,638,902 | 1,163,009 |
| Deferred income taxes | (527,582) | 194,531 |
| Items charged directly to shareholders' equity | 271,277 | (244,962) |
| | <u>₩ 1,382,597</u> | <u>1,112,578</u> |

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

(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 | ₩ 5,829,530 | 4,792,009 |
| Income tax expense computed at statutory rate | 1,603,090 | 1,317,791 |
| Adjustments | | |
| Tax credit | (182,374) | (145,887) |
| Others, net | (38,119) | (59,327) |
| Income tax expense | <u>₩ 1,382,597</u> | <u>1,112,578</u> |
| Effective rate (%) | <u>23.7</u> | <u>23.2</u> |

(c) The Company recognizes deferred income taxes for anticipated future tax consequences resulting from temporary differences between amounts reported for financial reporting and income tax purposes. 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 ₩ 19,419 million were recorded in income tax expenses.

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

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

(in millions of Won)

| | Accumulated temporary differences | | | Deferred income tax | | |
|--|-----------------------------------|--------------------|--------------------|---------------------|------------------|--------------------|
| | Dec. 31, 2007 | Inc. (dec.) (*1) | Dec. 31, 2008 | Dec. 31, | Inc. (dec.) | Dec. 31, 2008 |
| Reserve for special repairs | ₩ (301,751) | ₩ 19,927 | ₩ (281,824) | ₩ (82,982) | ₩ 20,559 | ₩ (62,423) |
| Allowance for doubtful accounts | 19,484 | (19,484) | - | 5,358 | (5,358) | - |
| Reserve for technology developments | (1,071,667) | 351,667 | (720,000) | (294,708) | 127,692 | (167,016) |
| Dividend income from related companies | 366,233 | 64,455 | 430,688 | 100,714 | (5,963) | 94,751 |
| Depreciation expense | (151,035) | (116,701) | (267,736) | (41,534) | (17,035) | (58,569) |
| Valuation of equity method accounted investments(*2) | (1,423,440) | (354,757) | (1,778,197) | (309,186) | 10,065 | (299,121) |
| Prepaid expenses | 34,422 | 34,329 | 68,751 | 9,465 | 6,717 | 16,182 |
| Impairment loss on property, plant and equipment | 374,053 | (331,592) | 42,461 | 102,864 | (93,490) | 9,374 |
| Gain on foreign currency translation | - | 622,855 | 622,855 | - | 137,581 | 137,581 |
| Gain on valuation of available-for-sale securities | (1,228,045) | 834,465 | (393,580) | (337,712) | 251,125 | (86,587) |
| Loss on valuation of available-for-sale securities | 278,548 | 694,800 | 973,348 | 76,601 | 137,536 | 214,137 |
| Others | 443,132 | (80,565) | 362,567 | 116,698 | (41,847) | 74,851 |
| | <u>₩ (2,660,066)</u> | <u>₩ 1,719,399</u> | <u>₩ (940,667)</u> | <u>₩ (654,422)</u> | <u>₩ 527,582</u> | <u>₩ (126,840)</u> |

(in millions of Won)

| | Accumulated temporary differences | | | Deferred income tax | | |
|--|-----------------------------------|--------------------|----------------------|---------------------|--------------------|--------------------|
| | Dec. 31, 2006 | Inc. (dec.) | Dec. 31, 2007 | Dec. 31, | Inc. (dec.) | Dec. 31, 2007 |
| Reserve for special repairs | ₩ (403,384) | ₩ 101,633 | ₩ (301,751) | ₩ (110,931) | ₩ 27,949 | ₩ (82,982) |
| Allowance for doubtful accounts | 5,861 | 13,623 | 19,484 | 1,472 | 3,886 | 5,358 |
| Reserve for technology developments | (1,445,000) | 373,333 | (1,071,667) | (397,375) | 102,667 | (294,708) |
| Dividend income from related companies | 304,162 | 62,071 | 366,233 | 83,644 | 17,070 | 100,714 |
| Depreciation expense | (2,456) | (148,579) | (151,035) | (637) | (40,897) | (41,534) |
| Valuation of equity method accounted investments | (718,942) | (704,498) | (1,423,440) | (166,925) | (142,261) | (309,186) |
| Prepaid expenses | 42,076 | (7,654) | 34,422 | 11,554 | (2,088) | 9,466 |
| Impairment loss on property, plant and equipment | 470,052 | (95,999) | 374,053 | 129,264 | (26,399) | 102,865 |
| Gain on valuation of available-for-sale securities | (774,923) | (453,122) | (1,228,045) | (213,104) | (124,608) | (337,712) |
| Loss on valuation of available-for-sale securities | 351,939 | (73,391) | 278,548 | 96,783 | (20,182) | 76,601 |
| Others | 404,249 | 38,883 | 443,132 | 106,362 | 10,335 | 116,697 |
| | <u>₩ (1,766,366)</u> | <u>₩ (893,700)</u> | <u>₩ (2,660,066)</u> | <u>₩ (459,893)</u> | <u>₩ (194,528)</u> | <u>₩ (654,421)</u> |

