

POSCO

Separate Interim Financial Statements

(Unaudited)

June 30, 2011

(With Independent Auditors' Review Report Thereon)

Table of Contents

	Page
Independent Auditors' Review Report	1
Separate Interim Financial Statements	
Separate Statements of Financial Position	3
Separate Statements of Comprehensive Income	5
Separate Statements of Changes in Equity	6
Separate Statements of Cash Flows	7
Notes to Separate Interim Financial Statements	8

Independent Auditors' Review Report

Based on a report originally issued in Korean

The Board of Directors and Stockholders
POSCO:

Reviewed financial statements

We have reviewed the accompanying separate statement of financial position of POSCO (the "Company") as of June 30, 2011, and separate statements of comprehensive income for the three-month and six month periods ended June 30, 2011 and 2010 changes in equity and cash flows for the six-month periods ended June 30, 2011 and 2010 and notes, comprising a summary of significant accounting policies and other explanatory information ("the separate interim financial information").

Management's responsibility

Management is responsible for the preparation and fair presentation of this separate interim financial information in accordance with Korean International Financial Reporting Standard ("K-IFRS") 1034 "Interim Financial Reporting". The Company's management is also responsible for the internal controls determined necessary to prepare the separate interim financial statements free of material misstatements due to error or fraud.

Auditor's review responsibility

Our responsibility is to express a conclusion on this separate interim financial information based on our review.

We conducted our reviews in accordance with the Review Standards for Quarterly/Semiannual Financial Statements established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial information consists of making inquiries primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying separate interim financial information referred to above is not presented fairly, in all material respects, in accordance with K-IFRS 1034 "Interim Financial Reporting".

Other considerations

As discussed in note 3, the Company prepared the separate interim financial information in accordance with accounting policies which management plans to adopt for its first annual financial statements in accordance with K-IFRS. The accounting policies applied for the separate interim financial statements may be changed by management as considered necessary in the course of preparation of its first annual financial statements in accordance with K-IFRS for the year ending December 31, 2011.

Seoul, Korea
August 26, 2011

<p>This report is effective as of August 26, 2011, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying separate interim financial information. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.</p>

POSCO
Separate Statements of Financial Position
As of June 30, 2011, December 31, 2010 and January 1, 2010
(Unaudited)

<i>(in millions of Won)</i>	<u>Note</u>	<u>June 30, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Assets				
Cash and cash equivalents	5,19	₩ 1,516,474	672,426	626,782
Trade accounts and notes receivable, net	6,19,33	3,877,956	3,548,448	2,951,783
Other short-term financial assets	7,19	1,753,327	2,754,319	6,304,563
Inventories	8	7,138,768	5,998,545	2,996,325
Other current assets	9	52,080	19,867	20,409
Total current assets		14,338,605	12,993,605	12,899,862
Long-term trade accounts and notes receivable, net	6,19,33	24	24	1,306
Other long-term financial assets	7,19	4,719,151	5,015,783	4,438,130
Investment in subsidiaries and associates	10	11,353,548	10,470,156	5,787,831
Investment property, net	11	119,059	92,273	104,362
Property, plant and equipment, net	12	20,641,200	20,011,110	18,412,868
Intangible assets, net	13	231,105	229,137	201,614
Other non-current assets	9	275,901	274,139	8,706
Total non-current assets		37,339,988	36,092,622	28,954,817
Total assets		₩ 51,678,593	49,086,227	41,854,679

See accompanying notes to separate interim financial statements.

POSCO
Separate Statements of Financial Position, Continued
As of June 30, 2011, December 31, 2010 and January 1, 2010
(Unaudited)

(in millions of Won)

	Note	June 30, 2011	December 31, 2010	January 1, 2010
Liabilities				
Trade accounts payable	19,33	₩ 1,418,483	1,310,877	739,746
Short-term borrowings	14,19	3,394,791	3,116,364	699,849
Other short-term financial liabilities	15	1,265,211	958,081	1,157,314
Current income tax liabilities	30	393,324	594,539	290,638
Provisions	16	26,426	9,582	5,154
Other current liabilities	18	69,147	62,011	61,636
Total current liabilities		6,567,382	6,051,454	2,954,337
Long-term borrowings	14,19	7,019,959	6,296,633	5,681,243
Other long-term financial liabilities	15,19	130,757	52,166	100,758
Employee benefits	17	104,170	324,003	216,823
Deferred tax liabilities	30	473,025	334,199	237,995
Other long-term liabilities	18	3,763	4,277	6,277
Total non-current liabilities		7,731,674	7,011,278	6,243,096
Total liabilities		14,299,056	13,062,732	9,197,433
Shareholders' Equity				
Share capital	20	482,403	482,403	482,403
Capital surplus	20	1,229,700	1,158,539	1,158,539
Reserves	21	653,563	1,011,557	634,571
Treasury shares	22	(2,391,406)	(2,403,263)	(2,403,263)
Retained earnings		37,405,277	35,774,259	32,784,996
Total shareholders' equity		37,379,537	36,023,495	32,657,246
Total liabilities and shareholders' equity		₩ 51,678,593	49,086,227	41,854,679

See accompanying notes to separate interim financial statements.

POSCO
Separate Statements of Comprehensive Income
For the three-month and six-month periods ended June 30, 2011 and 2010
(Unaudited)

	Notes	For the three- month periods ended June 30		For the six- month periods ended June 30	
		2011	2010	2011	2010
<i>(in millions of Won, except per share information)</i>					
Revenue	24, 33	₩ 10,031,967	7,932,695	19,144,089	14,882,221
Cost of sales	27, 33	(8,083,700)	(5,775,350)	(15,854,123)	(10,952,034)
Gross profit		1,948,267	2,157,345	3,289,966	3,930,187
Selling and administrative expenses					
Administrative expenses	25,29	(210,998)	(165,603)	(416,731)	(332,849)
Selling expenses	25	(212,063)	(192,914)	(424,083)	(366,228)
Other operating income	26	9,330	24,561	20,647	54,973
Other operating expenses	26	(38,540)	(25,330)	(52,831)	(45,973)
Operating profit	32	1,495,996	1,798,059	2,416,968	3,240,110
Financial income and costs					
Financial income	28	308,793	140,826	728,123	531,716
Financial costs	28	(162,295)	(547,672)	(328,146)	(702,344)
Profit before income tax		1,642,494	1,391,213	2,816,945	3,069,482
Income tax expense	30	(396,696)	(288,533)	(643,791)	(592,304)
Profit for the period		1,245,798	1,102,680	2,173,154	2,477,178
Other comprehensive income					
Net changes in fair value of					
available-for-sale investments, net of tax	21	(240,316)	(198,103)	(357,994)	(132,309)
Defined benefit plan					
actuarial gains (loss), net of tax	17	(49,655)	9,455	35,611	(23,756)
Other comprehensive income, net of tax		₩ 955,827	914,032	1,850,771	2,321,113
Basic and diluted earnings per share	31	₩ 16,128	14,314	28,128	32,157

See accompanying notes to separate interim financial statements.

POSCO

Separate Statements of Changes in Equity

For the six-month periods ended June 30, 2011 and 2010

(Unaudited)

(in millions of Won)

		Share Capital	Capital Surplus	Reserves	Treasury Shares	Retained Earnings	Total
Balance as of January 1, 2010	₩	482,403	1,158,539	634,571	(2,403,263)	32,784,996	32,657,246
Comprehensive income :							
Profit for the period		-	-	-	-	2,477,178	2,477,178
Net changes in fair value of available-for-sale investments, net of tax		-	-	(132,309)	-	-	(132,309)
Defined benefit plan actuarial losses, net of tax		-	-	-	-	(23,756)	(23,756)
Transactions with owners of the Company, recognized directly in equity :							
Year-end dividends		-	-	-	-	(500,714)	(500,714)
Balance as of June 30, 2010	₩	482,403	1,158,539	502,262	(2,403,263)	34,737,704	34,477,645
		Share Capital	Capital Surplus	Reserves	Treasury Shares	Retained Earnings	Total
Balance as of January 1, 2011	₩	482,403	1,158,539	1,011,557	(2,403,263)	35,774,259	36,023,495
Comprehensive income :							
Profit for the period		-	-	-	-	2,173,154	2,173,154
Net changes in fair value of available-for-sale investments, net of tax		-	-	(357,994)	-	-	(357,994)
Defined benefit plan actuarial gains, net of tax		-	-	-	-	35,611	35,611
Transactions with owners of the Company, recognized directly in equity :							
Year-end dividends		-	-	-	-	(577,747)	(577,747)
Acquisition of treasury shares		-	-	-	(61,296)	-	(61,296)
Disposal of treasury shares		-	71,161	-	73,153	-	144,314
Balance as of June 30, 2011	₩	482,403	1,229,700	653,563	(2,391,406)	37,405,277	37,379,537

See accompanying notes to separate interim financial statements.

POSCO
Separate Statements of Cash Flows
For the six-month periods ended June 30, 2011 and 2010
(Unaudited)

<i>(in millions of Won)</i>	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Cash flows from operating activities			
Cash generated from operations		₩ 2,072,355	2,612,181
Profit for the period		2,173,154	2,477,178
Adjustments	35	1,264,616	2,005,565
Changes in operating assets and liabilities	35	(1,365,415)	(1,870,562)
Interest received		63,173	124,696
Interest paid		(182,300)	(131,830)
Dividends received		181,554	60,696
Income taxes paid		(635,741)	(303,627)
Net cash provided by operating activities		<u>1,499,041</u>	<u>2,362,116</u>
Cash flows from investing activities			
Disposal of short-term financial instruments		3,088,970	8,969,744
Disposal of available-for-sale investments		297	121,129
Decrease in long-term loans		6,464	-
Disposal of investment in subsidiaries and associates		48	-
Disposal of property, plant and equipment		9,307	7,826
Acquisition of short-term financial investments		(1,957,536)	(9,645,672)
Increase in short-term loans		-	(6,100)
Acquisition of available-for-sale instruments		(159,839)	(48,061)
Increase in long-term loans		(6,928)	(9,081)
Acquisition of investment in subsidiaries and associates		(880,834)	(316,737)
Acquisition of property, plant and equipment		(1,529,833)	(2,095,472)
Cost of removal of property, plant and equipment		(6,635)	(9,513)
Acquisition of intangible assets		(9,187)	(5,867)
Others		(3,247)	(430,603)
Net cash used in investing activities		<u>(1,448,953)</u>	<u>(3,468,407)</u>
Cash flows from financing activities			
Proceeds from borrowings		3,315,418	1,754,880
Increase in long-term financial liabilities		2,119	40,806
Disposal of treasury shares		164,384	-
Repayment of borrowings		(2,044,979)	(569,999)
Decrease in long-term financial liabilities		(3,939)	(27,951)
Acquisition of treasury shares		(61,296)	-
Payment of cash dividends		(577,747)	(500,714)
Net cash used in financing activities		<u>793,960</u>	<u>697,022</u>
Net increase (decrease) in cash and cash equivalents		844,048	(409,269)
Cash and cash equivalents			
Cash and cash equivalents at beginning of the period		672,426	626,782
Cash and cash equivalents at end of the period		<u>₩ 1,516,474</u>	<u>217,513</u>

See accompanying notes to separate interim financial statements.

POSCO
Notes to Separate Interim Financial Statements
As of June 30, 2011
(Unaudited)

1. Reporting Entity

POSCO (the “Company”) is the largest steel producer in Korea which was incorporated on April 1, 1968, under the Commercial Code of the Republic of Korea to manufacture and sell steel rolled products and plates in the domestic and overseas markets.

The shares of the Company have been listed on the Korea Exchange since 1988. The Company owns and operates two steel plants (Pohang and Gwangyang) and one office in Korea, and it also operates internationally through nine of its overseas liaison offices.

As of June 30, 2011, the shares of the Company are listed on the Korea Exchange, while its depository receipts are listed on the New York, Tokyo and London Stock Exchanges.

2. Statement of Compliance

Statement of compliance

The separate interim financial statements have been prepared in accordance with Korean International Financial Reporting Standards (“K-IFRS”), as prescribed in the Act on External Audit of Corporations.

K-IFRS is effective as of the fiscal year beginning on January 1, 2011. The Company has also presented the comparative information in the separate interim financial statements in accordance with K-IFRS.

These interim financial statements are separate interim financial statements in accordance with K-IFRS 1027 “Consolidated and Separate Financial Statements” presented by a parent, an investor in an associate or a venture in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

These separate interim financial statements have been prepared in accordance with K-IFRS 1034 “Interim Financial Reporting” as part of the period covered by its first IFRS financial statements.

An explanation of how the transition from previous GAAP to K-IFRS has affected the Company’s reported financial position, financial performance and cash flows is provided in note 36.

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

Basis of measurement

The separate financial statements have been prepared under the historical cost basis except for the following items, as described in the accounting policy below.

- 1) Derivatives measured at fair value
- 2) Trading securities measured at fair value
- 3) Available-for-sale financial assets measured at fair value
- 4) The liability for stock appreciation rights measured at fair value
- 5) Employee benefits measured at the present value of the defined benefit obligation less the fair value of the plan assets

Functional and presentation currency

These financial statements are presented in Korean won, which is the Company's functional currency and the currency of the primary economic environment in which the Company operates.

Use of estimates and judgements

The preparation of the interim financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. This includes valuation of property, plant and equipment, trade accounts and notes receivables, inventories, deferred tax assets and derivative financial instruments. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 17– Employee Benefits

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

3. Summary of Significant Accounting Policies

The significant accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening K-IFRS statement of financial position at January 1, 2010 for the purposes of the transition to K-IFRSs. The accounting policies the Company presented in interim financial statements are changeable when the accounting policies by opening K-IFRS financial statement of the end of fiscal year December 31, 2011 are confirmed.

