

POSCO

Separate Interim Financial Statements

(Unaudited)

September 30, 2011

(With Independent Auditors' Review Report Thereon)

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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 statements of financial position of POSCO (the "Company") as of September 30, 2011, December 31, 2010, January 1, 2010 and separate statements of comprehensive income (loss) for the three-month and nine-month periods ended September 30, 2011 and 2010, changes in equity and cash flows for the nine-month periods ended September 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 the separate interim financial information in accordance with Korean International Financial Reporting Standards ("K-IFRS") 1034 *Interim Financial Reporting*, and for such internal controls as management determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' review responsibility

Our responsibility is to issue a report on this separate interim financial information based on our reviews.

We conducted our reviews in accordance with the Review Standards for Quarterly and 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 reviews, 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*.

Highlights

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

As discussed in note 3, the Company prepared the separate interim financial information in accordance with accounting policies effective at the reporting date, which it plans to apply for its first annual financial statements as of and for the year ending December 31, 2011. However, the Group may change its accounting policies when preparing its first annual financial statements, as permitted by K-IFRS.

Seoul, Korea
November 25, 2011

This report is effective as of November 25, 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.

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

<i>(in millions of Won)</i>	Notes	September 30, 2011	December 31, 2010	January 1, 2010
Assets				
Cash and cash equivalents	5,19	₩ 1,219,753	672,426	626,782
Trade accounts and notes receivable, net	6,19,33	4,143,876	3,548,448	2,951,783
Other short-term financial assets	7,19,33	1,173,784	2,754,319	6,304,563
Inventories	8	7,305,877	5,998,545	2,996,325
Other current assets	9	79,957	19,867	20,409
Total current assets		13,923,247	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	7,19,33	4,277,538	5,015,783	4,438,130
Investments in subsidiaries and associates	10	12,392,338	10,470,156	5,787,831
Investment property, net	11	118,183	92,273	104,362
Property, plant and equipment, net	12	21,050,582	20,011,110	18,412,868
Intangible assets, net	13	234,062	229,137	201,614
Other long-term assets	9	354,935	274,139	8,706
Total non-current assets		38,427,662	36,092,622	28,954,817
Total assets		₩ 52,350,909	49,086,227	41,854,679

See accompanying notes to separate interim financial statements (unaudited).

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

(in millions of Won)

	Notes	September 30, 2011	December 31, 2010	January 1, 2010
Liabilities				
Trade accounts payable	19,33	₩ 1,488,539	1,310,877	739,746
Short-term borrowings	14,19	3,675,526	3,116,364	699,849
Other short-term financial liabilities	15,19,33	889,794	958,081	1,157,314
Current income tax liabilities	30	140,495	594,539	290,638
Provisions	16	34,086	9,582	5,154
Other current liabilities	18	70,072	62,011	61,636
Total current liabilities		6,298,512	6,051,454	2,954,337
Long-term borrowings	14,19	8,320,119	6,296,633	5,681,243
Other long-term financial liabilities	15,19	156,859	52,166	100,757
Employee benefits	17	192,494	324,003	216,823
Deferred tax liabilities	30	314,703	334,199	237,995
Other long-term liabilities	18	3,628	4,276	6,278
Total non-current liabilities		8,987,803	7,011,277	6,243,096
Total liabilities		15,286,315	13,062,731	9,197,433
Shareholders' Equity				
Share capital	20	482,403	482,403	482,403
Capital surplus	20	1,227,692	1,158,539	1,158,539
Reserves	21	334,555	1,011,557	634,571
Treasury shares	22	(2,391,406)	(2,403,263)	(2,403,263)
Retained earnings		37,411,350	35,774,260	32,784,996
Total shareholders' equity		37,064,594	36,023,496	32,657,246
Total liabilities and shareholders' equity		₩ 52,350,909	49,086,227	41,854,679

See accompanying notes to separate interim financial statements (unaudited).

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

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

	Notes	For the three- month periods ended September 30		For the nine- month periods ended September 30	
		2011	2010	2011	2010
Revenue	24,33	₩ 9,961,453	8,524,040	29,105,542	23,406,262
Cost of sales	28,33	(8,386,885)	(7,065,177)	(24,241,008)	(18,017,211)
Gross profit		1,574,568	1,458,863	4,864,534	5,389,051
Selling and administrative expenses					
Administrative expenses	25,28	(221,377)	(190,210)	(638,108)	(523,058)
Selling expenses	25,28	(243,393)	(197,438)	(667,476)	(563,667)
Other operating income	27,33	10,761	9,305	31,408	64,278
Other operating expenses	27,28	(33,901)	(54,780)	(86,732)	(100,754)
Operating profit	32	1,086,658	1,025,740	3,503,626	4,265,850
Financial income and costs					
Financial income	19,29	44,415	294,192	772,538	825,908
Financial costs	19,29	(875,643)	(113,589)	(1,203,789)	(815,932)
Profit before income tax expense		255,430	1,206,343	3,072,375	4,275,826
Income tax expense	30	(6,927)	(264,798)	(650,718)	(857,102)
Profit for the period		248,503	941,545	2,421,657	3,418,724
Other comprehensive income (loss), net of tax					
Net changes in fair value of available-for-sale investments	21	(319,009)	118,405	(677,002)	(13,904)
Defined benefit plan actuarial loss	17	(49,319)	(75,995)	(13,709)	(99,752)
Total comprehensive income (loss), net of tax		₩ (119,825)	983,955	1,730,946	3,305,068
Basic earnings per share	31	₩ 3,217	12,223	31,347	44,380

See accompanying notes to separate interim financial statements (unaudited).

POSCO
Separate Statements of Changes in Equity
For the nine-month periods ended September 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		-	-	-	-	3,418,724	3,418,724
Net changes in fair value of available-for-sale investments, net of tax		-	-	(13,904)	-	-	(13,904)
Defined benefit plan actuarial losses, net of tax		-	-	-	-	(99,752)	(99,752)
Transactions with owners of the Company, recognized directly in equity :							
Year-end dividends		-	-	-	-	(500,714)	(500,714)
Interim dividend		-	-	-	-	(192,582)	(192,582)
Balance as of September 30, 2010	₩	482,403	1,158,539	620,667	(2,403,263)	35,410,672	35,269,018
		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)	35,774,260	36,023,496
Comprehensive income :							
Profit for the period		-	-	-	-	2,421,657	2,421,657
Net changes in fair value of available-for-sale investments, net of tax		-	-	(677,002)	-	-	(677,002)
Defined benefit plan actuarial losses, net of tax		-	-	-	-	(13,709)	(13,709)
Transactions with owners of the Company, recognized directly in equity :							
Year-end dividends		-	-	-	-	(577,747)	(577,747)
Interim dividend		-	-	-	-	(193,111)	(193,111)
Acquisition of treasury shares		-	-	-	(61,296)	-	(61,296)
Disposal of treasury shares		-	69,153	-	73,153	-	142,306
Balance as of September 30, 2011	₩	482,403	1,227,692	334,555	(2,391,406)	37,411,350	37,064,594

See accompanying notes to separate interim financial statements.