(*1) The adjustments reflect the effect of the finalized tax assessment for the year ended December 31, 2007 and as a result, the deferred income tax balances as of December 31, 2007 have been adjusted.

(*2) As the Company is unlikely to dispose of its investee shares within five years, the income tax effect of ₩ 238,324 million in 2008 is not recognized as it is more likely than not that the deferred tax asset will not be realized.

(e) Income tax expenses (benefits) which are directly recognized in equity due to changes in valuation of available-for-sale securities for the years ended December 31, 2008 and 2007 amounted to ₩ 271,277 million and ₩ (244,962) million, respectively.

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

(f) A summary of deferred tax assets and liabilities as of December 31, 2008 and 2007 are as follows:

(in millions of Won)

| | 2008 | | 2007 | |
|------------------------------|------------|-------------|------------|-------------|
| | Current | Non-current | Current | Non-current |
| Deferred tax assets | ₩ 35,138 | ₩ 770,457 | ₩ 16,745 | ₩ 575,339 |
| Deferred tax liabilities | (125,445) | (806,990) | (113,418) | (1,133,088) |
| Net deferred tax liabilities | ₩ (90,307) | ₩ (36,533) | ₩ (96,673) | ₩ (557,749) |

28. Comprehensive Income

For the years ended December 31, 2008 and 2007, comprehensive incomes are as follows:

(in millions of Won)

| | 2008 | 2007 |
|---|-------------|-----------|
| Net income | ₩ 4,446,933 | 3,679,431 |
| Change of accounting policies | - | (2,468) |
| Gain (loss) on valuation of available-for sale securities | (1,529,608) | 526,513 |
| Less: tax effect | 388,661 | (144,791) |
| Changes in capital adjustments arising from equity method accounted investments | 419,394 | 191,345 |
| Less: tax effect | (66,384) | (32,335) |
| Other Comprehensive Income | (787,937) | 538,264 |
| Comprehensive income | ₩ 3,658,996 | 4,217,695 |

29. Earnings Per Share

(a) Basic earnings per share per share for the year ended December 31, 2008 and 2007 were as follows:

(in millions of Won except per share information)

| | 2008 | 2007 |
|---|-------------|------------|
| Net income | ₩ 4,446,933 | 3,679,431 |
| Weighted-average number of common shares outstanding(*) | 75,493,523 | 75,952,869 |
| Basic ordinary income and earnings per share | ₩ 58,905 | 48,444 |

(*) 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 year ended December 31, 2008 and 2007:

| | 2008 | 2007 |
|--|------------|------------|
| Total number of common shares issued | 87,186,835 | 87,186,835 |
| Weighted-average number of treasury shares | 11,693,312 | 11,233,966 |
| Weighted-average number of common shares outstanding | 75,493,523 | 75,952,869 |