The Company's transition date to K-IFRS in accordance with IFRS1 is January 1, 2010, and reconciliations and descriptions of the effect of the transition are provided in Note 36.

Investments in subsidiaries and associates

These interim financial statements are the separate financial statements in accordance with K-IFRS 1027, "Consolidated and Separate Financial Statements". The Company applied the cost method to investments in subsidiaries and associates in accordance with K-IFRS 1027. The carrying amount under previous GAAP on the date of transition to K-IFRS is considered to be the deemed cost of investments in subsidiaries and associates on the date of transition. Dividends from a subsidiary or associate are recognized in profit or loss when the right to receive the dividend is established.

Foreign currency transactions and translation

Foreign currency transactions are initially recorded using the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. At the end of each reporting period, foreign currency monetary items are translated using the closing rate. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the original transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rate at the date fair value is initially determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognized in profit or loss in the period in which they arise. When gains or losses on non-monetary items are recognized in other comprehensive income, exchange components of those gains or losses are recognized in other comprehensive income. Conversely, when gains or losses on non-monetary items are recognized in profit or loss, exchange components of those gains or losses are recognized in profit or loss.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, checking accounts, time deposits and others with original maturities of three months or less, except for equity instruments.

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

Non-derivative financial assets

Non-derivative financial assets include financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets. The Company recognizes loans and receivables on the date that they are originated.

All other non-derivative financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Except for financial assets at fair value through profit and loss, when a non-derivative financial asset is recognized initially, the Company measures it at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the non-derivative financial asset.

(a) Financial assets at fair value through profit or loss

A non-derivative financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(b) Held-to-maturity financial assets

If the Company has the positive intent and ability to hold debt securities to maturity, then such non-derivative financial assets are classified as held-to-maturity. Subsequent to initial recognition, the held-to-maturity financial assets are measured at amortized cost by using the effective interest method, less any impairment losses.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, the loans and receivables are measured at amortized cost by using the effective interest rate method, less any impairment losses.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are not classified in any of the previous categories. Subsequent to initial recognition, the available-for-sale financial assets are measured at fair value. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivatives those are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost.

(e) Derecognition of non-derivative financial assets

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

The Company derecognizes non-derivative financial assets when the contractual rights to the cash flows from the financial asset expire, or the Company transfers the rights to receive the contractual cash flow from the financial asset as well as substantially all the risks and rewards of ownership of the financial asset. Any interest in a transferred financial asset that is created or retained by the Company is recognized as a separate asset or liability.

(f) Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the statement of financial position only when the Company currently has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Inventories

Inventories are measured at the lower of cost and net realizable value. Costs are determined by using the moving-weighted average method. The cost of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The allocation of fixed production overheads to the costs of finished goods or work in progress are based on the normal capacity of the production facilities.

When inventories are sold, the carrying amount of those inventories are recognized as cost of goods sold in the period in which the related revenue is recognized and the amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, are recognized as a reduction in the amount of inventories recognized as a cost of goods sold in the period in which the reversal occurs.

Investment property

Investment property is held to earn rentals. An investment property including transaction costs is measured initially at its cost. Subsequently, investment property is measured at cost less accumulated depreciation and accumulated impairment losses.

Property, plant and equipment

Property, plant and equipment are generally measured at cost. The cost includes expenditures that are directly attributable to bringing the asset to a working condition for its intended use and the estimated costs of dismantling and removing the asset, if applicable, and restoring the site on which it is located. Upon the Company's transition to K-IFRS, the deemed cost of certain machinery and equipment was measured at fair value.

The cost of replacing a part of an item is recognized in the carrying amount of the item of property,

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

plant and equipment, if the following recognition criteria are met.

- (a) it is probable that future economic benefits associated with the item will flow to the Company; and
- (b) the cost can be measured reliably.

The carrying amount of the replaced part is derecognized at the time the replacement part is recognized. The costs of the day-to-day servicing of the item are recognized in profit or loss as incurred.

Depreciation is based on the cost of an asset less its residual value. Depreciation of property, plant and equipment, except for land, is recognized in profit or loss on a straight-line basis, which most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset, over the estimated useful lives of each component of an item of property, plant and equipment. Lease assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognized.

The estimated useful lives for the current and comparative periods are as follows:

Buildings	20-40 years
Structures	20-40 years
Machinery and equipment	1-15 years
Vehicles	4-9 years
Tools	4 years
Furniture and fixtures	4 years
Lease assets	18 years

The residual value and the useful lives are reviewed at least at the end of each reporting period and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

In order to apply the useful life which corresponds to the available periods of the machinery and equipment's expected utility, from January 1, 2011 the Company changed the useful life of certain machinery and equipment in its steel operating segment from 8 years to 15 years. During the six-month periods ended June 30, 2011, the depreciation costs decreased by ₩ 618,410 million as a result of this change in the useful life.

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognized as an expense. A qualifying asset takes a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured, or otherwise produced, over a short period of time, are not qualifying assets. Also, assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Company borrows funds specifically for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that the Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Company capitalizes during a period does not exceed the amount of borrowing costs incurred during that period.

Intangible assets

Intangible assets are initially measured at cost and the carrying amount is the amount at which an asset is recognized in the statement of financial position after deducting any accumulated amortization and accumulated impairment losses thereon.

Amortization of intangible assets is calculated on a straight-line basis over the estimated useful lives of intangible assets, as described below, with nil residual value from the date that they are available for use.

Intellectual property rights	5-10 years
Port facilities usage rights	1 -75 years
Development expenses	4 years
Other intangible assets	4-20 years

The estimated useful life and amortization method of intangible assets with a finite useful life are reviewed at each financial year-end and adjusted, if appropriate. An intangible asset with an indefinite useful life is reviewed each period to determine whether events and circumstances continue to support its indefinite useful life.

Expenditure on research shall be recognized as an expense when it is incurred. An intangible asset arising from development shall be recognized if, and only if, an entity can demonstrate all of

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

following:

- (a) the technical feasibility of completing the intangible assets so that it will be available for use or sale,
- (b) its intention to complete the intangible assets,
- (c) its ability to use or sell the intangible assets,
- (d) how the intangible assets will generate probable future economic benefits - among other things, the entity can demonstrate the existence of a market for the output of the intangible assets or the intangible assets itself or, if it is to be used internally, the usefulness of the intangible assets,
- (e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible assets, and
- (f) its ability to measure reliably the expenditure attributable to the intangible assets during its development.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

Leases

A lease is classified as a finance lease if it transfers substantially all of the risks and rewards incidental to ownership. All other leases are classified as operating leases.

(a) Finance leases

At the commencement of the lease term, the Company recognizes as finance assets and finance liabilities in its statements of financial position, the lesser of the fair value of the leased property and the present value of the minimum lease payments. Any initial direct costs are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

(b) Operating leases

Lease payments under operating leases are recognized as an expense on a straight-line basis over the lease term.

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

Impairment for financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on reliably estimated future cash flows of the asset.

Objective evidence that financial assets are impaired can include default or delinquency by an issuer, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. For an investment in an equity security, (a) default or delinquency by an issuer or (b) a significant or prolonged decline in an equity security's fair value below its cost represent objective evidence of impairment.

The Company considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. Receivables and held-to-maturity investment securities which are not individually significant are collectively assessed from impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

The amount of the impairment loss on financial assets carried at amortized cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal is recognized in profit or loss.

The amount of the impairment loss on financial assets carried at cost is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available for sale are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

instrument classified as available for sale increases and the increase can be objectively related to an

event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

Impairment for non-financial assets

The Company assesses at each reporting date whether there is any indication that the Company's non-financial assets are impaired. If any such indication exists, the Company estimates the recoverable amount of the asset, except for assets arising from employee benefits, inventories, and deferred tax assets.

Recoverable amount is determined for an individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Company determines the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is defined as the higher of an asset's or cash-generating unit's fair value less costs to sell and its value-in-use. In assessing value-in-use, the estimated future cash flows expected to be derived from an asset or cash-generating unit are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognized in profit or loss as an impairment loss.

Impairment losses recognized in respect of cash-generating units are allocated to reduce the carrying amounts of the other assets in the unit on a pro rata basis. The Company assesses at each reporting date whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized, the Company estimates the recoverable amount of that asset. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

Non-derivative financial liabilities

Financial liabilities are classified into financial liabilities at fair value through profit or loss and other financial liabilities in accordance with the substance of the contract and definition of financial liabilities, and are recognized on the statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities at fair value through profit or loss are measured at fair value after initial recognition and the changes of fair value are recognized in profit or loss. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost by using the effective interest rate method.

The Company derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expired.

Derivative financial instruments

Derivatives are recognized initially at fair value and are remeasured at fair value at the end of each reporting period.

Embedded derivatives, if any, are separated from the host contract and accounted for separately only if the following criteria have been met:

- (a) the economic characteristics and risks of the host contract and the embedded derivative are not closely related;
- (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (c) the hybrid (combined) instrument is not measured at fair value through profit or loss.

Changes in the fair value of embedded derivatives separated from the host contract are recognized immediately in profit or loss.

Employee benefits

(a) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within twelve months after the end of the period in which the employees render the related service. When an employee has rendered service to the Company during an accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as profit or loss. If the Company has a legal or constructive obligation and the obligation can be reliably measured, the Company recognizes the amount of expected payment for profit-sharing and bonuses payable as liabilities.

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

(b) Post-employment benefit: Defined contribution plans

With regard to the defined contribution plan, when an employee has rendered service to the Company during a period, the Company recognizes the contribution payable to a defined contribution plan in exchange for that service as an accrued expense, after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Company recognizes that excess as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(c) Post-employment benefit: Defined benefit plans

The Company recognizes the pension liability related to defined benefit plans at the end of a reporting period, and measures it at the present value of the defined benefit obligation less the fair value of the plan assets.

The Company uses the projected unit credit method in order to determine the defined benefit obligation. The liability is determined by discounting estimated future cash flows using the market yields on high quality corporate bonds that have a similar maturity to the maturity of the related employment benefit. The currency and term of the corporate bonds are consistent with the currency and estimated term of the post-employment benefit obligations. The changes in actuarial assumptions and experience adjustments are recognized outside profit or loss.

When the amount determined may be an asset, the asset is limited to the net amount of the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan and any cumulative unrecognized net actuarial losses and past service cost.

When the benefits of a plan are enhanced, the portion of the incremental benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

Stock Appreciation Rights

The Company granted share options to executives as part of the reward for their services and is accounting for the options as cash-settled share-based payment transactions. For cash-settled share-based payment transactions, the Company measures the goods or services acquired and the liability incurred at the fair value of the liability and recognizes the employment benefits and the liability during the vesting period. Until the liability is settled, the Company remeasures the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognized in profit or loss for the period as well.

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Share capital

Common stock is classified as equity and the incremental costs arising directly attributable to the issuance of common stock, less its tax effects, are deducted from equity.

If the Company reacquires its own equity instruments, those instruments (“treasury shares”) are deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of its own equity instruments. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase to equity, and the resulting surplus or deficit on the transaction is recorded in capital surplus.

Revenue

The Company’s revenue from the sale of goods and the use of assets is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

(a) Sale of goods

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.

(b) Service rendered

Service sales are mostly comprised of rental income. Rental income from investment property is recognized in profit or loss on a straight-line basis over the term of the leases.

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

Government grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with a grant's conditions, and that the grant will be received. Government grants whose primary condition is that the Company purchase, construct or otherwise acquire long-term assets are deducted from the carrying amount of the asset and recognized in profit or loss on a systematic and rational basis over the life of a depreciable asset. Other government grants that compensate the Company for expenses incurred are recognized in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognized.

Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Company's right to receive payment is established.

Finance costs comprise interest expense on borrowings and changes in the fair value of financial assets at fair value through profit or loss. Borrowing costs are recognized in profit or loss using the effective interest method.

Income tax

Income tax expense comprises current tax and deferred tax, and is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

(a) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year. Since taxable income excludes income which will be added or deductible in other taxation periods, non-taxable items or non-deductible items from net income on comprehensive income statements, the taxable income and net income on comprehensive income statements differ. Tax payable related to current tax is calculated by using tax rates enacted or substantively enacted.

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

(b) Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax liability is recognized for all taxable temporary differences, and a deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

However, deferred tax is not recognized for the following temporary differences:

- 1) the initial recognition of goodwill; or
- 2) the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss

All deferred tax liabilities are recognized for taxable differences relating to investments in subsidiaries and jointly controlled entities except the case of that the Company can control the reverse timing of the temporary differences and it is probable that they will not reverse in the foreseeable future.

In addition, deferred tax assets from deductible temporary differences are recognized only when it is probable that they will not reverse in the foreseeable future and it is probable that taxable profits will be available against which the deductible temporary differences can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and the Company reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Company expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

The Company offsets a deferred tax asset against a deferred tax liability of the same taxable entity only if they relate to income taxes levied by the same taxation authority and the entity has a legally enforceable right to offset current tax assets against current tax liabilities.

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

Basic and Diluted Earnings per share

The Company calculates basic earnings per share (“EPS”) data for its ordinary shares, which is included at the end of the statement of comprehensive income. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, excluding treasury shares held.

4. Financial risk management

The Company has exposure to credit risk, liquidity risk and market risk from its use of financial instruments. This note presents information about the Company’s exposure to each of the above risks, the Company’s objectives, policies and processes for measuring and managing these risks and the Company’s management of financial risks, including quantitative disclosures.