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

<i>(in millions of Won)</i>	<u>Note</u>	<u>2011</u>	<u>2010</u>
Cash flows from operating activities			
Cash generated from operations	₩	2,937,195	3,586,603
Profit for the period		2,421,657	3,418,724
Adjustments	35	2,571,779	2,828,444
Changes in operating assets and liabilities	35	(2,056,241)	(2,660,565)
Interest received		97,273	215,699
Interest paid		(275,107)	(217,142)
Dividends received		233,921	127,707
Income taxes paid		(935,180)	(522,471)
Net cash provided by operating activities		<u>2,058,102</u>	<u>3,190,396</u>
Cash flows from investing activities			
Disposal of short-term financial instruments		4,347,602	15,413,389
Disposal of available-for-sale investments		4,052	126,196
Disposal of held-to-maturity investments		-	20,000
Decrease in long-term loans		10,587	-
Disposal of investments in subsidiaries and associates		93	-
Disposal of property, plant and equipment		11,775	21,848
Acquisition of short-term financial investments		(2,804,951)	(12,592,311)
Increase in short-term loans		-	(6,100)
Acquisition of available-for-sale financial assets		(175,914)	(53,787)
Increase in long-term loans		(11,551)	(19,134)
Acquisition of investments in subsidiaries and associates		(1,819,427)	(3,777,819)
Acquisition of property, plant and equipment		(2,306,996)	(3,165,025)
Cost of removal of property, plant and equipment		(10,609)	(29,550)
Acquisition of intangible assets		(17,375)	(14,978)
Others		(77,843)	(445,642)
Net cash used in investing activities		<u>(2,850,557)</u>	<u>(4,522,913)</u>
Cash flows from financing activities			
Proceeds from borrowings		4,717,331	3,173,613
Increase in long-term financial liabilities		2,556	18,113
Disposal of treasury shares		164,384	-
Repayment of borrowings		(2,707,496)	(1,500,989)
Decrease in long-term financial liabilities		(4,831)	(65,528)
Acquisition of treasury shares		(61,296)	-
Payment of cash dividends		(770,858)	(693,296)
Net cash provided by financing activities		<u>1,339,790</u>	<u>931,913</u>
Net increase (decrease) in cash and cash equivalents		547,335	(400,604)
Cash and cash equivalents at beginning of the period		672,426	626,782
Exchange losses on cash and cash equivalents		(8)	(108)
Cash and cash equivalents at end of the period	₩	<u><u>1,219,753</u></u>	<u><u>226,070</u></u>

See accompanying notes to separate interim financial statements (unaudited).

POSCO
Notes to Separate Interim Financial Statements
As of September 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 September 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 Audits 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 annual K-IFRS financial statements.

The Company’s date of transition to K-IFRS in accordance with K-IFRS No. 1101 *First-time adoption of K-IFRS*, is January 1, 2010, and the effect of the transition from Korean Generally Accepted Accounting Principles (“K-GAAP”) to K-IFRS on the Group’s reported financial position and financial performance is explained in note 36.

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

Basis of measurement

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

- 1) Derivatives are measured at fair value
- 2) Financial instruments at fair value through profit or loss (FVTPL) are measured at fair value
- 3) Available-for-sale financial assets are measured at fair value
- 4) The liability for a cash settled stock appreciation rights is measured at fair value
- 5) Employee benefits are measured at the present value of the defined benefit obligation less the fair value of the plan assets

Functional and presentation currency

These interim 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. 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 September 30, 2011
(Unaudited)

3. Summary of Significant Accounting Policies

The significant accounting policies applied by the Company in preparation of its separate interim financial statements are included below. The accounting policies applied for the separate interim financial statements may be changed by management if considered necessary in the course of preparing its first annual separate financial statements in accordance with K-IFRS for the year ending December 31, 2011.

Investments in subsidiaries and associates

The Company applied the cost method to investments in subsidiaries and associates in accordance with K-IFRS 1027. The carrying amount under previous GAAP is considered to be the deemed cost of investments in subsidiaries and associates on the date of transition to K-IFRS. Dividends from a subsidiary or associate are recognized in profit or loss when the rights to receive the dividends are 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 comprise cash on hand, checking accounts, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Equity investments are excluded from cash and cash equivalents.

POSCO
Notes to Separate Interim Financial Statements, Continued
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(Unaudited)

Non-derivative financial assets

The Company recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Company recognizes financial assets in the separate statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

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

Financial assets are classified at fair value through profit or loss if they are held for trading or designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when 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

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Company has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

(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, loans and receivables are measured at amortized cost using the effective interest method except for loans and receivables of which the effect of discounting is immaterial.

(d) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, with changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. 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 that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost. When a financial asset is derecognized or impairment losses are recognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Dividends on an available-for-sale equity instrument are recognized in profit or loss when the Company's right to receive payment is established.

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Notes to Separate Interim Financial Statements, Continued
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(e) Derecognition of non-derivative financial assets

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 flows 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

Financial assets and financial liabilities are offset and the net amount is presented in the separate statement of financial position only when the Company currently has a legally enforceable right to offset the recognized amounts, and there is the intention 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 is recognized as cost of goods sold in the period in which the related revenue is recognized. Inventories are measured at the lower of cost and net realizable value. 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 is 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

Property held for the purpose of earning rentals is classified as investment property. Investment property is measured initially at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

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Notes to Separate Interim Financial Statements, Continued
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(Unaudited)

Property, plant and equipment

Property, plant and equipment are initially measured at cost and after initial recognition, are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. In addition, in the preparation of the opening K-IFRS separate statement of financial position on the date of transition to K-IFRS, the Company measures certain machinery and equipment at fair value at the date of transition, which is deemed cost, in accordance with K-IFRS 1101.

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

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Notes to Separate Interim Financial Statements, Continued
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(Unaudited)

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

Buildings	20-40 years
Structures	20-40 years
Machinery and equipment	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 utilization, 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 nine-month period ended September 30, 2011, the depreciation costs decreased by ₩ 899,944 million as a result of this change in the useful life.

Borrowing costs

The Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. 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. The Company immediately recognizes other borrowing costs as an expense. To the extent that the Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Company shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset.

The capitalization rate shall be 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 shall not exceed the amount of borrowing costs incurred during that period.

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

Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which club memberships are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

Intellectual property rights	5-10 years
Port facilities usage rights	2-75 years
Development expenses	4 years
Other intangible assets	4-20 years

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

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

Government grants

Government grants are not recognized unless there is reasonable assurance that the Company will comply with the grant's conditions and that the grant will be received.

(a) Grants related to assets

Government grants whose primary condition is that the Company purchase, construct or otherwise acquire long-term assets are deducted in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the life of a depreciable asset as reduced depreciation expense.

(b) Grants related to income

Government grants which are intended to give immediate financial support to the Company with no future related costs are recognized as government grant income in profit or loss.

Leases

The Company classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. 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 the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. 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 Company adopts for depreciable assets that are owned. If there is no reasonable certainty that the Company 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. The Company reviews the indication of whether the leased asset may be impaired each reporting period.

(b) Operating leases

Lease obligations under operating leases are recognized as an expense on a straight-line basis over the lease term. Contingent rents are charged as expenses in the periods in which they are incurred.

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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 that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following events:

- (a) significant financial difficulty of the issuer or obligor
- (b) a breach of contract, such as a default or delinquency in interest or principal payments
- (c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider
- (d) it becoming probable that the borrower will enter bankruptcy or other financial reorganization
- (e) the disappearance of an active market for that financial asset because of financial difficulties
- (f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

For an investment in an equity instrument classified as available for sale, in addition to the above events, the Company considers an additional objective evidence of impairment when the fair value of an investment declines below its cost significantly and steadily.

If financial assets have objective evidence that they are impaired, impairment losses are measured and recognized.

- (a) Financial assets carried at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Company can recognize impairment losses directly or establish a provision to cover impairment losses. 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 (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

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(b) Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss 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.

(c) Available-for-sale financial assets

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 shall be 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 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 shall be reversed, with the amount of the reversal recognized in profit or loss.