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

30. 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.(formerly, Pohang 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., 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.(POSCO-JKPC), Shanghai POSCO E&C Real Estate Development Co., Ltd., International Business Center Corporation(IBC), POSLILAMA E&C Co. ,Ltd., Zhangjiagang Pohang Stainless Steel Co., Ltd., Guandong Pohang Coated Steel Co., Ltd., POSCO Thailand Bangkok Processing Center Co., Ltd.(formerly, POSCO Thailand Co., Ltd.), Myanmar-POSCO Steel Co., Ltd., Zhangjiagang Posha Steel Port Co., Ltd., POSCO Osaka Processing Center Co., Ltd.(POSCO-JOPC), POSCO INVESTMENT Co., Ltd.(POSINVEST), POSCO-MKPC SDN BHD(formerly, POSMMIT Steel Center Co., Ltd.), Qingdao Pohang Stainless Steel Co., Ltd., POSCO(Suzhou) Automotive Processing Center Co., Ltd.(POSCO-CSPC), POSEC-Hawaii Inc., POS-Qingdao Coil Center Co., Ltd.(POSCO-CQPC), POS-ORE Pty. Ltd., POSCO-China Holding Corp., POSCO-Japan Co., Ltd., POSCO E&C(Zhangjiagang) E&C Co., Ltd, POS-CD Pty. Ltd., POS-GC Pty. Ltd., POSCO-India Pvt. Ltd., POS-India Pune Processing Centre Pvt. Ltd.(POSCO-IPPC), POS-NPC Corporation(POSCO-JNPC), POSCO-Foshan Steel Processing Center Co., Ltd.(POSCO-CFPC), POSCO E&C(Beijing) Co., Ltd., POSCO MPC S.A. de C.V.(POSCO-MPPC), Zhanjiagang Pohang Port Co., Ltd., POSCO Vietnam Co., Ltd., POSCO Mexico S.A. de C.V., POSCO INDIA DELHI STEEL PROCESSING CENTRE PRIVATE LIMITED(POSCO-IDPC), POSCO(Chongqing) Automotive Processing Center Co., Ltd.(POSCO-CCPC), POS-NP Pty. Ltd., POSCO-Vietnam Processing Center Co., Ltd.(POSCO-VHPC), Suzhou Poscore Technology Co., Ltd.(POSCO-CORE(SZ)), POSCO Yokohama Automotive Processing Center Co., Ltd.(POSCO-JYPC), POSCO Malaysia SDN BHD, POS-Minerals Corporation, POSCO (Wuhu) Automotive Processing Center Co., Ltd.(POSCO-CWPC) |

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

(b) Significant transactions, which occurred in the ordinary course of business, with related companies 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 |
| Subsidiaries | | | | | | | | |
| POSCO E&C Co., Ltd. | ₩ 13,626 | ₩ 20,000 | ₩ 1,121,335 | ₩ 984,030 | ₩ 814 | ₩ 186 | ₩ 249,792 | ₩ 105,178 |
| Posteel Co., Ltd. | 1,455,354 | 1,072,032 | 244,908 | 220,459 | 220,713 | 104,624 | 21,651 | 12,386 |
| POSCON Co., Ltd. | 105 | 120 | 226,827 | 244,365 | 5 | 7 | 62,957 | 24,842 |
| POSCO Coated & Color Steel Co., Ltd.(formerly, Pohang 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 | 2,665 | 6 | 25,387 | 20,431 |
| POSDATA Co., Ltd. | 1,685 | 4,516 | 187,186 | 173,660 | 1 | 10 | 20,311 | 31,614 |
| POSCO Research Institute | 3 | 3 | 19,951 | 17,280 | 54 | 1 | 3,780 | 6,394 |
| Seung Kwang Co., Ltd. | 3 | - | 89 | 69 | 1,631 | - | - | - |
| POSCO Architect & Consultants Co., Ltd. | 936 | 862 | 29,455 | 24,298 | - | 1 | 5,470 | 2,001 |
| POSCO Specialty Steel Co., Ltd. | 3,697 | 5,175 | 27,122 | 88,258 | 1,843 | 40 | 4,463 | 8,067 |
| POSCO Machinery Co., Ltd. | 15,302 | 3,480 | 89,248 | 114,378 | 2,188 | 50 | 28,517 | 10,445 |
| POSTECH Venture Capital Corp. | 83 | 94 | - | - | - | - | 68 | 66 |
| POSCO Refractories & Environment Co., Ltd. | 57,189 | 250 | 350,153 | 213,753 | 19,137 | 9 | 57,791 | 24,265 |
| POSCO Terminal Co., Ltd. | 11,716 | 9,841 | 801 | 476 | 1,394 | 1,001 | 263 | 61 |
| POSMATE Co., Ltd. | 1,484 | 2,433 | 38,626 | 36,666 | 246 | 63 | 4,763 | 5,038 |
| Samjung Packing & Aluminum Co., Ltd. | 25,115 | 16,985 | 268,044 | 233,125 | 2,578 | 1,355 | 17,422 | 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 | - | - | 8,535 | - | - | - | 761 | - |
| POSCO America Cororation | 168,553 | 130,150 | 93 | 686 | 25 | 4,447 | 405 | - |
| POSCO Australia Pty. Ltd. | 27,695 | 18,206 | 71 | 231 | 18 | 40 | - | - |
| POSCO Canada Ltd. | 40 | 40 | 289,015 | 71,120 | 21 | 21 | - | 9,635 |
| POSCO Asia Co., Ltd. | 951,867 | 600,059 | 203,923 | 121,098 | 28,301 | 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 | - | - | - |
| International Business Center Corporation | - | - | - | 49 | - | - | - | - |
| Zhangjiagang Pohang Stainless Steel Co., Ltd. | 3,145 | 22,474 | - | - | - | - | - | - |
| Guangdong Pohang Coated Steel Co., Ltd. | - | 2 | - | - | - | - | - | - |
| POSCO Thailand Bangkok Processing Center Co., Ltd. (formerly, POSCO Thailand Co., Ltd.) | 91,077 | 47,248 | - | - | - | - | - | - |
| POSCO-MKPC SDN BHD (formerly, POSMMIT Steel Center Co., Ltd.) | 27,170 | 3,923 | - | - | - | - | - | - |
| Qingdao Pohang Stainless Steel Co., Ltd. | 93,232 | 82,581 | - | - | 4,804 | 5,153 | - | - |