(a) Risk management policy

The board of directors has overall responsibility for the establishment and oversight of the Company’s risk management framework. The purpose of risk management policies is to identify the potential risk factors that may affect the Company’s financial performance, and minimize or eliminate them to the extent that is acceptable. The risk management framework and policies are regularly reviewed to reflect market situations and changes in the Company’s activities.

The Company aims to establish an effective control environment in which every employee understands his or her responsibility by training, management manuals and procedures.

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company’s trade and other receivables. The Company’s exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of a nation or an industry in which a customer operates its business does not have a significant influence on credit risk. The Company has established a credit policy under which each new customer is analyzed individually for creditworthiness.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The allowance for impairment includes impairment losses of trade and other receivables that are individually significant, and unidentified impairment losses of the assets in a group of financial assets with similar credit risk characteristics. The allowance for impairment of a group of financial assets is determined based on the historical data of financial assets with similar credit risk characteristics.

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

(c) Liquidity risk management

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. The Company's approach to managing liquidity is to ensure, as far as possible, that it always maintains a diversified maturity profile in its loan portfolio.

The Company's cash flow from business, borrowing or financing is sufficient to cash requirement for the investment. The Company believes that it is capable of raising funds by borrowing or financing if the Company is not able to have generate cash flow requirements its operations. The Company has committed borrowing facilities with various banks.

(d) Market risk management

Market risk means that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The goal of market risk management is optimization of profit and controlling the exposure to market risk within acceptable limits.

1) Currency risk

The Company is exposed to currency risk for sales, purchases and borrowings in a currency other than the functional currency, Korean Won. The Company's general policy in respect of foreign currency risks is a natural hedge which foreign currency income should be firstly offset with foreign currency expenditures. And the remaining net exposures after the natural hedge have been hedged using derivative contracts such as forward exchange contracts. And the Company's management has monitored the currency regularly for hedging foreign exchange exposure.

2) Interest rate risk

The Company mostly borrows at fixed interest rates. The Company's management has monitored regularly for hedging interest rate risk from variable rate.

(e) Management of capital risk

The fundamental goal of capital management is the maximization of shareholders' value by means of the stable dividend policy and the retirement of treasury shares. The capital structure of the Company consists of equity and net debt, deducting cash and cash equivalents from borrowings. The Company applied the same financial risk management strategy that was applied in the previous period. The equity attributable to owners as of June 30, 2011, December 31, 2010 and January 1, 2010 is as follows:

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
Total borrowings	10,414,750	9,412,997	6,381,092
Less: Cash and cash equivalents	1,516,474	672,426	626,782
Net borrowings	8,898,276	8,740,571	5,754,310
Total shareholders' equity	37,379,537	36,023,495	32,657,246
Net borrowings-to-equity ratio	23.81%	24.26%	17.62%

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

5. Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

<i>(in millions of Won)</i>		<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
Checking accounts	₩	1,074	886	817
Time deposits		1,130,000	300,000	380,465
Money market trust		245,400	111,500	228,700
Money market funds		140,000	260,040	-
Other cash and cash equivalents		-	-	16,800
	₩	<u>1,516,474</u>	<u>672,426</u>	<u>626,782</u>

6. Trade Accounts and Notes Receivable

Trade accounts and notes receivable as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

<i>(in millions of Won)</i>		<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
Current				
Trade accounts and notes receivable	₩	3,879,906	3,553,135	2,963,035
Less: Allowance for doubtful accounts		(1,950)	(4,687)	(11,252)
		<u>3,877,956</u>	<u>3,548,448</u>	<u>2,951,783</u>
Non-Current				
Trade accounts and notes receivable		252	252	1,875
Less: Allowance for doubtful accounts		(228)	(228)	(569)
		<u>24</u>	<u>24</u>	<u>1,306</u>
	₩	<u>3,877,980</u>	<u>3,548,472</u>	<u>2,953,089</u>

Borrowings includes the trade accounts and notes receivable sold to financial institutions, but derecognition conditions were not met, amounted to ₩ 254,179 million, ₩ 220,866 million and ₩ 267,874 million as of June 30, 2011, December 31, 2010 and January 1, 2010, respectively.

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

7. Other Financial Assets

(a) Other short-term financial assets as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

(in millions of Won)

	<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
Financial assets at fair value through profit or loss			
Financial assets held for trading	₩ 40,330	182,208	795,811
Derivatives assets held for trading	428	-	-
Available-for-sale financial assets			
Short-term available-for-sale securities (bonds)	-	-	20,230
Held-to-maturity investments			
Current portion of held-to-maturity securities (bonds)	-	1,978	20,000
Loans and other receivables			
Short-term financial instruments	1,231,431	2,362,621	5,280,927
Cash deposits (*1)	13,857	14,101	10,666
Other accounts receivable, net	449,554	164,376	126,942
Accrued income	17,727	28,888	49,987
Other checking accounts	-	147	-
	<u>₩ 1,753,327</u>	<u>₩ 2,754,319</u>	<u>₩ 6,304,563</u>

(*1) The Company is required to provide deposits to maintain checking accounts and accordingly, the withdrawal of these deposits is restricted.

(b) Other long-term financial assets as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

(in millions of Won)

	<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
Available-for-sale investments			
Long-term available-for-sale securities (bonds)	₩ 1	11	104,895
Long-term available-for-sale equity securities	4,634,556	4,931,117	4,271,392
Long-term available-for-sale securities (investment in capital)	500	500	500
Held-to-maturity investments			
Held-to-maturity securities (bonds) (*1)	29,866	29,830	31,675
Loan and other receivable			
Cash deposits (*2)	40	40	40
Long-term loans	49,447	48,950	24,537
Long-term other accounts receivable	3,011	3,122	3,321
Deposits	1,730	2,213	1,770
	<u>₩ 4,719,151</u>	<u>5,015,783</u>	<u>4,438,130</u>

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

(*1) As of June 30, 2011, government bonds amounting to ₩ 29,866 were provided as collateral to the Gyeongsangbuk-Do Province Office as a guarantee for environmental remediation of POSCO No. 4 disposal site.

(*2) The Company is required to provide deposits to maintain checking accounts and accordingly, the withdrawal of these deposits is restricted.

(c) Long-term available-for-sale equity securities as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

(in millions of Won)

	Number of Shares	Ownership(%)	Acquisition cost	Book Value		
				2011	2010	January 1, 2010
Marketable equity securities						
Nippon Steel Corporation (*1)	238,352,000	3.50	₩ 719,622	827,747	972,351	1,128,734
KB Finacial group Inc.	15,454,067	4.00	715,356	780,430	786,950	783,015
SK Telecom Co., Ltd. (*1)	4,525,482	5.60	1,250,256	774,422	809,280	743,845
Hyundai Heavy Industries Co.,Ltd	1,477,000	1.94	343,506	655,050	654,311	256,260
MacArthur Coal Limited	21,215,700	7.25	420,805	267,774	314,446	249,431
Shinhan Financial group Inc.	4,369,881	0.92	228,778	222,427	231,167	188,779
Hana Financial group Inc.	4,663,776	2.20	29,998	173,959	201,942	153,438
Others (12 companies)			188,728	216,427	224,913	146,849
			3,897,049	3,918,236	4,195,360	3,650,351
Non-marketable equity securities						
Nacional Minerios S.A. (*2)	30,784,625	6.48	668,635	507,530	534,734	535,357
The Siam United Steel (*2)	11,071,000	12.30	34,658	68,604	69,013	65,135
Others (25 companies) (*3)			154,299	140,186	132,010	20,549
			857,592	716,320	735,757	621,041
			₩ 4,754,641	4,634,556	4,931,117	4,271,392

(*1) As of June 30, 2011, 2,183,913 shares equivalent to 19,655,219 American depository receipts (“ADRs”) of SK Telecom Co., Ltd. have been pledged as collateral for the exchangeable bonds issued and 130,379,000 shares of Nippon Steel Corporation have been pledged as collateral for the 1st Samurai bonds issued.

(*2) The corporation has been evaluated using the estimated fair value by an external professional evaluation agency.

(*3) These non-marketable equity securities are recorded at cost since fair value cannot be reliably measured.

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

8. Inventories

Inventories as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
Finished goods	₩ 855,797	698,219	344,191
Semi-finished goods	1,701,748	1,441,128	843,720
By-products	6,481	5,542	4,281
Raw materials	1,563,693	1,704,831	696,492
Fuel and materials	529,429	524,077	405,003
Materials-in-transit	2,486,948	1,624,765	702,807
Others	610	576	522
	<u>7,144,706</u>	<u>5,999,138</u>	<u>2,997,016</u>
Allowance for inventories valuation	(5,938)	(593)	(691)
	<u>₩ 7,138,768</u>	<u>5,998,545</u>	<u>2,996,325</u>

9. Other Assets

Other current assets and other long-term assets as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
Other current assets			
Advance payment	₩ 5,085	6,218	11,943
Prepaid expenses	46,995	13,649	8,466
	<u>52,080</u>	<u>19,867</u>	<u>20,409</u>
Other long-term assets			
Long-term prepaid expenses	10,070	10,687	5,332
Dishonored receivables	13	13	13
Others (*1)	265,831	263,459	4,033
Less : Allowance for doubtful accounts	(13)	(20)	(672)
	<u>₩ 275,901</u>	<u>274,139</u>	<u>8,706</u>

(*1) Includes guarantee deposits of ₩ 257,878 million as of June 30, 2011 and December 31, 2010 in relation to exploration of Australia Roy Hill iron ore mine.

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

10. Investment in Subsidiaries and Associates

(a) Investment in subsidiaries and associates as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

(in millions of Won)

	<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
Subsidiaries	₩ 10,286,761	9,662,423	5,260,593
Associates	1,066,787	807,733	527,238
	<u>₩ 11,353,548</u>	<u>10,470,156</u>	<u>5,787,831</u>

(b) Details of subsidiaries and carrying values as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

(in millions of Won)

[Domestic]	<u>Country</u>	<u>Principal operations</u>	<u>Ownership (%)</u>	<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
Daewoo International Co., Ltd.	Korea	Trading	66.91	₩ 3,371,481	3,371,481	-
POSCO E&C Co., Ltd.	Korea	Engineering and Construction	89.53	1,510,716	1,510,716	1,063,089
POSCO Power Corp.	Korea	Generation of Electricity	100.00	649,148	649,148	649,148
POSCO Specialty Steel Co., Ltd.	Korea	Steel manufacturing and Sales	100.00	628,842	628,842	628,842
POSCO P&S Co., Ltd.	Korea	Steel sales and service	95.31	421,927	421,927	421,927
POSCOAST Co., Ltd.	Korea	Steel manufacturing and Sales	100.00	138,909	93,909	75,603
POSCO Coated & Color Steel Co., Ltd.	Korea	Coated steel manufacturing	56.87	108,421	108,421	108,421
POSCO M-TECH Co., Ltd (*1)	Korea	Packing materials manufacturing	48.85	107,278	-	-
POSCO Chemtec Company Ltd.	Korea	Manufacturing and sellings	60.00	100,535	100,535	100,535
POSCO ICT Co., Ltd.	Korea	Computer hardware and software distribution	72.54	70,990	70,990	70,990
POS-HIMETAL CO., Ltd	Korea	Steel manufacturing and Sales	65.00	49,452	31,837	5,837
POSCO Family Strategy Fund	Korea	Financial investment	69.93	40,000	20,000	-
Others (19 companies)				346,022	307,147	213,375
				<u>₩ 7,543,721</u>	<u>7,314,953</u>	<u>3,337,767</u>

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

<i>(in millions of Won)</i>							January 1,
[Foreign]	Country	Principal operations	Ownership (%)		2011	2010	2010
POSCO Australia Pty. Ltd.	Australia	Steel sellings and mine development	100.00	W	330,623	330,623	330,623
Zhangjiagang Pohang Stainless Steel Co., Ltd.	China	Stainless steel manufacturing	58.60		285,888	283,845	283,845
POSCO WA PTY LTD.	Australia	Mine development	100.00		223,570	205,885	-
POSCO China Holding Corp	China	Investment management	100.00		223,436	208,413	208,413
POSCO Maharashtra Steel Pvt. Ltd.	India	Steel manufacturing and Sales	100.00		196,568	84,442	63,872
POSCO Vietnam Co., Ltd.	Vietnam	Steel manufacturing	85.00		158,027	158,806	159,629
POSCO VST Co., Ltd.	Vietnam	Steel manufacturing and Sales	95.65		144,573	105,348	71,901
Guangdong Pohang Coated Steel Co., Ltd.	China	Steel manufacturing	89.06		137,420	64,876	31,299
POSCO-India Private. Ltd.	India	Steel manufacturing	100.00		130,770	108,538	108,538
POSCO America Corporation	USA	Trading-Steel	99.45		117,489	117,489	113,510
POSCO Investment Co., Ltd.	Hong Kong	Finance	100.00		90,522	92,884	94,629
POSCO-Mexico Co., Ltd.	Mexico	Cold-rolled steel manufacturing and sales	84.67		71,787	62,581	62,581
POSCO-Japan Co., Ltd.	Japan	Trading-Steel	100.00		68,436	68,436	68,436
Qingdao Pohang Stainless Steel Co., Ltd.	China	Stainless steel manufacturing and sales	70.00		65,982	65,982	65,982
POSCO (Suzhou) Automotive Processing Center Co., Ltd.	China	Steel manufacturing and Sales	90.00		62,494	49,429	49,429
PT. KRAKATAU STEEL POSCO	Indonesia	Steel manufacturing and Sales	70.00		47,904	1,625	-
POSCO ASSAN TST STEEL Industry	Turkey	Steel manufacturing and Sales	60.00		37,201	-	-
POSCO China Dalian Plate Processing Center Co., Ltd.	China	Steel manufacturing and Sales	80.00		32,992	32,992	-
Posco Asia Co., Ltd.	Hong Kong	Steel intermediate trading	100.00		32,189	32,189	32,189
POSCO-Malaysia Co.,Ltd.	Malaysia	Steel manufacturing and Sales	80.07		31,027	31,027	-
POSCO Thailand Bangkok Processing Center Co., Ltd.	Thailand	Steel manufacturing and Sales	85.62		25,945	25,945	25,945
Others (27 companies)					<u>228,197</u>	<u>216,115</u>	<u>152,005</u>
					<u>2,743,040</u>	<u>2,347,470</u>	<u>1,922,826</u>
				W	<u>10,286,761</u>	<u>9,662,423</u>	<u>5,260,593</u>

(*1) In 2011, this investment security was reclassified to investment in subsidiaries from investment in associates as the Company has the power over more than half of the voting rights by virtue of an agreement with Postech which has 4.72% of ownership.