Impairment for non-financial assets

The carrying amounts of the Company's non-financial assets, other than assets arising from employee benefits, inventories, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Company estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Company estimates the recoverable amount of cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value-in-use and its fair value less costs to sell. The value-in-use is estimated by applying a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

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Non-derivative financial liabilities

The Company classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Company recognizes financial liabilities in the separate statement of financial position when the Company becomes a party to the contractual provisions of the financial liability.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

Non-derivative financial liabilities other than financial liabilities at fair value through profit of loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Company derecognizes a financial liability when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

Derivative financial instruments

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss.

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria has been met: (a) the economic characteristics and risks of the host contract and the embedded derivatives are not clearly and closely related to a separate instrument with the same terms as the embedded derivative that would meet the definition of a derivative, and (b) the hybrid (combined) instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

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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.

(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 (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund.

(c) Post-employment benefit: Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method.

The discount rate is the yield at the reporting date on corporate bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Company recognizes all actuarial gains and losses arising from actuarial assumption changes and experiential adjustments in other comprehensive income when incurred.

When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Company recognizes an asset to the extent of the total of cumulative unrecognized past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

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Past service costs, which are the change in the present value of the defined benefits obligation for employee service in prior periods, resulting in the current period from the introduction of, or change to post-employment benefits, are recognized as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the Company recognizes the past service cost immediately.

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.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of 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, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. 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.

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Share capital

Common stock is classified as equity and the incremental costs arising directly attributable to the issuance of common stock, less their 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.

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.

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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.

(b) Deferred tax

Deferred tax is recognized, using the asset-liability method, 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. 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 they can be utilized. However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

The Company recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries and associates except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Company recognizes a deferred tax asset for deductible temporary differences arising from investments in subsidiaries and associates, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced 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 that 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 end of the reporting period. 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 end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

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Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

Earnings per share

The Company calculates basic earnings per share (“EPS”) data for its ordinary shares, which is presented 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.

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4. Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk.

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 risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

(a) Risk management policy

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(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 receivables from customers and investment securities. 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 main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for companies of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

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(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 another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company's cash flow from business, borrowing or financing is sufficient to meet the cash requirement for the Company's strategy investments. The Company believes that it is capable of raising funds by borrowing or financing if the Company is not able to generate cash flow requirements from 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 to use a natural hedge whereby foreign currency income is utilized for foreign currency expenditures. Remaining net exposures after the natural hedge are hedged using derivative contracts such as forward exchange contracts. The Company's management monitors currency risk regularly for hedging foreign exchange exposure.

2) Interest rate risk

The Company mostly borrows at fixed interest rates. The Company's management monitors interest rate risks regularly.

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(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 September 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	11,995,645	9,412,997	6,381,092
Less: Cash and cash equivalents	<u>1,219,753</u>	<u>672,426</u>	<u>626,782</u>
Net borrowings	10,775,892	8,740,571	5,754,311
Total shareholders' equity	37,064,594	36,023,496	32,657,246
Net borrowings-to-equity ratio	29.07%	24.26%	17.62%

5. Cash and Cash Equivalents

Cash and cash equivalents as of September 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	₩ 2,111	886	817
Time deposits	752,842	300,000	380,465
Money market trust	344,800	111,500	228,700
Money market funds	120,000	260,040	-
Other cash and cash equivalents	-	-	16,800
	<u>₩ 1,219,753</u>	<u>672,426</u>	<u>626,782</u>

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6. Trade Accounts and Notes Receivable

Trade accounts and notes receivable as of September 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	₩ 4,145,822	3,553,135	2,963,035
Less: Allowance for doubtful accounts	(1,946)	(4,687)	(11,252)
	<u>4,143,876</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>₩ 4,143,900</u>	<u>3,548,472</u>	<u>2,953,089</u>

Borrowings includes the trade accounts and notes receivable sold to financial institutions, for which the derecognition conditions were not met, amounting to ₩ 392,062 million, ₩ 220,866 million and ₩ 267,874 million as of September 30, 2011, December 31, 2010 and January 1, 2010, respectively.

7. Other Financial Assets

(a) Other short-term financial assets as of September 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>
Financial assets at fair value through profit or loss			
Financial assets held for trading	₩ 30,018	182,208	795,811
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	822,182	2,362,621	5,280,927
Cash deposits (*1)	11,888	14,101	10,666
Other accounts receivable, net	311,147	174,965	137,560
Accrued income	7,644	28,888	49,987
Other checking accounts	1,476	147	-
Allowance account for credit losses	(10,571)	(10,589)	(10,618)
	<u>₩ 1,173,784</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.

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(b) Other long-term financial assets as of September 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)	₩ 22	11	104,895
Long-term available-for-sale equity securities	4,192,499	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)	29,884	29,830	31,675
Loan and other receivable			
Cash deposits (*1)	40	40	40
Long-term loans	64,402	63,437	24,554
Long-term other accounts receivable	2,957	3,122	3,321
Deposits	1,687	2,213	1,770
Allowance account for credit losses	(14,453)	(14,487)	(17)
	<u>₩ 4,277,538</u>	<u>5,015,783</u>	<u>4,438,130</u>

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

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(c) Long-term available-for-sale equity securities as of September 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	820,409	972,351	1,128,734
KB Finacial group Inc.	15,454,067	4.00	715,356	623,572	786,950	783,015
SK Telecom Co., Ltd. (*1)	4,528,117	5.61	1,250,656	676,648	809,280	743,845
Hyundai Heavy Industries Co.,Ltd	1,477,000	1.94	343,506	415,037	654,311	256,260
MacArthur Coal Limited	21,215,700	7.02	420,805	388,562	314,446	249,431
Shinhan Financial group Inc.	4,369,881	0.92	228,778	183,535	231,167	188,779
Hana Financial group Inc.	4,663,776	1.92	29,998	163,232	201,942	153,438
Thainox Public Stainless Co., Ltd. (*2)	-	-	-	-	70,724	79,191
Others (12 companies)			155,357	149,923	154,189	67,658
			3,864,078	3,420,918	4,195,360	3,650,351
Non-marketable equity securities						
Nacional Minerios S.A. (*3)	30,784,625	6.48	668,635	557,191	534,734	535,357
The Siam United Steel (*3)	11,071,000	12.30	34,658	67,902	69,013	65,135
Others (25 companies) (*4)			154,197	146,488	132,010	20,549
			857,490	771,581	735,757	621,041
			₩ 4,721,568	4,192,499	4,931,117	4,271,392

(*1) As of September 30, 2011, 2,186,546 shares equivalent to 19,678,919 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) In 2011, it was reclassified to investment in subsidiaries and associates as the Company acquired an additional 69.21% of the ownership from the major stockholders and others.

(*3) The fair value of the corporation is based on an analysis performed by an external professional evaluation agency.

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

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8. Inventories

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

<i>(in millions of Won)</i>	2011	2010	January 1, 2010
Finished goods	₩ 958,520	698,219	344,191
Semi-finished goods	1,868,823	1,441,128	843,720
By-products	7,252	5,542	4,281
Raw materials	1,760,690	1,704,831	696,492
Fuel and materials	565,257	524,077	405,003
Materials-in-transit	2,146,526	1,624,765	702,807
Others	569	576	522
	<u>7,307,637</u>	<u>5,999,138</u>	<u>2,997,016</u>
Allowance for inventories valuation	(1,760)	(593)	(691)
	<u>₩ 7,305,877</u>	<u>5,998,545</u>	<u>2,996,325</u>

The amount of valuation loss of inventories recognized as a cost of goods sold during the nine-month periods ended September 30, 2011 is ₩ 1,760 million.