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

| <i>(in millions of Won)</i> | Sales and others(*1) | | Purchase and others(*1) | | Receivables(*2) | | Payables(*2) | |
|--|----------------------|--------------------|-------------------------|--------------------|------------------|------------------|------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| POSCO(Suzhou) Automotive Processing Center Co., Ltd. | 24,930 | - | - | - | - | - | - | - |
| POS-Qingdao Coil Center Co., Ltd. | 1,748 | 8,111 | - | - | - | 1,862 | - | - |
| POSCO-China Holding Corp. | 2 | - | 1,699 | 923 | - | - | - | - |
| POSCO-Japan Co., Ltd. | 1,191,222 | 831,711 | 23,233 | 50,939 | 21,700 | 30,952 | 1,104 | 6 |
| POS-India Pune Processing Centre Pvt. Ltd. | 66,931 | 53,981 | - | 9 | 4,019 | - | - | - |
| POSCO-Foshan Steel Processing Center Co., Ltd. | 23,940 | - | - | - | 54 | - | - | - |
| POSCO-MPC S.A. de C.V. | 61,279 | - | - | - | - | - | - | - |
| POSCO Vietnam Co., Ltd. | 1,026 | - | - | - | 1,024 | - | - | - |
| POSCO INDIA DELHI PROCESSING CENTRE PRIVATE LIMITED | 20,844 | - | 318 | 346 | 605 | - | - | - |
| POSCO Vietnam Processing Center Co., Ltd. | 36,026 | - | - | - | - | - | - | - |
| POSCO(Chongqing) Automotive Processing Center Co., Ltd. | 4,686 | - | - | - | - | - | - | - |
| POSCO-Malaysia SDN BHD | 43,072 | - | - | - | - | - | - | - |
| Equity method investees | | | | | | | | |
| eNtoB Corporation | - | - | 288,604 | 216,920 | - | - | 6,016 | 2,999 |
| SNNC Co., Ltd. | 2,245 | 343 | 33,867 | - | 19 | 1 | 1,926 | - |
| KOBRASCO | 4,115 | - | 63,968 | 72,514 | 4,115 | - | - | 4,048 |
| Poschrome (Proprietary) Limited | 98 | 35 | 91,467 | 41,735 | - | - | - | - |
| POSVINA Co., Ltd. | 12,550 | 5,056 | - | - | - | - | - | - |
| USS-POSCO Industries Guangdong Xingpu Steel Center Co., Ltd. | 428,092 | 245,814 | - | - | - | 8 | - | - |
| | 10,011 | 3,094 | - | - | 1,825 | 4,276 | - | - |
| | <u>₩ 5,679,752</u> | <u>₩ 3,673,091</u> | <u>₩ 3,768,905</u> | <u>₩ 3,081,558</u> | <u>₩ 391,474</u> | <u>₩ 228,367</u> | <u>₩ 515,896</u> | <u>₩ 290,129</u> |

(*1) Sales and others include sales and non-operating income; purchases and others include purchases, acquisition of property, plant and equipment and overhead expenses.