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

(c) Details of associates and carrying values as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

<i>(in millions of Won)</i>							
[Domestic]	Country	Principal operations	Ownership (%)		2011	2010	January 1, 2010
Sungjin Geotec Co., Ltd.	Korea	Industrial machinery manufacturing	26.34	W	159,878	159,878	-
SNNC Co., Ltd.	Korea	Material manufacturing	49.00		100,655	100,655	100,655
POSCO M-TECH Co., Ltd	Korea	Packing materials manufacturing	-		-	107,278	5,989
Others (3 companies)					20,152	26,910	18,384
					<u>280,685</u>	<u>394,721</u>	<u>125,028</u>
[Foreign]							
POSCO-NPS Niobium LLC.	USA	Mine development	50.00		364,609	-	-
NMC	New Caledonia	Raw material manufacturing and Sales	49.00		189,197	189,197	189,197
KOBRASCO	Brazil	Facilities lease	50.00		98,962	98,962	98,962
B.X. Steel POSCO cold rolled sheet co.,Ltd.	China	Steel manufacturing and Sales	25.00		64,151	64,383	65,029
POSCHROME	South Africa	Raw material manufacturing and Sales	50.00		30,090	30,090	15,090
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co.,Ltd.	China	Steel manufacturing and Sales	24.00		11,003	11,003	11,003
Others (9 companies)					28,090	19,377	22,929
					<u>786,102</u>	<u>413,012</u>	<u>402,210</u>
				W	<u>1,066,787</u>	<u>807,733</u>	<u>527,238</u>

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

11. Investment Property, Net

(a) Investment property as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

(in millions of Won)

	<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
Acquisition cost	₩ 166,613	121,666	135,350
Accumulated depreciation	(47,554)	(29,393)	(30,988)
Book value	<u>₩ 119,059</u>	<u>92,273</u>	<u>104,362</u>

(b) The changes in carrying value in investment property for the six-month period ended June 30, 2011 and for the year ended December 31, 2010 are as follows:

1) For the six-month period ended June 30, 2011

(in millions of Won)

	<u>Beginning</u>	<u>Depreciation (*1)</u>	<u>Others (*2)</u>	<u>Ending</u>
Land	₩ 41,877	-	1,381	43,258
Buildings	48,514	(1,521)	23,286	70,279
Structures	1,882	(57)	3,697	5,522
Total	<u>₩ 92,273</u>	<u>(1,578)</u>	<u>28,364</u>	<u>119,059</u>

(*1) The useful live and depreciation method of investment property is identical to those of property, plant and equipment.

(*2) Mainly includes assets transferred from property, plant and equipment in relation to change in rental ratio.

2) For the year ended December 31, 2010

(in millions of Won)

	<u>Beginning</u>	<u>Depreciation (*1)</u>	<u>Others (*2)</u>	<u>Ending</u>
Land	₩ 47,333	-	(5,456)	41,877
Buildings	54,855	(2,060)	(4,281)	48,514
Structures	2,174	(45)	(247)	1,882
Total	<u>₩ 104,362</u>	<u>(2,105)</u>	<u>(9,984)</u>	<u>92,273</u>

(*1) The useful live and depreciation method of investment property is identical to those of property, plant and equipment.

(*2) Mainly includes assets transferred to property, plant and equipment in relation to change in rental ratio.

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

12. Property, Plant and Equipment, Net

(a) Property, plant and equipment as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

(in millions of Won)

	<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
Cost	₩ 40,975,529	39,666,445	35,918,640
Less : Accumulated depreciation	(20,334,329)	(19,655,335)	(17,505,772)
	<u>₩ 20,641,200</u>	<u>20,011,110</u>	<u>18,412,868</u>

(b) The changes in carrying value of property, plant and equipment for the six-month period ended June 30, 2011 and for the year ended December 31, 2010 are as follows:

1) For the six-month period ended June 30, 2011

(in millions of Won)

	<u>Beginning</u>	<u>Acquisition (*1)</u>	<u>Disposal</u>	<u>Depreciation</u>	<u>Others (*2)</u>	<u>Ending</u>
Land	₩ 1,068,294	₩ 208,025	₩ (466)	₩ -	₩ (1,381)	₩ 1,274,472
Buildings	2,502,213	437,681	(1,819)	(110,379)	(23,068)	2,804,628
Structures	1,942,405	148,649	(5,741)	(77,001)	(3,697)	2,004,615
Machinery and equipment	11,736,629	1,539,108	(17,767)	(631,847)	(218)	12,625,905
Vehicles	22,753	2,203	-	(4,167)	-	20,789
Tools	27,807	13,758	(2)	(6,488)	-	35,075
Furniture and fixtures	66,345	12,789	-	(11,724)	-	67,410
Lease assets	8,918	-	-	(319)	-	8,599
Construction-in-progress	2,635,746	1,535,588	-	-	(2,371,627)	1,799,707
Total	<u>₩ 20,011,110</u>	<u>₩ 3,897,801</u>	<u>₩ (25,795)</u>	<u>₩ (841,925)</u>	<u>₩ (2,399,991)</u>	<u>₩ 20,641,200</u>

(*1) Includes acquisition cost transferred from construction-in-progress in relation to the expansion of Gwangyang sintering plates and coke establishment plates and others amounting to ₩ 2,362,213 million.

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

2) For the year ended December 31, 2010

(in millions of Won)

	<u>Beginning</u>	<u>Acquisition (*1)</u>	<u>Disposal</u>	<u>Depreciation</u>	<u>Others (*2)</u>	<u>Ending</u>
Land	₩ 914,536	₩ 155,701	₩ (7,398)	₩ -	₩ 5,455	₩ 1,068,294
Buildings	1,943,655	755,928	(8,840)	(192,811)	4,281	2,502,213
Structures	1,477,745	565,020	(4,229)	(125,429)	29,298	1,942,405
Machinery and equipment	10,142,068	3,868,845	(44,740)	(2,207,565)	(21,979)	11,736,629
Vehicles	16,802	14,094	(154)	(7,989)	-	22,753
Tools	16,737	19,389	(1)	(8,318)	-	27,807
Furniture and fixtures	50,058	34,825	(60)	(18,478)	-	66,345
Lease assets	9,555	-	-	(637)	-	8,918
Construction-in-progress	3,841,712	4,247,847	-	-	(5,453,813)	2,635,746
Total	<u>₩ 18,412,868</u>	<u>₩ 9,661,649</u>	<u>₩ (65,422)</u>	<u>₩ (2,561,227)</u>	<u>₩ (5,436,758)</u>	<u>₩ 20,011,110</u>

(*1) Includes acquisition cost transferred from construction-in-progress in relation to the expansion of Gwangyang sintering plates and coke establishment plates and others amounting to ₩ 5,413,802 million.

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

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

c) Borrowing costs capitalized and capitalized interest rate for the six-month period ended June 30, 2011 and the year ended December 31, 2010 are as follows:

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Borrowing costs capitalised	5,755	2,275
Capitalisation rate	4.55%	4.72%

13. Intangible Assets, Net

(a) Intangible assets as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
Acquisition cost	₩ 871,550	853,218	946,417
Less : Accumulated amortization	(640,445)	(624,081)	(744,803)
	<u>₩ 231,105</u>	<u>229,137</u>	<u>201,614</u>

(b) Changes in carrying values of intangible assets for the six-month periods ended June 30, 2011 and the year ended December 31, 2010 are as follows:

1) For the six-month periods ended June 30, 2011

<i>(in millions of Won)</i>		<u>Beginning</u>	<u>Increase</u>		<u>Decrease</u>		<u>Ending</u>
			<u>Acquisition(*2)</u>	<u>Development</u>	<u>Disposal</u>	<u>Amortization</u>	
Intellectual property rights	₩	4,919	758	-	(145)	(337)	5,195
Membership (*1)		56,494	-	-	-	-	56,494
Development expense		32,308	-	5,109	-	(6,747)	30,670
Port facilities usage rights		112,683	-	-	-	(6,612)	106,071
Other intangible assets		22,733	12,734	-	-	(2,792)	32,675
	₩	<u>229,137</u>	<u>13,492</u>	<u>5,109</u>	<u>(145)</u>	<u>(16,488)</u>	<u>231,105</u>

(*1) Economic useful life of membership is indefinite.

(*2) Includes acquisition cost transferred from construction-in-progress amounting to ₩ 9,414 million.

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

2) For the year ended December 31, 2010

(in millions of Won)

	Beginning	Increase		Decrease		Ending
		Acquisition(*2)	Development	Disposal	Amortization	
Intellectual property rights	₩ 3,028	2,458	-	-	(567)	4,919
Membership (*1)	49,785	7,815	-	(1,106)	-	56,494
Development expense	28,030	-	15,046	-	(10,768)	32,308
Port facilities usage rights	100,144	28,165	-	-	(15,626)	112,683
Other intangible assets	20,627	11,191	-	-	(9,085)	22,733
	₩ 201,614	49,629	15,046	(1,106)	(36,046)	229,137

(*1) Economic life of membership is indefinite.

(*2) Includes acquisition cost transferred from construction-in-progress amounting to ₩ 40,011 million.

14. Borrowings

(a) Borrowings as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

(in millions of Won)

	2011	2010	January 1, 2010
Short-term borrowings			
Short-term borrowings	₩ 1,431,941	1,339,937	698,784
Current portion of long-term borrowings	4,025	750	-
Current portion of loans from foreign financial institutions	993	963	1,065
Current portion of debentures	1,976,920	1,777,956	-
Less : Current portion of discount on debentures issued	(19,088)	(3,242)	-
	3,394,791	3,116,364	699,849
Long-term borrowings			
Long-term borrowings	828,014	467,378	80,831
Foreign loan	3,704	4,074	5,572
Debentures	6,226,587	5,872,258	5,649,690
Less : Discount on debentures issued	(40,932)	(58,215)	(64,917)
Add : Premium on debentures redemption	2,586	11,138	10,067
	7,019,959	6,296,633	5,681,243
	₩ 10,414,750	9,412,997	6,381,092

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

(b) Short-term borrowings as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

<i>(in millions of Won)</i>			Annual interest rate (%)		2011	2010	January 1, 2010
Bank	Issuance date	Maturity date					
HSBC	2011.04.13	2011.07.15	0.83	₩	102,348	224,586	38,590
JPMorgan	2011.04.04	2011.10.04	0.85~1.01		92,493	120,423	-
BNP	2011.02.15	2011.12.27	0.94~1.05		314,085	106,631	-
DEUTSCHE	2011.02.16	2011.12.27	0.95~1.05		160,229	111,686	-
ING	2011.04.04	2011.07.05	0.85		28,687	131,321	77,711
RBS	2011.06.30	2011.09.28	0.80		86,339	41,050	-
DBS	2011.03.17	2011.12.21	0.95~1.01		205,285	-	-
SG	2011.03.16	2011.10.04	1.01		188,296	-	-
Others					-	383,374	314,609
Others (discount on accounts receivable)					254,179	220,866	267,874
					<u>₩ 1,431,941</u>	<u>1,339,937</u>	<u>698,784</u>

(c) Current portion of long-term borrowings as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

<i>(in millions of Won)</i>			Annual interest rate (%)		2011	2010	January 1, 2010	
Borrowers	Issuance date	Maturity date						
Borrowings	Korea Resources Corporation	2006.10.31	2021.09.15	1.50	₩	2,250	750	-
Borrowings	Korea Resources Corporation	2006.12.28	2021.12.15	1.50		755	-	-
Borrowings	Woori Bank	2009.06.11	2017.03.15	2.50		663	-	-
Borrowings	Woori Bank	2009.11.26	2017.03.15	2.50		220	-	-
Borrowings	Woori Bank	2009.12.31	2017.03.15	2.50		137	-	-
Loans from foreign financial institutions	NATIXIS (*1)	1984.06.30	2017.12.31	2.00		993	963	1,065
Debentures	Domestic debentures 282	2006.03.28	2011.03.28	5.00		-	299,786	-
Debentures	Domestic debentures 283	2006.05.10	2011.05.10	5.00		-	499,669	-
Debentures	Domestic debentures 287	2007.05.11	2012.05.11	5.26		499,596	-	-
Debentures	1st Samurai Private Equity Bonds	2008.12.29	2011.12.29	Tibor(6M)+1.60		666,634	696,029	-
Debentures	Yen dominated FRN	2008.11.11	2011.11.11	Tibor(6M)+2.60		267,058	279,230	-
Debentures	Exchangeable bond	2008.08.19	2011.08.19	-		524,544	-	-
						<u>₩ 1,962,850</u>	<u>1,776,427</u>	<u>1,065</u>

(*1) As of June 30, 2011, Korea Development Bank has provided guarantees for loans from foreign financial institutions.