9. Other Assets

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

<i>(in millions of Won)</i>	2011	2010	January 1, 2010
Other current assets			
Advance payments	₩ 4,896	6,218	11,943
Prepaid expenses	75,061	13,649	8,466
	<u>79,957</u>	<u>19,867</u>	<u>20,409</u>
Other long-term assets			
Long-term prepaid expenses	9,786	10,687	5,332
Dishonored receivables	13	13	13
Others (*1)	345,149	263,459	4,033
Less : Allowance for doubtful accounts	(13)	(20)	(672)
	<u>₩ 354,935</u>	<u>274,139</u>	<u>8,706</u>

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

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10. Investments in Subsidiaries and Associates

(a) Investments in subsidiaries and associates as of September 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	₩ 11,305,644	9,662,423	5,260,593
Associates	1,086,694	807,733	527,238
	<u>₩ 12,392,338</u>	<u>10,470,156</u>	<u>5,787,831</u>

(b) Details of subsidiaries and carrying values as of September 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	66.56	₩ 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	85.71	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
POSCO AST 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)				354,237	307,147	213,375
				<u>₩ 7,551,936</u>	<u>7,314,953</u>	<u>3,337,767</u>

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(in millions of Won)

[Foreign]	Country	Principal operations	Ownership (%)		2011	2010	January 1, 2010
POSCO-Thainox Co., Ltd.(*2)	Thailand	Stainless steel manufacturing	84.60	₩	549,697	-	-
PT. KRAKATAU STEEL POSCO	Indonesia	Steel manufacturing and Sales	70.00		378,923	1,625	-
POSCO Australia Pty. Ltd.	Australia	Steel sellings and mine development	100.00		330,623	330,623	330,623
Zhangjiagang Pohang Stainless Steel Co., Ltd.	China	Stainless steel manufacturing	58.60		285,775	283,845	283,845
POSCO WA Pty. Ltd.	Australia	Mine development	100.00		232,069	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		196,326	84,442	63,872
POSCO-India Private Ltd.	India	Steel manufacturing and Sales	100.00		184,815	108,538	108,538
Guangdong Pohang Coated Steel Co., Ltd.	China	Plate steel manufacturing	84.52		163,355	64,876	31,299
POSCO-Vietnam Co., Ltd.	Vietnam	Steel manufacturing	85.00		157,527	158,806	159,629
POSCO VST Co., Ltd.	Vietnam	Stainless steel manufacturing	95.65		145,694	105,348	71,901
POSCO America Corp.	USA	Trading-Steel	99.45		117,489	117,489	113,510
POSCO Investment Co., Ltd.	Hong Kong	Finance	100.00		89,719	92,884	94,629
POSCO-Mexico Co., Ltd.	Mexico	Plate steel manufacturing	84.67		86,204	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	100.00		65,982	65,982	65,982
POSCO-CSPC Co., Ltd.	China	Steel manufacturing and Sales	90.00		62,494	49,429	49,429
Others (34 companies)					415,144	338,268	210,139
					3,753,708	2,347,470	1,922,826
				₩	11,305,644	9,662,423	5,260,593

(*1) In 2011, this investment 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.

(*2) In 2011, it was reclassified to investment in subsidiaries from an available-for-sale investment as the Company acquires an additional 69.21% of the ownership from the major stockholders and others.

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

(in millions of Won)

[Domestic]	Country	Principal operations	Ownership (%)		2011	2010	January 1, 2010
Sungjin Geotec Co., Ltd.	Korea	Industrial machinery manufacturing	26.34	₩	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 (4 companies)					20,076	26,910	18,384
					280,609	394,721	125,028
[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
BX Steel POSCO Cold Rolled Sheet Co., Ltd.	China	Steel manufacturing and Sales	25.00		64,061	64,383	65,029
Others (11 companies)					89,256	60,470	49,022
					806,085	413,012	402,210
				₩	1,086,694	807,733	527,238

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11. Investment Property, Net

(a) Investment property as of September 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	₩ 166,444	121,666	135,350
Accumulated depreciation	(48,261)	(29,393)	(30,988)
Book value	<u>₩ 118,183</u>	<u>92,273</u>	<u>104,362</u>

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

1) For the nine-month period ended September 30, 2011

(in millions of Won)

	<u>Beginning</u>	<u>Acquisition</u>	<u>Disposal</u>	<u>Depreciation (*1)</u>	<u>Others (*2)</u>	<u>Ending</u>
Land	₩ 41,877	₩ -	₩ -	₩ -	₩ 1,381	₩ 43,258
Buildings	48,514	86	(153)	(2,238)	23,284	69,493
Structures	1,882	-	-	(147)	3,697	5,432
Total	<u>₩ 92,273</u>	<u>₩ 86</u>	<u>₩ (153)</u>	<u>₩ (2,385)</u>	<u>₩ 28,362</u>	<u>₩ 118,183</u>

(*1) The useful life and depreciation method of investment property are 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 and the purpose of use.

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 life and depreciation method of investment property are 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 and the purpose of use.

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12. Property, Plant and Equipment, Net

(a) Property, plant and equipment as of September 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	₩ 41,785,321	39,666,445	35,918,640
Less : Accumulated depreciation	<u>(20,734,739)</u>	<u>(19,655,335)</u>	<u>(17,505,772)</u>
	<u>₩ 21,050,582</u>	<u>20,011,110</u>	<u>18,412,868</u>

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

1) For the nine-month period ended September 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	₩ 208,565	₩ (948)	₩ -	₩ (1,381)	₩ 1,274,530
Buildings	2,502,213	487,510	(2,458)	(168,407)	(23,067)	2,795,791
Structures	1,942,405	189,380	(7,081)	(115,876)	(6,343)	2,002,485
Machinery and equipment	11,736,629	2,153,868	(22,252)	(963,298)	2,429	12,907,376
Vehicles	22,753	3,109	(1)	(6,300)	-	19,561
Tools	27,807	19,769	(2)	(10,215)	-	37,359
Furniture and fixtures	66,345	21,446	(1)	(18,203)	-	69,587
Lease assets	8,918	-	-	(478)	-	8,440
Construction-in-progress	2,635,746	2,396,745	-	-	(3,097,038)	1,935,453
Total	<u>₩ 20,011,110</u>	<u>₩ 5,480,392</u>	<u>₩ (32,743)</u>	<u>₩ (1,282,777)</u>	<u>₩ (3,125,400)</u>	<u>₩ 21,050,582</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 ₩ 3,083,647 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>

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- (*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.
- c) Borrowing costs capitalized and the capitalized interest rate for the nine-month period ended September 30, 2011 and the year ended December 31, 2010 are as follows:

<i>(in millions of Won)</i>	2011	2010
Borrowing costs capitalised	₩ 12,507	₩ 2,275
Capitalisation rate	4.66%	4.72%

13. Intangible Assets, Net

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

<i>(in millions of Won)</i>	2011	2010	January 1, 2010
Acquisition cost	₩ 883,502	853,218	946,417
Less : Accumulated depreciation	(649,440)	(624,081)	(744,803)
	<u>₩ 234,062</u>	<u>229,137</u>	<u>201,614</u>

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

- 1) For the nine-month period ended September 30, 2011:

<i>(in millions of Won)</i>	Beginning	Increase		Decrease		Ending
	Acquisition (*2)	Development	Disposal	Depreciation		
Intellectual property rights	₩ 4,919	1,341	-	(144)	(532)	5,584
Membership (*1)	56,494	-	-	(214)	-	56,280
Development expense	32,308	-	7,530	-	(10,388)	29,450
Port facilities usage rights	112,683	-	-	-	(9,871)	102,812
Other intangible assets	22,733	21,895	-	-	(4,692)	39,936
	<u>₩ 229,137</u>	<u>23,236</u>	<u>7,530</u>	<u>(358)</u>	<u>(25,483)</u>	<u>234,062</u>

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

(*2) Includes acquisition cost transferred from construction-in-progress amounting to ₩13,391 million.