(*2) Receivables include trade accounts and notes receivable and other accounts and notes receivable; payables include trade accounts and notes payable and other accounts payable.

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

(c) 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> | <u>2008</u> | <u>2007</u> |
|-------------------------------|-------------------|----------------|
| Salaries | ₩ 11,900 | 10,466 |
| Severance benefits | 4,093 | 6,430 |
| Management achievement awards | 17,525 | 13,077 |
| Stock compensation expense | (55,155) | 123,881 |
| Total | <u>₩ (21,637)</u> | <u>153,854</u> |

Key management officers include directors (including non-executive directors) and internal audit officer who have significant influence and responsibilities in the Company's business and operations.

31. Segment Information

(a) The Company has plants in Pohang and in Gwangyang in the Republic of Korea. General information of the plants as of December 31, 2008 is as follows:

| | <u>Pohang Mill</u> | <u>Gwangyang Mill</u> |
|---------------------|---|---|
| Major Products | | |
| Hot Roll | HR coil | HR coil |
| Cold Roll | CR coil, CR Sheet | CR coil, CR Sheet |
| Plate | Plate | - |
| Electric iron | Electric iron coil | - |
| Stainless | STS HR coil and others | - |
| Semi-finished goods | Slab, Bloom, Billet | Slab |
| Major Facilities | | |
| Furnaces | 1~4 furnaces, F furnace, 1~2 Finex | 1~5 furnaces |
| Others | Steel manufacturing continuous, HR, CR and others | Steel manufacturing continuous, HR, CR and others |

(b) Operating results and long-lived assets as of and for the year ended December 31, 2008 and 2007 are as follows:

| <i>(in millions of Won)</i> | <u>2008</u> | | | |
|------------------------------------|---------------------|---------------------|-----------------|---------------------|
| | <u>Pohang</u> | <u>Gwangyang</u> | <u>Others</u> | <u>Total</u> |
| Sales (*1) | | | | |
| Domestic | ₩ 12,494,168 | ₩ 8,216,535 | ₩ 72,749 | ₩ 20,783,452 |
| Export | 4,043,562 | 5,815,395 | - | 9,858,957 |
| Total | <u>₩ 16,537,730</u> | <u>₩ 14,031,930</u> | <u>₩ 72,749</u> | <u>₩ 30,642,409</u> |
| Property, plant and equipment (*2) | ₩ 8,338,775 | ₩ 6,127,143 | - | ₩ 14,465,918 |
| Intangible assets (*2) | 126,018 | 44,077 | - | 170,095 |
| | <u>₩ 8,464,793</u> | <u>₩ 6,171,220</u> | <u>₩ -</u> | <u>₩ 14,636,013</u> |
| Depreciation and amortization (*3) | ₩ 1,138,197 | ₩ 770,608 | - | ₩ 1,908,805 |
| | <u>₩ 1,138,197</u> | <u>₩ 770,608</u> | <u>₩ -</u> | <u>₩ 1,908,805</u> |

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

(*1) No inter-plant sales transactions between the two plants.

(*2) Presented at net book value.

(*3) Includes depreciation expense for assets not in use.

| <i>(in millions of Won)</i> | 2007 | | | |
|-------------------------------|---------------------|--------------------|-----------------|---------------------|
| | Pohang | Gwangyang | Others | Total |
| Sales | | | | |
| Domestic | ₩ 9,557,209 | ₩ 5,848,286 | ₩ 78,418 | ₩ 15,483,913 |
| Export | 3,201,201 | 3,521,571 | - | 6,722,772 |
| Total | <u>₩ 12,758,410</u> | <u>₩ 9,369,857</u> | <u>₩ 78,418</u> | <u>₩ 22,206,685</u> |
| Property, plant and equipment | ₩ 7,787,735 | ₩ 5,413,914 | - | ₩ 13,201,649 |
| Intangible assets | 146,269 | 65,706 | - | 211,975 |
| | <u>₩ 7,934,004</u> | <u>₩ 5,479,620</u> | <u>₩ -</u> | <u>₩ 13,413,624</u> |
| Depreciation and amortization | <u>₩ 1,001,222</u> | <u>₩ 719,769</u> | <u>₩ -</u> | <u>₩ 1,720,991</u> |