The Company issued exchangeable bonds with SK Telecom Co., Ltd. ADRs through Zeus (Cayman) Ltd., a SPV. The Company accounted for these exchangeable bonds as long-term debts under K-IFRS. The exchangeable bonds may be redeemed prior to maturity at 101.51% of their face value for three years from the issuance date at the option of the bondholders. As of June 30, 2011, the JPY 39,970,000,000 (75.7% of total face value) exchangeable bonds are classified as a current portion of long-term borrowings and were redeemed in August 2011. Also, the Company provides guarantees for Zeus(Cayman) Ltd.

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

(d) Long-term borrowings as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

<i>(in millions of Won)</i>				Annual			January 1,
	Borrowers	Issuance date	Maturity date	interest rate (%)	2011	2010	2010
Borrowings	Woori Bank	2006.10.31~ 2011.02.24	2017.03.15~ 2038.04.28	1.50~2.50	₩ 104,040	90,598	75,519
Borrowings	Korea National Oil Corporation	2007.12.27~ 2010.12.28	2022.12.29~ 2024.12.29	Government bond -2.25	7,577	8,004	5,312
Borrowings	Korea EXIM Bank	2010.02.18~ 2011.06.10	2017.02.28~ 2018.03.23	4.09~4.50	716,397	368,776	-
Loans from foreign financial institutions	NATIXIS (*1)	1984.06.30	2017.03.31	2.00	3,704	4,074	5,572
Debentures	Domestic debentures	2008.08.05~ 2011.05.04	2013.08.05~ 2016.05.04	4.28~6.52	2,791,015	3,332,348	2,293,320
Debentures	9th Samurai Bonds	2006.06.28~ 2011.04.14	2013.06.28~ 2021.04.14	0~8.75	3,397,226	2,492,833	3,301,520
					₩ 7,019,959	6,296,633	5,681,243

(*1) As of June 30, 2010, Korea Development Bank has provided guarantees for loans from foreign financial institutions.

15. Other Financial Liabilities

(a) Other short-term financial liabilities as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

<i>(in millions of Won)</i>	2011	2010	January 1, 2010
Financial guarantee liabilities	₩ 6,415	6,445	-
Accounts payable	669,911	728,574	987,977
Accrued expenses	572,582	210,040	146,105
Dividends payable	5,503	5,569	5,143
Finance lease liabilities	1,046	1,048	1,023
Withholdings	9,754	6,405	17,066
	₩ 1,265,211	958,081	1,157,314

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

(b) Other long-term financial liabilities as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

(in millions of Won)

	<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
Financial guarantee liabilities	₩ 10,899	9,150	15,210
Accrued expenses	14,514	22,287	72,435
Derivatives liabilities	212	885	2,133
Long-term accounts payable	88,735	-	-
Finance lease liabilities	7,881	8,835	10,126
Long-term withholdings	8,516	11,009	854
	<u>₩ 130,757</u>	<u>52,166</u>	<u>100,758</u>

16. Provisions

The changes in provisions for the six-month period ended June 30, 2011 and the year ended December 31, 2010 are as follows:

1) For the six-month period ended June 30, 2011

(in millions of Won)

	<u>Beginning</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending</u>
Estimated allowance at the end of period (*1) ₩	9,582	172,563	(155,719)	26,426

(*1) Represents the provision for bonuses.

2) For the years ended December 31, 2010

(in millions of Won)

	<u>Beginning</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending</u>
Estimated allowance at the end of period ₩	5,154	360,114	(355,686)	9,582

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

17. Employee Benefits

(a) Defined contribution plans

The Company partially operates a defined contribution plan for participating employees. Though the Company pays fixed contributions into a separate fund, employee benefits relating to employee service in the future is based on the contributions to the funds and the investment earnings on it. Plan assets are managed by a trustee as a separate fund from Company's assets. The expense related to post-employment benefit plans under defined contribution plans during the six-month period ended June 30, 2011 is ₩ 363 million, which is included in accrued expenses.

(b) Defined benefit plans

The Company partially operates a defined benefit pension plan for employees and uses the projected unit credit method in the actuarial valuation of plan assets and the defined benefit obligation.

(c) The amounts recognized in relation to defined benefit obligations in the statements of financial position as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

(in millions of Won)

	2011	2010	January 1, 2010
Present value of funded obligations	₩ 605,204	1,013,165	815,993
Fair value of plan assets	(501,034)	(689,162)	(599,170)
Net defined benefit obligations	₩ 104,170	324,003	216,823

(d) The changes in present value of defined benefit obligations for the six-month period ended June 30, 2011 and the year ended December 31, 2010 are as follows:

(in millions of Won)

	2011	2010
Defined benefit obligation at the beginning of period	₩ 1,013,165	815,993
Current service costs	56,751	93,206
Interest costs	23,804	44,534
Actuarial gains and losses	(49,132)	125,100
Benefits paid	(439,384)	(65,668)
Defined benefit obligation at the end of period	₩ 605,204	1,013,165

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

(e) The changes in the fair value of plan assets for the six-month period ended June 30, 2011 and the year ended December 31, 2010 are as follows:

<i>(in millions of Won)</i>	2011	2010
Plan assets at the beginning of period	₩ 689,162	599,170
Expected return on plan assets	13,443	29,888
Actuarial gains and losses	(3,059)	(5,415)
Contributions of participants	80,000	100,000
Benefits paid	(278,512)	(34,481)
Plan assets at the end of period	<u>₩ 501,034</u>	<u>689,162</u>

(f) The fair value of plan assets as of June 30, 2011, December 31, 2010 and January 1, 2010, are as follows:

<i>(in millions of Won)</i>	2011	2010	January 1, 2010
Deposits	₩ 290,028	-	-
Equity instruments	210,927	512,850	446,718
Debt instruments	-	176,312	152,452
Others	79	-	-
Total	<u>₩ 501,034</u>	<u>689,162</u>	<u>599,170</u>

(g) The amounts recognized in the statements of comprehensive for the six-month periods ended June 30, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	2011	2010
Current service costs	₩ 56,751	46,978
Interest costs	23,804	22,338
Expected return on plan assets	(13,443)	(14,955)
Total	<u>₩ 67,112</u>	<u>54,361</u>

The above expenses recognized in the statement of comprehensive income are as follows:

<i>(in millions of Won)</i>	2011	2010
Cost of sales	₩ 52,795	46,307
Selling and administrative expenses	14,317	8,054
Total	<u>₩ 67,112</u>	<u>54,361</u>

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

(h) Actuarial gains and losses recognized in other comprehensive income for the six-month periods ended June 30, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Beginning	₩ (101,802)	-
Current actuarial gains and losses	<u>35,611</u>	<u>(23,756)</u>
Ending	<u>₩ (66,191)</u>	<u>(23,756)</u>

(i) The principal actuarial assumptions as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

	<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
Discount rate	4.33%	5.21%	5.21%
Expected return on plan assets	5.76%	4.66%	4.66%
Expected future increases in salaries	3.00%	3.00%	3.00%

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

18. Other Liabilities

(a) Other current liabilities as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

(in millions of Won)

	<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
Other current liabilities			
Advances received	₩ 39,374	33,241	25,614
Withholding	26,933	24,388	34,009
Deferred rental revenue	2,790	4,182	2,013
Deferred revenue	50	200	-
	<u>₩ 69,147</u>	<u>62,011</u>	<u>61,636</u>

(b) Other long-term liabilities as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

(in millions of Won)

	<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
Other long-term liabilities			
Unearned revenue	₩ 763	1,277	2,305
Others	3,000	3,000	3,972
	<u>₩ 3,763</u>	<u>4,277</u>	<u>6,277</u>

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

19. Financial Instruments

(a) Classification of financial instruments

1) Financial assets as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

(in millions of Won)

	<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
Financial assets at fair value through profit or loss			
Financial assets held for trading	₩ 40,330	182,208	795,811
Derivatives assets held for trading	428	-	-
	<u>40,758</u>	<u>182,208</u>	<u>795,811</u>
Available-for-sale financial assets	4,635,057	4,931,628	4,397,017
Held-to-maturity investments	29,866	31,808	51,675
Loans and other receivables	7,161,251	6,845,357	9,078,062
	<u>₩ 11,866,932</u>	<u>11,991,001</u>	<u>14,322,565</u>

2) Financial liabilities as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

(in millions of Won)

	<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
Financial liabilities at fair value through profit or loss			
Derivatives liabilities held for trading	₩ 212	885	2,133
Financial liabilities evaluated as amortised cost			
Accounts payable	1,418,483	1,310,877	739,746
Borrowings	10,414,750	9,412,997	6,381,092
Financial guarantee liabilities (*1)	17,314	15,595	15,210
Others	1,378,441	993,766	1,240,730
	<u>13,228,988</u>	<u>11,733,235</u>	<u>8,376,778</u>
	<u>₩ 13,229,200</u>	<u>11,734,120</u>	<u>8,378,911</u>

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

(*1) Financial guarantee contracts recognized in financial guarantee liabilities as of June 30, 2011 are as follows:

(in millions of Won)

<u>Guarantee beneficiary</u>	<u>Financial institution</u>	<u>Foreign Currency</u>		<u>Won Equivalent</u>
POSCO Maharashtra Steel Pvt. Ltd.	Comerica Bank	USD	69,000,000	74,389
United Spiral Pipe, LLC	Shinhan Bank	USD	34,000,000	36,655
	Export-Import Bank of Korea	USD	200,000,000	215,620
POSCO-Vietnam Co., Ltd.	ANZ Bank	USD	30,000,000	32,343
	MIZUHO	JPY	2,655,000,000	35,463
	SUMITOMO	JPY	2,550,000,000	34,060
	China Construction Bank	CNY	196,700,000	32,810
	Industrial and Commercial Bank of China	CNY	93,890,000	15,661
	Bank of China	CNY	14,200,000	2,369
BX STEEL POSCO Cold RolledSheet Co., Ltd.	Agricultural Bank of China	CNY	96,300,000	16,063
	China Construction Bank	USD	2,640,000	2,846
	Industrial and Commercial Bank of China	USD	1,740,000	1,876
	Agricultural Bank of China	USD	2,400,000	2,587
	Bank of China	USD	4,400,000	4,744
	Mizuho	USD	30,000,000	32,343
Zhangjiagang Pohang Stainless Steel Co., Ltd.	Mizuho	USD	50,000,000	53,905
	Credit Agricole	USD	50,000,000	53,905
	BTMU	USD	30,000,000	32,343
	BOA and others	USD	295,000,000	318,040
POSCO Investment Co., Ltd.	BOC and others	CNY	630,000,000	105,084
	HSBC	MYR	104,691,662	37,182
	HSBC and others	USD	116,296,295	125,379
		USD	915,476,295	986,975
		JPY	5,205,000,000	69,523
		CNY	1,031,090,000	171,987
		MYR	104,691,662	37,182

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

3) Financial profit and loss by category of financial instrument for the six-month periods ended June 30, 2011 and the six-month periods ended June 30, 2010 is as follows:

(in millions of Won)

	2011			2010		
	Financial income (*1)	Financial expenses	Financial income and expenses	Financial income (*1)	Financial expenses	Financial income and expenses
Financial assets at fair value through profit or loss	₩ 27,497	-	27,497	147,883	-	147,883
Available-for-sale financial assets	74,589	(24)	74,565	75,668	(46)	75,622
Held-to-maturity investments	820	-	820	1,954	-	1,954
Loans and receivables	62,928	(93,231)	(30,303)	117,440	(91,092)	26,348
Financial liabilities at fair value through profit or loss	674	-	674	1,197	-	1,197
Financial liabilities are evaluated as amortised cost	436,075	(234,891)	201,184	139,341	(611,206)	(471,865)
	₩ 602,583	(328,146)	274,437	483,483	(702,344)	(218,861)

(*1) Financial profit in the statement of comprehensive income includes the dividends from subsidiaries and associates ₩ 125,540 million and ₩ 48,233 million for the six-month periods ended June 30, 2011 and the six-month periods ended June 30, 2010.