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2) For the year ended December 31, 2010

(in millions of Won)

		Beginning	Increase		Decrease		Ending
			Acquisition(*2)	Development	Disposal	De pre ciation	
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 September 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	₩	2,093,727	1,339,937	698,784
Current portion of long-term borrowings		6,173	750	-
Current portion of loans from foreign financial institutions		1,019	963	1,065
Current portion of debentures		1,575,627	1,777,956	-
Less : Current portion of discount on debentures issued		(1,020)	(3,242)	-
		<u>3,675,526</u>	<u>3,116,364</u>	<u>699,849</u>
Long-term borrowings				
Long-term borrowings		903,319	467,378	80,831
Foreign loan		3,550	4,074	5,572
Debentures		7,473,044	5,872,258	5,649,690
Less : Discount on debentures issued		(82,031)	(58,215)	(64,917)
Add : Premium on debentures redemption		22,237	11,138	10,067
		<u>8,320,119</u>	<u>6,296,633</u>	<u>5,681,243</u>
	₩	<u>11,995,645</u>	<u>9,412,997</u>	<u>6,381,092</u>

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

(in millions of Won)

Bank	Issuance date	Maturity date	Annual interest rate (%)		2011	2010	January 1, 2010
Mizho	2011.09.23	2012.03.26	1.28~1.29	₩	195,602	-	-
SOCIETE	2011.04.06	2011.10.04	1.01		67,817	-	-
SMBC	2011.09.09	2012.03.19	0.89~1.07		110,181	-	-
JP Morgan	2011.04.06	2011.11.17	0.98~1.01		168,405	120,423	-
ING	2011.07.11	2011.10.07	0.80		117,891	131,321	77,711
HSBC	2011.07.22	2011.11.09	0.85~1.08		234,214	224,586	38,590
DEUTSCHE	2011.08.16	2011.12.27	0.95~0.99		119,987	111,686	-
DBS	2011.04.06	2012.03.20	0.95~1.28		352,577	-	-
CA	2011.07.07	2012.01.03	0.95		109,403	106,751	-
BNP	2011.06.21	2011.12.27	0.94~0.95		225,588	106,631	-
ANZ and others					-	317,673	314,609
Others (discount on accounts receivable)					392,062	220,866	267,874
				₩	<u>2,093,727</u>	<u>1,339,937</u>	<u>698,784</u>

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

(in millions of Won)

	Borrowers	Issuance date	Maturity date	Annual interest rate (%)		2011	2010	January 1, 2010
Borrowings	Korea Resources Corporation	2006.10.31	2021.09.15	1.50	₩	3,000	750	-
Borrowings	Korea Resources Corporation	2006.12.28	2021.12.15	1.50		1,133	-	-
Borrowings	Woori Bank	2009.06.11	2017.03.15	2.50		1,327	-	-
Borrowings	Woori Bank	2009.11.26	2017.03.15	2.50		440	-	-
Borrowings	Woori Bank	2009.12.31	2017.03.15	2.50		274	-	-
Loans from foreign financial institutions	NATIXIS (*1)	1984.06.30	2017.12.31	2.00		1,019	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		499,711	-	-
Debentures	1st Samurai Private Equity Bonds	2008.12.29	2011.12.29	Tibor(6M)+1.60		767,599	696,029	-
Debentures	Yen dominated FRN	2008.11.11	2011.11.11	Tibor(6M)+2.60		307,296	279,230	-
					₩	<u>1,581,799</u>	<u>1,776,427</u>	<u>1,065</u>

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

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

<i>(in millions of Won)</i>				Annual	2011	2010	January 1,
	Borrowers	Issuance date	Maturity date	interest rate (%)			2010
Borrowings	Woori Bank	2006.10.31~ 2009.6.29	2017.03.15~ 2039.08.11	1.50~2.25	₩ 102,642	90,598	75,519
Borrowings	Korea National Oil Corporation	2007.12.27~ 2010.12.28	2022.12.29~ 2024.12.28	Government bond -2.25	8,289	8,004	5,312
Borrowings	Korea EXIM Bank	2010.02.18~ 2011.09.28	2017.02.28~ 2018.03.23	4.09~4.50	792,388	368,776	-
Loans from foreign financial institutions	NATIXIS (*1)	1984.06.30~ 1986.03.31	2014.12.30~ 2017.03.31	2.00	3,550	4,074	5,572
Debentures	Domestic debentures 301 and others	2007.05.11~ 2011.09.17	2012.05.11~ 2016.09.17	3.78~6.52	3,289,529	2,492,833	2,293,320
Debentures	Global Bond (*2) and others	2006.06.28~ 2011.08.18	2013.06.28~ 2021.04.14	0~8.75	4,123,721	3,332,348	3,301,520
					₩ 8,320,119	6,296,633	5,681,243

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

(*2) The Company redeemed JPY 39,970,000,000 (75.7% of total face value) exchangeable bonds in August 2011. The Company issued exchangeable bonds with SK Telecom Co., Ltd. ADRs through Zeus (Cayman) || Ltd., an 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 105.11% of their face value for three years from the issuance date at the option of the bondholders. Also, the Company provides guarantees for Zeus (Cayman) || Ltd.

15. Other Financial Liabilities

(a) Other short-term financial liabilities as of September 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	₩ 7,139	6,445	-
Accounts payable	659,803	728,574	987,977
Accrued expenses	206,564	210,040	146,105
Dividends payable	5,481	5,569	5,143
Finance lease liabilities	1,034	1,048	1,023
Withholdings	9,773	6,405	17,066
	₩ 889,794	958,081	1,157,314

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(b) Other long-term financial liabilities as of September 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	₩ 12,891	9,150	15,210
Accrued expenses	17,018	22,287	72,435
Derivatives liabilities	20,606	885	2,133
Long-term accounts payable	89,750	-	-
Finance lease liabilities	8,351	8,835	10,126
Long-term withholdings	8,243	11,009	853
	<u>₩ 156,859</u>	<u>52,166</u>	<u>100,757</u>

16. Provisions

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

1) For the nine-month period ended September 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	254,244	(229,740)	34,086

(*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

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17. Employee Benefits

The Company introduced a retirement pension program for all employees in June 2010. The employees and directors who are in the employ of the Company chose a defined contribution plan or a defined benefit pension plan. According to the employee's choice, the pension plan benefit is based on their accrued length of service, including their length of service under the previous severance plan.

(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 nine-month period ended September 30, 2011 is ₩ 14,397 million, which is included in accrued expenses.

(b) Defined benefit plans

The employees and directors who chose a defined benefit pension plan will receive a defined payment upon termination of their employment if they fulfill the condition to qualify as a recipient. Before the termination of employment, 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 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 September 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	₩ 692,262	1,013,165	815,993
Fair value of plan assets	(499,768)	(689,162)	(599,170)
Net defined benefit obligations	<u>₩ 192,494</u>	<u>324,003</u>	<u>216,823</u>

(d) The changes in present value of defined benefit obligations for the nine-month period ended September 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	100,013	93,206
Interest costs	35,705	44,534
Actuarial losses	15,216	125,100
Benefits paid	(471,837)	(65,668)
Defined benefit obligation at the end of period	<u>₩ 692,262</u>	<u>1,013,165</u>

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

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Plan assets at the beginning of period	₩ 689,162	599,170
Expected return on plan assets	20,165	29,888
Actuarial gains and losses	(2,440)	(5,415)
Contributions of participants	80,077	100,000
Benefits paid	(287,196)	(34,481)
Plan assets at the end of period	<u>₩ 499,768</u>	<u>689,162</u>

(f) The fair value of plan assets as of September 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>
Deposits	₩ 498,728	-	-
Equity instruments	984	512,850	446,718
Debt instruments	-	176,312	152,452
Others	56	-	-
Total	<u>₩ 499,768</u>	<u>689,162</u>	<u>599,170</u>