32. Value Added Information

Details of accounts included in the computation of value added for the years ended December 31, 2008 and 2007 are as follows:

| <i>(in millions of Won)</i> | 2008 | 2007 |
|-----------------------------------|--------------------|------------------|
| Salaries and wages | ₩ 848,239 | 823,649 |
| Provision for severance benefits | 244,132 | 142,038 |
| Other employ benefit | 684,026 | 481,713 |
| Rent | 44,483 | 42,257 |
| Depreciation and amortization (*) | 1,908,805 | 1,720,991 |
| Taxes and dues | 66,570 | 59,923 |
| | <u>₩ 3,796,255</u> | <u>3,270,571</u> |

(*) Includes amortization and depreciation expense both for assets in use and assets not in use.

33. Employees' Welfare

In order to enhance the welfare of employees, the Company provides fringe benefits to its employees, such as dining facilities, dispensary, scholarships, employee stock ownership plan, medical insurance, accident compensation, compensated absence and gymnasium facilities, among others. Employee benefits paid by the Company amounted to ₩ 684,026 million and ₩ 481,713 million for the years ended December 31, 2008 and 2007, respectively.

POSCO
Notes to Non-Consolidated Financial Statements
December 31, 2008

34. Change to Adopt Requirements of New Statements of KASB

In March 28, 2008, the Company changed its method of accounting for investment to conform with the new requirements of SKAS No. 15, *Investment in Associates*. The financial statements as of and for the years ended December 31, 2007, 2006 and 2005 have been retroactively restated to reflect the change.

Details of changes for the years ended December 31, 2007, 2006 and 2005 are as follows:

| <i>(in millions of Won)</i> | 2005 | | 2006 | | 2007 | |
|---|-------------------|-----------------|-------------------|-----------------|-------------------|-----------------|
| | <u>Unadjusted</u> | <u>Adjusted</u> | <u>Unadjusted</u> | <u>Adjusted</u> | <u>Unadjusted</u> | <u>Adjusted</u> |
| Capital Surplus-other | ₩ 242,700 | ₩ 262,949 | ₩ 297,986 | ₩ 300,454 | ₩ 473,217 | ₩ 492,238 |
| Accumulated other comprehensive income-changes in capital adjustment arising from equity method accounted investments | 42,400 | 22,151 | (5,200) | (7,668) | 170,363 | 151,342 |

35. Operating Results for the Final Interim Period

Significant operating results of the Company for the three-month periods ended December 31, 2008 and 2007 are as follows:

| <i>(in millions of Won except per share information)</i> | <u>Q4 2008</u> | <u>Q4 2007</u> |
|--|----------------|----------------|
| Sales | ₩ 8,305,291 | 5,434,034 |
| Operating income | 1,397,605 | 875,305 |
| Net income | 721,437 | 712,991 |
| Basic earnings per share (in Won) | 9,522 | 9,434 |

Independent Accountants' Review Report on Internal Accounting Control System

English translation of a Report Originally Issued in Korean

To the President of
POSCO:

We have reviewed the accompanying Report on the Operations of Internal Accounting Control System ("IACS") of POSCO (the "Company") as of December 31, 2008. The Company's management is responsible for designing and maintaining effective IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying report of management's assessment of IACS, the Company's management stated: "Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2008, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee."

We conducted our review in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those Standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether Report on the Operations of Internal Accounting Control System is free of material misstatement. Our review consists principally of obtaining an understanding of the Company's IACS, inquiries of company personnel about the details of the report, and tracing to related documents we considered necessary in the circumstances. We have not performed an audit and, accordingly, we do not express an audit opinion.

A company's IACS is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, however, IACS may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that Report on the Operations of Internal Accounting Control System as of December 31, 2008 is not prepared in all material respects, in accordance with IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company's IACS in existence as of December 31, 2008. We did not review the Company's IACS subsequent to December 31, 2008. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

Seoul, Korea

February 9, 2009

Notice to Readers

This report is annexed in relation to the audit of the non-consolidated financial statements as of December 31, 2008 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.