(b) Credit risk

1) Credit risk exposure

The carrying amount of financial assets is maximum exposure to credit risk. The maximum exposure to credit risk as of June 30, 2011, December 31, 2010 and January 1, 2010 is as follows:

(in millions of Won)

	2011	2010	January 1, 2010
Cash and cash equivalents	₩ 1,516,474	672,426	626,782
Financial assets at fair value through profit or loss	40,758	182,208	795,811
Available-for-sale financial assets	4,635,057	4,931,628	4,397,017
Held-to-maturity investments	29,866	31,808	51,675
Loans and other receivables	1,766,797	2,624,459	5,498,191
Trade accounts and notes receivable	3,877,956	3,548,448	2,951,783
Long-term trade accounts and notes receivable	24	24	1,306
	₩ 11,866,932	11,991,001	14,322,565

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

2) Impairment losses on financial assets

- ① Allowance for doubtful accounts as of June 30, 2011, December 31, 2010 and January 1, 2010 is as follows:

(in millions of Won)

	<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
Accounts receivable	₩ 2,179	4,915	11,821
Other accounts receivable	10,571	10,591	10,620
Long-term loans	14,452	14,487	14,470
Other assets	13	20	673
	<u>₩ 27,215</u>	<u>30,013</u>	<u>37,584</u>

- ② Impairment losses on financial assets for the six-month period ended June 30, 2011 and 2010 are as follows:

(in millions of Won)

	<u>2011</u>	<u>2010</u>
Bad debt expenses	₩ (2,721)	(6,493)
Other bad debt expenses	(51)	(142)
	<u>₩ (2,772)</u>	<u>(6,635)</u>

- ③ The aging schedule and the impaired losses of trade accounts and notes receivable as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

(in millions of Won)

	<u>2011</u>		<u>2010</u>		<u>January 1, 2010</u>	
	Trade accounts and notes receivable	Impairment	Trade accounts and notes receivable	Impairment	Trade accounts and notes receivable	Impairment
Not due	₩ 3,751,024	6	3,416,549	2,727	2,739,546	3,235
Over due less than 1 month	61,783	-	53,385	37	69,678	49
1 month - 3 months	40,371	-	37,554	26	9,881	7
3 months - 12 months	15,135	-	37,978	27	26,077	18
over 12 months	11,845	2,173	7,921	2,098	119,728	8,512
	<u>₩ 3,880,158</u>	<u>2,179</u>	<u>3,553,387</u>	<u>4,915</u>	<u>2,964,910</u>	<u>11,821</u>

- ④ Changes in allowance for doubtful accounts for the six-month periods ended June 30, 2011 and the year ended December 31, 2010 were as follows:

(in millions of Won)

	<u>2011</u>	<u>2010</u>
Beginning	₩ 30,013	37,584
Reversal of bad debt expenses	(2,772)	(7,291)
Other decrease	(26)	(280)
Ending	<u>₩ 27,215</u>	<u>30,013</u>

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

(c) Liquidity risk

1) The maturity analysis of non-derivative financial liabilities

<i>(in millions of Won)</i>	Over due less than 1 month	1 month - 3 months	6 months - 1 year	1 year - 5 years	later than 5 years	Total
Current non-derivative financial liabilities						
Account payable	₩ 1,418,483	-	-	-	-	1,418,483
Short-term borrowings	1,523,857	1,367,566	503,368	-	-	3,394,791
Financial guarantee liabilities	-	1,604	4,811	-	-	6,415
Other financial liabilities	1,247,997	251	10,547	-	-	1,258,795
	<u>4,190,337</u>	<u>1,369,421</u>	<u>518,726</u>	<u>-</u>	<u>-</u>	<u>6,078,484</u>
Non-current non-derivative financial liabilities						
Long-term borrowings	-	-	-	4,970,530	2,049,429	7,019,959
Financial guarantee liabilities	-	-	-	8,818	2,081	10,899
Other financial liabilities	-	-	-	116,327	3,319	119,646
	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,095,675</u>	<u>2,054,829</u>	<u>7,150,504</u>
	<u>₩ 4,190,337</u>	<u>1,369,421</u>	<u>518,726</u>	<u>5,095,675</u>	<u>2,054,829</u>	<u>13,228,988</u>

Schedule of cash flows relation to interest payment is not included in the table above.

2) The maturity analysis of derivative financial liabilities

<i>(in millions of Won)</i>	not later than 1 year	1 year - 5 years	later than 5 years	Total
Derivatives liabilities held for trading				
Coupon	-	212	-	212

(d) Currency risk

1) The Company has exposure to the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The exposure to currency risk as of June 30, 2011, December 31, 2010 and January 1, 2010 is as follows:

<i>(in millions of Won)</i>	2011		2010		January 1, 2010	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
EUR	₩ 19,381	7,784	19,335	11,900	29,249	12,571
USD	416,031	5,266,420	838,688	4,266,232	964,986	2,481,972
JPY	65,626	2,315,038	56,377	2,444,452	44,839	2,211,387
Others	18,569	2,489	230	2,582	235	2,582
	<u>₩ 519,607</u>	<u>7,591,731</u>	<u>914,630</u>	<u>6,725,166</u>	<u>1,039,309</u>	<u>4,708,512</u>

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

2) For the six-month periods ended June 30, 2011 and 2010, the effects of a hypothetical 10% strengthening or weakening of functional currency against foreign currencies other than functional currency on profit before tax were as follows:

<i>(in millions of Won)</i>	2011		2010	
	<u>10% increase</u>	<u>10% decrease</u>	<u>10% increase</u>	<u>10% decrease</u>
EUR	₩ 1,160	(1,160)	744	(744)
USD	(485,039)	485,039	(342,754)	342,754
JPY	(224,941)	224,941	(238,808)	238,808

(e) Interest rate risk

1) The book value of interest-bearing financial instruments as of June 30, 2011, December 31, 2010 and January 1, 2010 is as follows:

<i>(in millions of Won)</i>	2011	2010	January 1, 2010
Fixed rate			
Financial Assets	₩ 2,840,002	3,130,683	6,118,895
Financial Liabilities	(9,119,560)	(8,126,270)	(5,158,610)
	(6,279,558)	(4,995,587)	960,285
Variable rate			
Financial Liabilities	₩ (1,041,011)	(1,065,861)	(954,608)

2) Sensitivity analysis on the fair value of financial instruments with fixed interest rate

The Company does not account for financial instruments with fixed interest rates as financial assets at fair value through profit or loss, and derivative instruments such as interest swap as hedges in fair value hedging accounting. Therefore, fluctuations in interest rates do not affect gain or loss.

3) Sensitivity analysis on the fair value of financial instruments with variable interest rate

As of June 30, 2011 and December 31, 2010, provided that other factors remain the same and the interest rate of borrowings with floating rates increases or decreases by 1%, the changes in interest expense during the six-month periods ended June 30, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	2011		2010	
	<u>1% increase</u>	<u>1% decrease</u>	<u>1% increase</u>	<u>1% decrease</u>
Variable rate financial instruments	(5,205)	5,205	(10,659)	10,659

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

(f) Fair value

1) Fair value and book value

The carrying amount and the fair value of financial instruments as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows :

<i>(in millions of Won)</i>	2011		2010		January 1, 2010	
	Book Value	Fair Value	Book Value	Fair Value	Book Value	Fair Value
Assets measured at fair value						
Financial assets held for trading	₩ 40,330	40,330	182,208	182,208	795,811	795,811
Financial assets at fair value through profit or loss	4,494,370	4,494,370	4,799,107	4,799,107	4,250,843	4,250,843
Derivatives assets held for trading	428	428	-	-	-	-
	<u>4,535,128</u>	<u>4,535,128</u>	<u>4,981,315</u>	<u>4,981,315</u>	<u>5,046,654</u>	<u>5,046,654</u>
Assets measured amortised cost						
Cash and cash equivalents	1,516,474	1,516,474	672,426	672,426	626,782	626,782
Current trade accounts and note receivable	3,877,980	3,877,980	3,548,472	3,548,472	2,953,089	2,953,089
Loans and other receivables	1,766,797	1,766,797	2,624,458	2,624,458	5,498,191	5,498,191
Held-to-maturity investments	29,866	29,866	31,808	31,808	51,675	51,675
	<u>7,191,117</u>	<u>7,191,117</u>	<u>6,877,164</u>	<u>6,877,164</u>	<u>9,129,737</u>	<u>9,129,737</u>
Liabilities measured fair value						
Derivatives liabilities held for trading	212	212	885	885	2,133	2,133
Liabilities measured amortised cost						
Trade accounts payable	1,418,483	1,418,483	1,310,877	1,310,877	739,746	739,746
Borrowings	10,414,750	10,708,817	9,412,997	9,884,031	6,381,092	6,705,438
Financial guarantee liabilities	17,314	17,314	15,595	15,595	15,210	15,210
Others	1,378,442	1,378,442	993,766	993,766	1,240,730	1,240,729
	<u>₩ 13,228,989</u>	<u>13,523,056</u>	<u>11,733,235</u>	<u>12,204,269</u>	<u>8,376,778</u>	<u>8,701,123</u>

2) Interest rate for determining fair value

Interest rates to discount the estimated cash flows as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

	2011	2010	January 1, 2010
Borrowings	1.18% ~ 5.04%	1.19% ~ 5.14%	1.28% ~ 5.38%

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

3) The fair value hierarchy

- ① The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in measurements.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs, other than quoted prices, that are observable for the asset or liability, either directly or indirectly.

Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

- ② The fair value measurements classified by fair value hierarchy as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

a. June 30, 2011

<i>(in millions of Won)</i>	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets held for trading	-	40,330	-	40,330
Derivatives assets held for trading	-	428	-	428
Available-for-sale financial assets	3,918,236	-	576,134	4,494,370
	<u>3,918,236</u>	<u>40,758</u>	<u>576,134</u>	<u>4,535,128</u>
Financial Liabilities				
Derivatives liabilities held for trading	-	212	-	212

b. December 31, 2010

<i>(in millions of Won)</i>	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets held for trading	-	182,208	-	182,208
Available-for-sale financial assets	4,195,360	-	603,747	4,799,107
	<u>4,195,360</u>	<u>182,208</u>	<u>603,747</u>	<u>4,981,315</u>
Financial Liabilities				
Derivatives liabilities held for trading	-	885	-	885

c. January 1, 2010

<i>(in millions of Won)</i>	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets held for trading	-	795,811	-	795,811
Available-for-sale financial assets	3,650,351	-	600,492	4,250,843
	<u>3,650,351</u>	<u>795,811</u>	<u>600,492</u>	<u>5,046,654</u>
Financial Liabilities				
Derivatives liabilities held for trading	-	2,133	-	2,133

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

③ Changes in financial assets classified as level 3 for the six-month periods ended June 30, 2011 and for the years ended December 31, 2010 are as follows:

a. For the six-month periods ended June 30, 2011

<i>(in millions of Won)</i>	<u>Beginning</u>	<u>Other comprehensive income</u>	<u>Ending</u>
Available-for-sale financial assets	₩ 603,747	(27,613)	576,134

b. For the years ended December 31, 2010

<i>(in millions of Won)</i>	<u>Beginning</u>	<u>Other comprehensive income</u>	<u>Ending</u>
Available-for-sale financial assets	₩ 600,492	3,255	603,747

20. Share Capital and Contributed Surplus

(a) Share capital

Under the Articles of Incorporation, the Company is authorized to issue 200 million shares of common stock with par value of ₩ 5,000 per share. As of June 30, 2011, 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. 9,293,790 shares of common stock were retired with the Board of Directors' approval.

As of June 30, 2011, total shares of ADRs are 54,564,120 equivalents to 13,641,030 of common stock.

As of June 30, 2011, ending balance of common stock amounts to ₩482,403 million; however, it is different from par value of issued common stock, which amounted to ₩435,934 million, due to retirement of treasury stock.

(b) Capital surplus

Capital surplus as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
Share premium	₩ 463,825	463,825	463,825
Gains on disposal of treasury shares	765,875	694,714	694,714
	<u>₩ 1,229,700</u>	<u>1,158,539</u>	<u>1,158,539</u>

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

21. Reserves

(a) Reserves as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>	<u>January 1, 2010</u>
Accumulated changes in fair value of available-for-sale investments, net of tax	₩ 653,563	1,011,557	634,571

(b) The changes in fair value of available-for-sale investments for the six-month periods ended June 30, 2011 and the year ended December 31, 2010 are as follows:

1) For the six-month periods ended June 30, 2011

<i>(in millions of Won)</i>	<u>2011</u>
Beginning balance	₩ 1,011,557
Changes in fair value of available-for-sale investments	(458,967)
Tax effects	100,973
Ending balance	<u>₩ 653,563</u>

2) For the years ended December 31, 2010

<i>(in millions of Won)</i>	<u>2010</u>
Beginning balance	₩ 634,571
Changes in fair value of available-for-sale investments	483,315
Tax effects	(106,329)
Ending balance	<u>₩ 1,011,557</u>

22. Treasury Shares

In January 2011, the Company sold 342,955 shares of treasury stock for ₩ 164,384 million and recognized ₩ 71,160 million as a gain on sale of treasury stock in capital surplus. Also, the Company acquired 131,389 shares of treasury stock for ₩ 61,296 million. As of June 30, 2011, the Company holds 9,942,391 shares of treasury stock for price stabilization in accordance with the Board of Director's resolution.

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

23. Stock Appreciation Rights

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

(per share, won)

	5th Grant	6th Grant	Total
Before the modification (*)			
Granted	218,600	90,000	308,600
Exercise price	₩ 151,700	₩ 194,900	
After the modification (*)			
Granted	214,228	90,000	304,228
Exercised	183,066	64,000	247,066
Unexercised	31,162	26,000	57,162
Exercise price	₩ 151,700	₩ 194,900	
Exercise period	2006.7.24~ 2011.7.23	2007.4.29~ 2012.4.28	

(*)The Company modified the number of shares granted under the stock appreciation rights and the exercise price, as presented above (5th), in accordance with the resolutions of the Board of Directors on October 22, 2004.