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

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Current service costs	₩ 100,013	70,442
Interest costs	35,705	33,446
Expected return on plan assets	(20,165)	(22,519)
Total	<u>₩ 115,553</u>	<u>81,369</u>

The above expenses by function are as follows:

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Cost of sales	₩ 89,538	69,564
Selling and administrative expenses	19,130	11,805
Others	6,885	-
Total	<u>₩ 115,553</u>	<u>81,369</u>

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- (h) Actuarial gains and losses recognized in other comprehensive income for the nine-month periods ended September 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	(13,709)	(99,752)
Ending	<u>₩ (115,511)</u>	<u>(99,752)</u>

- (i) The principal actuarial assumptions as of September 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	4.61%	5.21%	5.21%
Expected return on plan assets	5.52%	4.66%	4.66%
Expected future increases in salaries	3.00%	3.00%	3.00%

18. Other Liabilities

- (a) Other current liabilities as of September 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 liabilities			
Advances received	₩ 46,971	33,241	25,614
Withholding	21,089	24,388	34,009
Unearned revenue	2,012	4,182	2,013
Deferred revenue	-	200	-
	<u>₩ 70,072</u>	<u>62,011</u>	<u>61,636</u>

- (b) Other long-term liabilities as of September 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 long-term liabilities			
Unearned revenue	₩ 628	1,277	2,305
Others	3,000	2,999	3,973
	<u>₩ 3,628</u>	<u>4,276</u>	<u>6,278</u>

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19. Financial Instruments

(a) Classification of financial instruments

- 1) Financial assets as of September 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	₩ 30,018	182,208	795,811
Available-for-sale financial assets	4,193,021	4,931,628	4,397,017
Held-to-maturity investments	29,884	31,808	51,675
Loans and receivables	6,562,052	6,845,356	9,078,061
	<u>₩ 10,814,975</u>	<u>11,991,000</u>	<u>14,322,564</u>

- 2) Financial liabilities as of September 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	₩ 20,606	885	2,133
Financial liabilities evaluated as amortised cost:			
Accounts payable	1,488,539	1,310,877	739,746
Borrowings	11,995,645	9,412,997	6,381,092
Financial guarantee liabilities (*1)	20,030	15,595	15,210
Others	1,006,017	993,766	1,240,729
	<u>14,510,231</u>	<u>11,733,235</u>	<u>8,376,777</u>
	<u>₩ 14,530,837</u>	<u>11,734,120</u>	<u>8,378,910</u>

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

(in millions of Won)

Guarantee beneficiary	Financial institution	Foreign Currency		Won Equivalent
POSCO Maharashtra Steel Pvt. Ltd.	Comerica Bank	USD	143,000,000	168,699
United Spiral Pipe, LLC	Shinhan Bank	USD	24,500,000	28,898
	Export-Import Bank of Korea	USD	230,000,000	271,285
POSCO-Vietnam Co., Ltd.	MIZUHO	JPY	2,256,750,000	34,677
	SUMITOMO	JPY	2,550,000,000	39,184
BX STEEL POSCO Cold RolledSheet Co., Ltd.	China Construction Bank Corporation and others	CNY	323,960,000	59,729
		USD	9,720,000	11,465
Zhangjiagang Pohang Stainless Steel Co., Ltd.	Mizuho and others	USD	160,000,000	188,720
	BOA and others	USD	311,296,295	367,174
POSCO Investment Co., Ltd.	BOA and others	CNY	630,000,000	116,153
	HSBC	MYR	240,000,000	89,064
POSCO-VST Co., Ltd.	ANZ and others	USD	65,000,000	76,668
POSCO-Mexico S.A. DE C.V	HSBC and others	USD	60,000,000	70,770
POSCO(Guangdong) Coated Steel Co., Ltd.	SMBC and others	USD	122,600,000	144,607
		USD	1,126,116,295	1,328,286
		JPY	4,806,750,000	73,861
		CNY	953,960,000	175,882
		MYR	240,000,000	89,064

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

(in millions of Won)

	2011			2010		
	Financial income (*1)	Financial expenses	Financial income and expenses	Financial income	Financial expenses	Financial income and expenses
Financial assets at fair value through profit or loss	₩ 2,044	(5,457)	(3,413)	42,480	-	42,480
Available-for-sale financial assets	184,610	(218)	184,392	69,405	(320)	69,085
Held-to-maturity investments	1,213	-	1,213	1,730	-	1,730
Loans and receivables	226,608	(128,722)	97,886	349,731	(200,973)	148,758
Financial liabilities at fair value through profit or loss	530	(4,212)	(3,682)	-	(890)	(890)
Financial liabilities are evaluated as amortised cost	223,031	(1,065,180)	(842,149)	296,378	(613,749)	(317,371)
	<u>₩ 638,036</u>	<u>(1,203,789)</u>	<u>(565,753)</u>	<u>759,724</u>	<u>(815,932)</u>	<u>(56,208)</u>

(*1) Financial profit in the statement of comprehensive income includes the dividends from subsidiaries and associates of ₩ 134,502 million and ₩ 66,184 million for the nine-month periods ended September 30, 2011 and 2010, respectively.

(b) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the Company's maximum exposure to credit risk. The maximum exposure to credit risk as of September 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	₩ 1,219,753	672,426	626,782
Financial assets at fair value through profit or loss	30,018	182,208	795,811
Available-for-sale financial assets	4,193,021	4,931,628	4,397,017
Held-to-maturity investments	29,884	31,808	51,675
Loans and other receivables	1,198,399	2,624,458	5,498,190
Trade accounts and notes receivable	4,143,876	3,548,448	2,951,783
Long-term trade accounts and notes receivable	24	24	1,306
	<u>₩ 10,814,975</u>	<u>11,991,000</u>	<u>14,322,564</u>

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2) Impairment losses on financial assets

- ① Allowance for doubtful accounts as of September 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	₩ 2,174	4,915	11,821
Other accounts receivable	10,571	10,591	10,620
Long-term loans	14,453	14,487	14,470
Other assets	13	20	672
	<u>₩ 27,211</u>	<u>30,013</u>	<u>37,583</u>

- ② Impairment losses (benefits) on financial assets for the nine-month periods ended September 30, 2011 and 2010 are as follows:

(in millions of Won)

	<u>2011</u>	<u>2010</u>
Bad debt expenses	₩ (2,725)	(6,462)
Other bad debt expenses	(51)	(648)
	<u>₩ (2,776)</u>	<u>(7,110)</u>

- ③ The aging schedule and the impaired losses of trade accounts and notes receivable as of September 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	₩ 4,130,677	-	3,416,549	2,727	2,739,546	3,235
Over due less than 1 month	89	-	53,385	37	69,678	49
1 month - 3 months	854	-	37,554	26	9,881	7
3 months - 12 months	4,624	-	37,978	27	26,077	18
over 12 months	9,830	2,174	7,921	2,098	119,728	8,512
	<u>₩ 4,146,074</u>	<u>2,174</u>	<u>3,553,387</u>	<u>4,915</u>	<u>2,964,910</u>	<u>11,821</u>

- ④ Changes in the allowance for doubtful accounts for the nine-month period ended September 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
Reverse of bad debt	(2,776)	(7,291)
Other decreases	(26)	(280)
Ending	<u>₩ 27,211</u>	<u>30,013</u>

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(c) Liquidity risk

1) The maturity analysis of non-derivative financial liabilities

<i>(in millions of Won)</i>	Book value	Cash flow for contracts	not later than 3 month	3 month - 6 months	6 months - 1 year	1 year - 5 years	later than 5 years
Non-derivative financial liabilities							
Account payable	₩ 1,488,539	1,488,539	1,488,539	-	-	-	-
Borrowings	11,995,645	13,933,367	2,713,167	692,483	1,489,775	6,824,822	2,213,120
Financial guarantee liabilities	20,030	20,030	1,987	1,884	3,268	10,603	2,288
Other financial liabilities	1,006,017	1,014,649	871,848	275	10,532	128,743	3,251
	<u>₩ 14,510,231</u>	<u>16,456,585</u>	<u>5,075,541</u>	<u>694,642</u>	<u>1,503,575</u>	<u>6,964,168</u>	<u>2,218,659</u>

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	-	20,606	-	20,606

(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 September 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	₩ 10,774	7,934	19,335	11,900	29,249	12,571
USD	721,098	6,521,386	838,688	4,266,232	964,986	2,481,972
JPY	201,423	2,423,280	56,377	2,444,452	44,839	2,211,387
Others	49,166	1,174	230	2,582	235	2,582
	<u>₩ 982,461</u>	<u>8,953,774</u>	<u>914,630</u>	<u>6,725,166</u>	<u>1,039,309</u>	<u>4,708,512</u>

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2) For the nine-month periods ended September 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	₩ 284	(284)	744	(744)
USD	(580,029)	580,029	(342,754)	342,754
JPY	(222,186)	222,186	(238,808)	238,808

(e) Interest rate risk

1) The book value of interest-bearing financial instruments as of September 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	₩ 2,163,736	3,312,165	6,915,564
Financial liabilities	(10,813,430)	(8,347,135)	(5,426,485)
	(8,649,694)	(5,034,970)	1,489,079
Variable rate			
Financial liabilities	₩ (1,182,215)	(1,065,862)	(954,607)

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

The Company does not account for derivative instruments such as interest swaps 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 September 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 nine-month periods ended September 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	(8,867)	8,867	(7,571)	7,571

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(f) Fair value

1) Fair value and book value

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

<i>(in millions of Won)</i>	2011		2010		January 1, 2010	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
Assets measured at fair value						
Financial assets held for trading	₩ 30,018	30,018	182,208	182,208	795,811	795,811
Available-for-sale financial assets	4,046,011	4,046,011	4,799,107	4,799,107	4,250,843	4,250,843
	<u>4,076,029</u>	<u>4,076,029</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	1,219,753	1,219,753	672,426	672,426	626,782	626,782
Current trade accounts and note receivable	4,143,900	4,143,900	3,548,472	3,548,472	2,953,089	2,953,089
Loans and other receivables	1,198,399	1,198,399	2,624,458	2,624,458	5,498,190	5,498,190
Held-to-maturity investments	29,884	29,884	31,808	31,808	51,675	51,675
	<u>6,591,936</u>	<u>6,591,936</u>	<u>6,877,164</u>	<u>6,877,164</u>	<u>9,129,736</u>	<u>9,129,736</u>
Liabilities measured fair value						
Derivatives liabilities held for trading	20,606	20,606	885	885	2,133	2,133
Liabilities measured amortised cost						
Trade accounts payable	1,488,539	1,488,539	1,310,877	1,310,877	739,746	739,746
Borrowings	11,995,645	12,053,595	9,412,997	9,884,031	6,381,092	6,705,438
Financial guarantee liabilities	20,030	20,030	15,595	15,595	15,210	15,210
Others	1,006,017	1,006,017	993,766	993,766	1,240,729	1,240,729
	<u>₩ 14,518,231</u>	<u>14,568,181</u>	<u>11,733,235</u>	<u>12,204,269</u>	<u>8,376,777</u>	<u>8,701,123</u>

2) Interest rate for determining fair value

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

	2011	2010	January 1, 2010
Borrowings	1.20% ~ 5.50%	1.19% ~ 5.14%	1.28% ~ 5.38%

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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 September 30, 2011, December 31, 2010 and January 1, 2010 are as follows:

a. September 30, 2011

<i>(in millions of Won)</i>	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets held for trading	-	30,018	-	30,018
Available-for-sale financial assets	3,420,918	-	625,093	4,046,011
	<u>3,420,918</u>	<u>30,018</u>	<u>625,093</u>	<u>4,076,029</u>
Financial Liabilities				
Derivatives liabilities held for trading	-	20,606	-	20,606

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

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③ Changes in financial assets classified as level 3 for the nine-month period ended September 30, 2011 and for the year ended December 31, 2010 are as follows:

a. For the nine-month period ended September 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	21,346	625,093

b. For the year 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 September 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 September 30, 2011, total shares of ADRs are 52,997,880 equivalents to 13,249,470 of common stock.

As of September 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 September 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	763,867	694,714	694,714
	<u>₩ 1,227,692</u>	<u>1,158,539</u>	<u>1,158,539</u>

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21. Reserves

(a) Reserves as of September 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	₩ 334,555	1,011,557	634,571

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

1) For the nine-month period ended September 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	(867,951)
Tax effects	190,949
Ending balance	<u>₩ 334,555</u>

2) For the year 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 ₩ 69,153 million, net of tax, 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 September 30, 2011, the Company holds 9,942,391 shares of treasury stock for price stabilization in accordance with the Board of Director's resolution.

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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)

	<u>6th Grant</u>
Granted	90,000
Exercised	64,000
Unexercised	26,000
Exercise price	₩ 194,900
Exercise period	2007.4.29 ~ 2012.4.28

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

(in millions of Won)

	<u>4th Grant</u>	<u>5th Grant</u>	<u>6th Grant</u>	<u>Total</u>
Accumulated reversal of stock compensation as of December 31, 2010	(83)	(9,681)	(3,463)	(13,227)
Reversal of stock compensation expenses For the nine-month periods ended September 30, 2011	-	(1,530)	(3,218)	(4,748)

(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>6th Grant</u>
Risk-free rate of interest	3.50%
Expected life	158 days
Expected price-volatility	14.10%
Rate of expected dividends	9.57%
Stock price	Won 371,000
Fair value	Won 163,960

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24. Sales

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

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Revenues		
Sale of goods	₩ 29,042,555	23,352,306
Services	410	-
Others	62,577	53,956
	<u>₩ 29,105,542</u>	<u>23,406,262</u>

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25. Selling and Administrative Expenses

(a) Administrative expenses

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

<i>(in millions of Won)</i>	2011	2010
Wages and salaries	₩ 123,876	112,205
Expenses related to defined benefit plan	21,306	12,296
Other employee benefits	50,100	39,674
Travel	15,959	14,406
Depreciation	16,563	12,176
Amortization	11,834	11,549
Rental	27,749	19,109
Repairs	14,308	11,880
Advertising	73,389	61,942
Research & development	104,918	62,236
Service fees	123,846	114,107
Supplies	4,637	6,195
Vehicles maintenance	5,371	4,663
Industry association fee	5,719	6,070
Training	15,023	16,223
Conference	4,920	5,147
Reverse of bad debt expenses	(2,725)	(6,462)
Others	21,315	19,642
	<u>₩ 638,108</u>	<u>523,058</u>

(b) Selling expenses

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

<i>(in millions of Won)</i>	2011	2010
Freight and custody expenses	₩ 604,406	506,006
Operating expenses for distribution center	5,700	6,693
Sales commissions	43,446	35,880
Sales advertising	64	484
Sales promotion	3,882	4,127
Sample	1,667	1,651
Sales insurance premium	8,311	8,826
	<u>₩ 667,476</u>	<u>563,667</u>

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26. Research and Development Expenses

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

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Selling and administrative expenses	₩ 104,918	62,236
Cost of sales	254,244	291,628
	<u>₩ 359,162</u>	<u>353,864</u>