(b) Expenses related to stock appreciation rights granted to executives incurred for the six-month periods ended June 30, 2011 and the year ended December 31, 2010 are as follows:

<i>(in millions of Won)</i>	4th Grant	5th Grant	6th Grant	Total
Accumulated reversal of stock compensation as of December 31, 2010	(83)	(9,681)	(3,463)	(13,227)
Reversal of stock compensation expenses	-	(1,250)	(389)	(1,639)
For the six-month periods ended June 30, 2011				

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

(c) The Company uses a fair value approach for calculating remuneration cost. The method and assumption for computing fair value of stock appreciation rights are as follows:

	<u>5th Grant</u>	<u>6th Grant</u>
Risk-free rate of interest	3.48%	3.67%
Expected life	57 days	754 days
Expected price-volatility	9.15%	12.60%
Rate of expected dividends	2.16%	1.11%
Stock price	Won 464,000	Won 464,000
Fair value	Won 311,556	Won 272,791

24. Sales

Details of sales for the six-month periods ended June 30, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Revenues		
Sale of goods	₩ 19,074,103	14,821,060
Services	52,461	43,908
Othters	17,525	17,253
	<u>₩ 19,144,089</u>	<u>14,882,221</u>

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

25. Selling and Administrative Expenses

(a) Administrative expenses

Administrative expenses for the six-month periods ended June 30, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Wages and salaries	₩ 84,268	72,242
Expenses related to defined benefit plan	14,317	8,054
Other employee benefits	34,051	27,192
Travel	10,759	8,944
Depreciation	10,902	7,830
Amortization	7,630	7,749
Rental	18,783	12,474
Repairs	6,958	5,361
Advertising	41,661	40,942
Research & development	66,579	43,521
Service fees	85,654	67,580
Supplies	4,106	4,027
Vehicles maintenance	3,494	3,011
Industry association fee	4,701	4,747
Training	8,688	10,008
Conference	3,390	3,420
Reverse of bad debt expenses	(2,721)	(6,493)
Others	13,511	12,240
	<u>₩ 416,731</u>	<u>332,849</u>

(b) Selling expenses

Selling expenses for the six-month periods ended June 30, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Freight	₩ 384,101	327,851
Operating expenses for distribution center	3,618	4,524
Sales commissions	27,287	24,820
Sales advertising	51	105
Sales promotion	2,415	2,341
Sample	1,144	887
Sales insurance premium	5,467	5,700
	<u>₩ 424,083</u>	<u>366,228</u>

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

26. Other Operating Income and Expenses

(a) Other operating income

Details of other operating income for the six-month periods ended June 30, 2011 and 2010 are as follows:

(in millions of Won)

	2011	2010
Gain on disposal of property, plant and equipment	₩ 7,052	6,173
Gain on disposal of other long-term assets	-	283
Miscellaneous income	13,595	48,517
	<u>₩ 20,647</u>	<u>54,973</u>

(b) Other operating expenses

Details of other operating expenses for the six-month periods ended June 30, 2011 and 2010 are as follows:

(in millions of Won)

	2011	2010
Loss on disposal of property, plant and equipment	₩ 30,320	23,396
Reverse of other bad debt expenses	(51)	(142)
Donations	9,458	12,212
Expenses on assets not in use	3,186	-
Miscellaneous loss	9,918	10,507
	<u>₩ 52,831</u>	<u>45,973</u>

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

27. Expenses by nature

Expenses that are recorded by nature as cost of sales, selling, general and administrative expenses and other operating expenses in the statements of income for the six-month periods ended June 30, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Changes in inventories (*1)	₩ (413,792)	(580,074)
Raw materials and consumables used	13,156,932	8,431,508
Employee benefits expenses (*2)	643,832	556,824
Depreciation	843,503	1,199,300
Amortization	16,488	17,987
Ordinary research & development expenses	233,721	232,526
Electricity and water expenses	298,516	219,393
Service fees	117,933	98,400
Advertising expenses	41,661	40,942
Freight and custody expenses	384,101	327,851
Commission paid	27,287	24,820
Losses on disposition of property, plant, and equipment	30,320	23,396
Other expenses	1,367,266	1,104,211
	<u>₩ 16,747,768</u>	<u>11,697,084</u>

(*1) Changes in inventories are the changes in product, semi-finished products and by-product.

(*2) Includes depreciation of investment property.

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

28. Finance Income and Costs

(a) Details of finance income and costs for the six-month periods ended June 30, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Financial income		
Interest income	₩ 52,069	122,037
Dividend income	200,129	123,118
Gains on disposal of financial assets held for trading	1,118	7,080
Gain on transactions of derivatives	-	26,737
Gains on foreign currency transaction	184,886	216,192
Gains on foreign currency translation	288,490	31,366
Others	1,431	5,186
	<u>728,123</u>	<u>531,716</u>
Financial expenses		
Interest expenses	195,966	144,092
Losses on foreign currency translation	120,489	243,033
Losses on foreign currency transaction	10,092	314,251
Others	1,599	968
	<u>₩ 328,146</u>	<u>702,344</u>

(b) Details of interest income by category of financial instrument for the six-month periods ended June 30, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	22,165	5,740
Financial instruments	25,621	108,482
Held-to-maturity securities	820	1,954
Others	3,463	5,861
	<u>₩ 52,069</u>	<u>122,037</u>

(c) Details of interest expenses by category of financial instrument for the six-month periods ended June 30, 2011 and 2010 are as follows :

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Interest on bank overdraft and borrowings	201,661	144,266
Other interest expenses	60	-
Total interest expenses (*1)	201,721	144,266
Less: capitalization of interest expense	5,755	174
	<u>₩ 195,966</u>	<u>144,092</u>
Average expenditure used to calculate capitalization of interest cost	<u>126,538</u>	<u>3,615</u>

(*1) There are no interest expenses incurred from financial liabilities at fair value through profit or loss.

The capitalization rate for the six-month periods ended June 30, 2011 is 4.55%.

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

29. Research and Development Expenses

Research and development expenses recognized as expense for the six-month periods ended June 30, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Selling and administrative expenses	₩ 66,579	43,521
Cost of sales	167,142	189,005
	<u>₩ 233,721</u>	<u>232,526</u>

30. Income Taxes

(a) Income tax expense for the six-month periods ended June 30, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Current income taxes (*1)	₩ 434,623	536,241
Deferred income taxes	138,826	12,045
Items recorded directly to shareholders' equity	70,342	44,018
Income tax expense	<u>₩ 643,791</u>	<u>592,304</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 six-month periods ended June 30, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Net income before income tax expense	₩ 2,816,945	3,069,482
Income tax expense computed at statutory rate	681,701	742,815
Adjustments:	(37,910)	(150,511)
Tax effects due to permanent differences	2,265	(2,025)
Tax effect of finalized tax assessments	(8,056)	(22,170)
Tax credit	(61,838)	(135,614)
Additional payment of income taxes	19,466	-
Others	10,253	9,298
Income tax expense	<u>₩ 643,791</u>	<u>592,304</u>
Effective rate (%)	22.9%	19.3%

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

(c) The income taxes charged directly to equity for the six-month periods ended June 30, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Net changes in fair value of available-for-sale investments	₩ 100,876	37,318
Defined benefit plan actuarial gains (losses)	(10,464)	6,700
Gain on disposal of treasury shares	(20,070)	-
	<u>₩ 70,342</u>	<u>44,018</u>

(d) The movements in deferred tax assets (liabilities) for the six-month periods ended June 30, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	<u>2011</u>			<u>2010</u>		
	<u>Dec.31, 2010</u>	<u>Inc(Dec)</u>	<u>June 30, 2011</u>	<u>Dec.31, 2009</u>	<u>Inc(Dec)</u>	<u>June 30, 2010</u>
Deferred income tax due to temporary differences						
Reserve for special repairs	₩ (27,776)	377	(27,399)	(39,500)	2,296	(37,204)
Reserve for technology developments	(264,000)	(20,900)	(284,900)	(176,000)	(88,000)	(264,000)
Depreciation expense	(65,129)	14,628	(50,501)	(78,445)	(1,612)	(80,057)
Prepaid expenses	18,851	1,239	20,090	17,757	1,621	19,378
Impairment loss on property, plant and equipment	7,443	(299)	7,144	7,998	(226)	7,772
Reappraisal of property plant and equipment	(345,058)	(73,123)	(418,181)	(411,760)	27,910	(383,850)
Loss on foreign currency translation	81,066	(57,761)	23,305	39,783	63,424	103,207
Others	91,149	20,096	111,245	108,367	(22,918)	85,449
	<u>(503,454)</u>	<u>(115,743)</u>	<u>(619,197)</u>	<u>(531,800)</u>	<u>(17,505)</u>	<u>(549,305)</u>
Deferred tax from tax credit						
Tax credit carryforward	239,526	(113,496)	126,030	286,556	(38,558)	247,998
	<u>239,526</u>	<u>(113,496)</u>	<u>126,030</u>	<u>286,556</u>	<u>(38,558)</u>	<u>247,998</u>
Deferred income taxes recognized directly to equity:						
Gain (loss) on valuation of available-for-sale securities	(98,984)	100,876	1,892	7,249	37,318	44,567
Defined benefit plan actuarial gains (losses)	28,713	(10,463)	18,250	-	6,700	6,700
	<u>(70,271)</u>	<u>90,413</u>	<u>20,142</u>	<u>7,249</u>	<u>44,018</u>	<u>51,267</u>
	<u>₩ (334,199)</u>	<u>(138,826)</u>	<u>(473,025)</u>	<u>(237,995)</u>	<u>(12,045)</u>	<u>(250,040)</u>

(e) As of June 30, 2011, the Company did not recognize income tax effects associated with the taxable temporary differences ₩ 1,209,618 million (deferred tax liability ₩ 173,981 million) in temporary differences relating valuation of equity method occurred in prior periods since it is remote that the taxable differences will be realized.

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

31. Basic and Diluted Earnings Per Share

(a) Basic and diluted earnings per share for the six-month periods ended June 30, 2011 and 2010 are as follows:

(in millions of Won

except per share information)

	<u>2011</u>	<u>2010</u>
Net income	₩ 2,173,154	2,477,178
Weighted-average number of common shares outstanding (*)	<u>77,259,314</u>	<u>77,032,878</u>
Basic and diluted earnings per share	<u>28,128</u>	<u>32,157</u>

(*) The weighted-average number of common shares used to calculate basic earnings per share are as follows:

	<u>2011</u>	<u>2010</u>
Total number of common shares issued	87,186,835	87,186,835
Weighted-average number of treasury stock	<u>(9,927,521)</u>	<u>(10,153,957)</u>
Weighted-average number of common stock outstanding	<u>77,259,314</u>	<u>77,032,878</u>

(b) Basic and diluted earnings per share for the three-month periods ended June 30, 2011 and 2010 are as follows:

(in millions of Won

except per share information)

	<u>2011</u>	<u>2010</u>
Net income	₩ 1,245,798	1,102,680
Weighted-average number of common stock outstanding (*)	<u>77,244,444</u>	<u>77,032,878</u>
Basic and diluted earnings per share	<u>16,128</u>	<u>14,314</u>

(*) The weighted-average number of common shares used to calculate basic earnings per share are as follows:

	<u>2011</u>	<u>2010</u>
Total number of common stock issued	87,186,835	87,186,835
Weighted-average number of treasury stock	<u>(9,942,391)</u>	<u>(10,153,957)</u>
Weighted-average number of common stock outstanding	<u>77,244,444</u>	<u>77,032,878</u>

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

32. Operating Profit

(a) Operating profit adjusted by previous GAAP for the six-month periods ended June 30, 2011 and 2010 are as follows :

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Operating profits by K-IFRS	₩ 2,416,968	3,240,110
Deducted		
Gains on disposal of property, plant, and equipment	(7,052)	(6,173)
Gain on disposal of other long-term assets	-	(283)
Miscellaneous income	(13,595)	(48,517)
	<u>(20,647)</u>	<u>(54,973)</u>
Added		
Loss on disposal of property, plant, and equipment	30,320	23,396
Other bad debt expenses	(51)	(142)
Donations	9,458	12,212
Expenses on asset not in use	3,186	-
Miscellaneous losses	9,918	10,507
	<u>52,831</u>	<u>45,973</u>
Operating profits by previous GAAP	<u>₩ 2,449,152</u>	<u>3,231,110</u>

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

33. Related Party Transactions

(a) Significant transactions, which occurred in the ordinary course of business, with related companies for the six-month periods ended June 30, 2011 and 2010 are as follows:

(in millions of Won)

	Sales and others (*1)		Purchase and others (*1)	
	2011	2010	2011	2010
Subsidiaries				
POSCO E&C Co., Ltd.	₩ 10,381	3,032	₩ 740,536	1,227,168
POSCO Processing&Service	694,061	510,441	700,110	142,739
POSCO Coated & Color Steel Co., Ltd.	315,277	328,461	843	1,394
POSCO ICT Co., Ltd.	745	503	247,992	211,297
POSCO Chemtech Company Ltd.	208,201	44,069	365,077	265,703
POSCO TMC CO., LTD.	82,436	73,660	233	52
POSCOAST Co., Ltd.	144,630	155,342	29,895	27,499
Daewoo International Corp.	1,618,153	-	1,534	-
POSCONST.CO.LTD	76,613	-	2,261	-
POSCO America Corporation	136,449	103,811	-	-
POSCO Canada Ltd.	-	-	106,299	62,426
POSCO Asia Co., Ltd.	913,131	526,379	117,797	73,448
POSCO-JKPC Co., Ltd.	21,139	27,288	200	36
POSCO(Thailand) Co., Ltd.	35,775	66,516	57	1
Qingdao Pohang Stainless Steel Co., Ltd.	28,709	34,780	-	-
POSCO(Suzhou) Automotive Processing Center Co., Ltd.	22,535	54,435	-	-
POSCO-Japan Co., Ltd.	654,758	490,025	20,701	44,788
POS-India Pune Steel Processing Centre Pvt. Ltd.	64,128	81,692	-	-
POSCO-Mexico Co., Ltd.	149,994	108,585	-	-
POSCO-India Delhi Steel Processing Centre Pvt. Ltd.	32,588	39,722	-	115
POSCO(Wuhu) Automotive Processing Center Co., Ltd.	22,715	59,758	-	-
Daewoo International Singapore Pte. Ltd.	-	-	101,171	-
Others	200,489	457,751	562,264	265,607
	₩ 5,432,907	3,166,250	₩ 2,996,970	2,322,273
Associates				
Posmate Co., Ltd.	₩ 580	569	₩ 25,651	22,874
SNNC Co., Ltd.	660	906	185,051	268,230
SUNG JIN GEOTEC Co., Ltd.	23,842	1,798	-	-
USS-POSCO Industries	251,279	124,252	29	190
Poschrome(Proprietary). Ltd.	-	-	36,805	31,688
Others	69,935	9,819	3,570	128,563
	₩ 346,296	137,344	₩ 251,106	451,545
	₩ 5,779,203	3,303,594	₩ 3,248,076	2,773,818

(*1) Sales and others include sales and other operating income. Purchase and others include purchase and overhead cost.

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

(b) Significant transactions, which occurred in the ordinary course of business, with related companies the related account balances as of June 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

(in millions of Won)

	Receivables (*1)			Payables (*1)		
	2011	2010	January, 1 2010	2011	2010	January, 1 2010
Subsidiaries						
POSCO E&C Co., Ltd.	₩ 3,705	293	480	₩ 187,087	190,081	437,819
POSCO Processing&Service	158,121	129,133	114,783	41,134	6,842	2,696
POSCO Plantec	1,180	-	9	25,237	48,058	22,839
POSCO Coated & Color Steel Co., Ltd.	83,809	104,755	109,616	800	437	199
POSCO ICT Co., Ltd.	14	-	1	73,178	63,627	54,529
POSCO Chemtech Company Ltd.	37,235	33,743	6,880	88,879	62,669	66,008
POSCO TMC CO., LTD.	15,244	11,823	11,678	41	15	24
POSCOAST Co., Ltd.	19,974	19,065	17,492	8,241	8,255	7,572
Daewoo International Corp.	92,976	139,756	-	304	-	-
PNR Co., Ltd	912	2,656	644	6,333	3,886	-
POSCONST.CO.LTD	26,441	-	-	460	-	-
POSCO America Corporation	11,120	12,211	6,163	-	-	-
POSCO Asia Co., Ltd.	40,815	122,626	40,548	10,360	3,767	1,170
POSCO(Thailand) Co., Ltd.	17,501	25,919	18,376	-	-	-
Qingdao Pohang Stainless Steel Co., Ltd.	6,652	13,805	24,404	-	-	-
POSCO-Vietnam Co., Ltd.	642	683	95,781	-	-	-
POSCO-Japan Co., Ltd.	35,258	28,515	25,972	25	4,958	6,701
POS-India Pune Steel Processing Centre Pvt. Ltd.	6,749	10,412	12,356	-	-	-
POSCO-Mexico Co., Ltd.	140,570	80,443	16,247	-	-	-
Others	28,489	12,511	25,429	69,180	28,323	17,840
	₩ 727,407	748,349	526,859	₩ 511,259	420,918	617,397
Associates						
Posmate Co., Ltd.	₩ -	1,396	48	₩ 5,808	6,391	5,222
SNNC Co., Ltd.	136	182	1,974	19,059	57,512	26,963
USS-POSCO Industries	98,865	58,347	39,100	-	-	-
Others	7,269	7,231	176	609	29,714	78
	₩ 106,270	67,156	41,298	25,476	93,617	32,263
	₩ 833,677	815,505	568,157	₩ 536,735	514,535	649,660

(*1) Receivables include trade accounts and notes receivable and other receivables. Payables include trade accounts payable and other payables.

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

- (c) For the six-month periods ended June 30, 2011 and 2010, details of compensation to key management officers are as follows:

<i>(in millions of Won)</i>	2011	2010
Short-term benefits	₩ 8,995	8,114
Other long-term benefits	12,055	11,929
Retirement benefits	5,082	3,223
Share-based payment	(1,639)	(15,316)
	<u>₩ 24,493</u>	<u>7,950</u>

34. Commitments and Contingencies

- (a) The Company entered into a contract with Hanjin Shipping Co., Ltd., Hyundai Merchant Marine Co., Ltd., and others to use a transport ship for the transportation of raw materials and sales of product.
- (b) The Company has provided a supplemental funding agreement, as the largest shareholder, as requested from the creditors, including Korea Development Bank, for seamless funding to POSCO Power Corp. under construction of new power plants.
- (c) The Company entered into long-term contracts to purchase iron ore, coal, nickel and others. These contracts generally have terms of more than three years and provide for periodic price adjustments to the market price. As of June 30, 2011, 292 million tons of iron ore and 48 million tons of coal remained to be purchased under such long-term contracts.
- (d) The Company entered into an agreement with Tangguh Liquefied Natural Gas (LNG) Consortium in Indonesia regarding the commitment to purchase 550 thousand tons of LNG annually for 20 years commencing in August 2005. Purchase price is subject to change, following the change of the monthly standard oil price (JCC) and also price ceiling is applicable.
- (e) The Company has lease agreements for using a Ro-Ro (roll-on roll-off) ship and it is recorded as a finance lease. The Company is making payments of USD 11,583 thousands and ₩ 1,953 millions, 90% of the ship's fair value, for 12 years.
- (f) As of June 30, 2011, the Company entered into commitments with Korea National Oil Corporation for long-term foreign currency borrowings, which are limited up to the amount of USD 6.86 million and USD 3.54 million. The borrowings are related to the exploration of gas hydrates in Aral Sea, Uzbekistan and the exploration of gas hydrates in Namangan-Chust, respectively. The repayment of borrowings depends on the success of the projects. The Company is not liable for the repayment of full or part of the money borrowed if the respective project fails. The Company has agreed to pay a certain portion of its profits under certain conditions, as defined by borrowing agreements.

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

(g) Litigation in progress

The Company is involved in 11 lawsuits and claims for alleged damages aggregating to ₩ 11,107 million as of June 30, 2011 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 June 30, 2011.

(h) As of June 30, 2011, the Company has provided five blank promissory notes to Korea Resources Corporation as collateral for long-term domestic borrowings, and has provided six blank promissory notes to Korea National Oil Corporation as collateral for long-term foreign currency borrowings.

35. Cash Flows from Operating Activities

(a) Adjustments for operating cash flows for the six-month periods ended June 30, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Accrual of severance benefits	₩ 67,112	54,359
Other employee benefits	5,794	5,200
Depreciation	841,925	1,198,233
Depreciation of investment properties	1,578	1,067
Amortization	16,488	17,987
Reverse of bad debt expenses	(2,721)	(6,493)
Finance costs	206,372	452,142
Losses on disposal of property, plant, and equipment	30,320	23,396
Income tax expense	643,791	592,304
Finance income	(543,237)	(309,378)
Gains on disposal of property, plant and equipment	(7,052)	(6,173)
Others	4,246	(17,079)
	<u>₩ 1,264,616</u>	<u>2,005,565</u>

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

(b) Changes in operating assets and liabilities for the six-month periods ended June 30, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Financial assets held for trading	₩ 143,326	(8,154)
Trade accounts and notes receivable	(331,060)	(391,569)
Other accounts receivable	(38,938)	(28,421)
Advance payments	1,280	5,791
Prepaid expenses	(32,729)	(34,583)
Inventories	(1,146,160)	(2,034,569)
Long-term guarantee deposits	484	(383)
Trade accounts payable	109,145	814,429
Dividends Payable	(65)	(80)
Other accounts payable	30,209	(197,732)
Accrued expenses	(26,170)	352
Advances received	6,132	30,189
Withholdings	2,546	(3,886)
Unearned revenue	(1,907)	793
Other long-term liabilities	18,851	19,234
Payment severance benefits	(71,111)	(30,589)
Plan assets	(29,248)	(11,384)
	<u>₩ (1,365,415)</u>	<u>(1,870,562)</u>

36. Transition to K-IFRS

As stated in note 2, the financial statements are the separate interim financial statements prepared in accordance with K-IFRS 1101 'First-time Adoption of Korean International Financial Reporting Standards'.

The significant accounting policies stated in note 3 were applied to the separate interim financial statements for periods ended June 30, 2011 and 2010, the separate financial statements as comparative information for the year ended on December 31, 2010 and the separate statements of financial position as of January 1, 2010 (the date of transition).

(a) Exemptions elected from K-IFRS 1101 'First-time Adoption of Korean International Financial Reporting Standards' by the Company

The Company has elected to use one or more of the exemptions in accordance with K-IFRS 1101 for the preparation of statements of financial position at the date of transition and applied the following optional exemptions.

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

1) Business combination

The Company has not retrospectively applied the business combinations that took place prior to the date of transition to K-IFRS.

2) Deemed cost of property, plant and equipment

The Company has elected to use the revaluations prior to the date of transition to K-IFRS as deemed cost for certain items of property, plant and equipment and used the fair value at the date of transition as deemed cost for certain machinery and equipment.

3) Borrowing costs

The Company has capitalized borrowing costs to the qualifying assets for which the commencement date for capitalization is on or after the transition date to K-IFRS.

4) Investment in subsidiaries and associates

The Company has elected to use the carrying values of previous GAAP as deemed costs for the investment in subsidiaries and associates.

5) Share-based payment transactions

The Company has not retrospectively applied K-IFRS accounting requirements to cash-settled share-based payment transactions that took place prior to the date of transition to K-IFRS.

6) Leases

For arrangements existing at the date of transition to K-IFRS, the Company determined whether the arrangements were lease arrangements based on the facts and circumstances at the date of transition.

(b) The significant adjustments regarding transition to K-IFRS are as follows:

1) Defined benefit liabilities

Under previous GAAP, the Company recognized the amount of accrued severance benefits assuming all eligible employees and directors with at least one year of service were to terminate their employment as of the date of the statement of financial position. Under K-IFRS, the Company recognized the defined benefit obligations based on actuarial assumptions.

2) Derecognition of financial assets

Under previous GAAP, the Company derecognized financial assets such as trade accounts and notes receivable when transferred to certain financial institutions. Under K-IFRS, if the Company retains substantially all the risks and rewards of ownership of the financial assets, the financial assets are not derecognized.

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

3) Tax effect

Under previous GAAP, the Company recognized deferred tax assets or deferred tax liabilities as the difference between the book and tax basis of its investments in subsidiaries and others. However, under K-IFRS, the Company recognizes deferred tax assets or deferred tax liabilities based upon how the temporary differences will be realized.

(c) Effects on financial position, financial performance and cash flows due to the transition to K-IFRS

1) Reconciliations of the financial position as of January 1, 2010 (the date of transition)

(in millions of Won)

	<u>Total Assets</u>	<u>Total Liabilities</u>	<u>Total Shareholders' Equity</u>
Previous GAAP	₩ 39,992,765	9,041,474	30,951,291
Adjustments :			
Derecognition of financial assets	267,874	268,444	(570)
Revaluation of machinery and equipment(*1)	1,871,636	-	1,871,636
Financial guarantee liabilities	15,210	15,210	-
Defined benefit liabilities	-	31,636	(31,636)
Other adjustment	(6,731)	2,950	(9,681)
Deferred tax effect	(286,075)	(162,281)	(123,794)
Total adjustment	1,861,914	155,959	1,705,955
K-IFRS	₩ 41,854,679	9,197,433	32,657,246

(*1) Acquisition costs and accumulated depreciation of machinery and equipment were decreased by ₩ 4,017,435 million and ₩ 5,889,071 million due to revaluation.

2) Reconciliation of financial position as of June 30, 2010 and the financial performance for the six-month periods ended June 30, 2010:

(in millions of Won)

	<u>Total Assets</u>	<u>Total Liabilities</u>	<u>Total Shareholders' Equity</u>	<u>Net Income</u>	<u>Total Comprehensive Income</u>
Previous GAAP	₩ 44,474,914	11,459,359	33,015,555	2,633,481	2,532,099
Adjustments :					
Derecognition of financial assets	249,947	250,237	(290)	280	280
Revaluation of machinery and equipment	1,743,542	-	1,743,542	(128,094)	(128,094)
Financial guarantee liabilities	13,231	13,895	(664)	(664)	(664)
Defined benefit liabilities	(4,633)	(3,574)	(1,059)	61,034	30,578
Cancellation of equity method application	(165,682)	-	(165,682)	(74,708)	(113,404)
Other adjustment	(6,557)	(1,344)	(5,213)	4,468	4,468
Deferred tax effect	(248,183)	(139,639)	(108,544)	(18,619)	(4,150)
Total adjustment	1,581,665	119,575	1,462,090	(156,303)	(210,986)
K-IFRS	₩ 46,056,579	11,578,934	34,477,645	2,477,178	2,321,113

POSCO
Notes to Separate Interim Financial Statements, Continued
As of June 30, 2011
(Unaudited)

3) Reconciliation of financial position as of December 31, 2010 and the financial performance for the year ended December 31, 2010:

(in millions of Won)

	<u>Total Assets</u>	<u>Total Liabilities</u>	<u>Total Shareholders' Equity</u>	<u>Net Income</u>	<u>Total Comprehensive Income</u>
Previous GAAP	₩ 48,190,245	13,108,055	35,082,190	4,202,791	4,807,073
Adjustments :					
Derecognition of financial assets	220,865	221,086	(221)	349	349
Revaluation of machinery and equipment	1,567,064	-	1,567,064	(304,573)	(304,573)
Financial guarantee liabilities	15,835	15,595	240	240	240
Defined benefit liabilities	(4,022)	31,980	(36,002)	126,149	(4,366)
Cancellation of equity method application	(653,545)	-	(653,545)	(300,144)	(604,679)
Other adjustment	(4,460)	(1)	(4,459)	5,221	5,221
Deferred tax effect	(245,755)	(313,984)	68,229	54,328	160,280
Total adjustment	<u>895,982</u>	<u>(45,324)</u>	<u>941,306</u>	<u>(418,430)</u>	<u>(747,528)</u>
K-IFRS	<u>₩ 49,086,227</u>	<u>13,062,731</u>	<u>36,023,496</u>	<u>3,784,361</u>	<u>4,059,545</u>

Interest received, interest paid and income taxes paid which were presented using indirect method under the previous GAAP are presented using direct method as separate line items of cash flows from operating activities under K-IFRS. Also, effect of exchange rate fluctuations on cash held which were presented as cash flows from operating activities under the previous GAAP are presented as a separate line item from cash flows from operating, investing and financing activities.