27. Other Operating Income and Expenses

(a) Other operating income

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

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Gain on disposal of property, plant and equipment	₩ 8,580	13,211
Gain on disposal of other long-term assets	38	283
Miscellaneous income	22,790	50,784
	<u>₩ 31,408</u>	<u>64,278</u>

(b) Other operating expenses

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

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Loss on disposal of property, plant and equipment	₩ 40,310	56,961
Reverse of other bad debt expenses	(51)	(648)
Donations	23,585	26,021
Expenses on assets not in use	9,949	-
Miscellaneous loss	12,939	18,420
	<u>₩ 86,732</u>	<u>100,754</u>

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28. 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 nine-month periods ended September 30, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Changes in inventories (*1)	₩ (688,539)	(933,710)
Raw materials and consumables used	20,191,623	13,890,336
Employee benefits expenses	958,886	874,757
Outsourced processing cost	1,429,850	1,239,280
Depreciation (*2)	1,285,162	1,844,926
Amortization	25,483	27,202
Ordinary research & development expenses	359,162	353,864
Electricity and water expenses	426,867	329,213
Service fees	173,120	162,730
Advertising expenses	73,389	61,942
Freight and custody expenses	604,406	506,006
Commission paid	43,446	35,880
Losses on disposition of property, plant, and equipment	40,310	56,961
Other expenses	710,159	755,303
	<u>₩ 25,633,324</u>	<u>19,204,690</u>

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

(*2) Includes depreciation of investment property.

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29. Finance Income and Costs

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

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Financial income		
Interest income	₩ 76,121	176,053
Dividend income	262,031	133,602
Gains on disposal of financial assets held for trading	1,957	10,494
Gains on derivative transactions	69	26,737
Gains on foreign currency transactions	326,883	360,504
Gains on foreign currency translations	47,849	112,048
Others	57,628	6,470
	<u>772,538</u>	<u>825,908</u>
Financial costs		
Interest expenses	308,934	226,220
Losses on foreign currency transactions	279,140	389,067
Losses on foreign currency translations	586,261	197,447
Others	29,454	3,198
	<u>₩ 1,203,789</u>	<u>815,932</u>

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

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	33,681	8,853
Financial instruments	35,448	155,668
Held-to-maturity securities	1,213	1,730
Available-for-sale financial assets	-	766
Others	5,779	9,036
	<u>₩ 76,121</u>	<u>176,053</u>

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(c) Details of interest expenses by category of financial instrument for the nine-month periods ended September 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	320,366	227,051
Other interest expenses	1,075	-
Total interest expenses (*1)	321,441	227,051
Less: capitalization of interest expense	(12,507)	(831)
	<u>₩ 308,934</u>	<u>226,220</u>
Average expenditure used to calculate capitalization of interest cost	<u>253,318</u>	<u>17,593</u>

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

The capitalization rate for the nine-month period ended September 30, 2011 is 4.66%.

30. Income Taxes

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

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Current income taxes (*1)	₩ 497,476	754,510
Deferred income taxes	(19,496)	70,117
Items credited directly to shareholders' equity	172,738	32,475
Income tax expense	<u>₩ 650,718</u>	<u>857,102</u>

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

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- (b) The expected amount of income tax expense based on statutory rates compared to the actual amount of taxes recorded by the Company for the nine-month periods ended September 30, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Profit before income tax expense	₩ 3,072,375	4,275,826
Income tax expense computed at statutory rate	743,515	1,034,750
Adjustments:	(92,797)	(177,648)
Tax credit	(117,807)	(175,307)
Additional payment of income taxes	19,482	-
Others	5,528	(2,341)
Income tax expense	<u>₩ 650,718</u>	<u>857,102</u>
Effective rate (%)	21.2%	20.0%

- (c) The income taxes charged directly to equity for the nine-month periods ended September 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	₩ 190,949	4,340
Defined benefit plan actuarial losses	3,867	28,135
Gain on disposal of treasury shares	(22,078)	-
	<u>₩ 172,738</u>	<u>32,475</u>

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

(in millions of Won)

	2011			2010		
	Dec.31, 2010	Inc(Dec)	September 30, 2011	Dec.31, 2009	Inc(Dec)	September 30, 2010
Deferred income tax due to temporary differences						
Reserve for special repairs	₩ (27,776)	1,337	(26,439)	(39,500)	2,662	(36,838)
Reserve for technology developments	(264,000)	(36,850)	(300,850)	(176,000)	(88,000)	(264,000)
Depreciation expense	(65,129)	22,960	(42,169)	(78,445)	5,270	(73,175)
Prepaid expenses	18,851	4,669	23,520	17,757	6,223	23,980
Reappraisal of property, plant and equipment	(345,058)	(109,628)	(454,686)	(411,760)	45,967	(365,793)
Loss on foreign currency translation	81,066	91,586	172,652	39,783	20,759	60,542
Defined benefit liability	160,532	(31,826)	128,706	117,198	29,173	146,371
Plan assets	(151,423)	33,323	(118,100)	(117,198)	(15,956)	(133,154)
Accrued revenue	(6,601)	4,931	(1,670)	(11,957)	5,712	(6,245)
Others	282,850	(66,883)	215,967	314,992	(36,547)	278,445
	<u>(316,688)</u>	<u>(86,381)</u>	<u>(403,069)</u>	<u>(345,130)</u>	<u>(24,737)</u>	<u>(369,867)</u>
Deferred tax from tax credit						
Tax credit carryforward	239,526	(88,939)	150,587	286,556	(77,855)	208,701
	<u>239,526</u>	<u>(88,939)</u>	<u>150,587</u>	<u>286,556</u>	<u>(77,855)</u>	<u>208,701</u>
Deferred income taxes recognized directly to						
Gain (loss) on valuation of available-for-sale securities	(285,750)	190,949	(94,801)	(179,421)	4,340	(175,081)
Defined benefit plan actuarial gains (losses)	28,713	3,867	32,580	-	28,135	28,135
	<u>(257,037)</u>	<u>194,816</u>	<u>(62,221)</u>	<u>(179,421)</u>	<u>32,475</u>	<u>(146,946)</u>
	<u>₩ (334,199)</u>	<u>19,496</u>	<u>(314,703)</u>	<u>(237,995)</u>	<u>(70,117)</u>	<u>(308,112)</u>

(e) As of September 30, 2011, the Company did not recognize income tax effects associated with taxable temporary differences of ₩ 1,209,618 million (deferred tax liability ₩ 173,981 million) relating to the valuation of equity method investments occurred in prior periods since the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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31. Earnings Per Share

(a) Basic Earnings per share for the nine-month periods ended September 30, 2011 and 2010 are as follows:

<i>(in millions of Won except per share information)</i>	<u>2011</u>	<u>2010</u>
Profit for the period	₩ 2,421,657	3,418,724
Weighted-average number of common shares outstanding (*)	<u>77,254,303</u>	<u>77,032,878</u>
Basic earnings per share	<u>31,347</u>	<u>44,380</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>(9,932,532)</u>	<u>(10,153,957)</u>
Weighted-average number of common stock outstanding	<u>77,254,303</u>	<u>77,032,878</u>

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

<i>(in millions of Won except per share information)</i>	<u>2011</u>	<u>2010</u>
Profit for the period	₩ 248,503	941,545
Weighted-average number of common stock outstanding (*)	<u>77,244,444</u>	<u>77,032,878</u>
Basic earnings per share	<u>3,217</u>	<u>12,223</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>

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32. Operating Profit

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

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Operating profits by K-IFRS	₩ 3,503,626	4,265,850
Deducted		
Gains on disposal of property, plant, and equipment	8,580	13,211
Gain on disposal of other long-term assets	38	283
Miscellaneous income	22,790	50,784
	<u>31,408</u>	<u>64,278</u>
Added		
Loss on disposal of property, plant, and equipment	40,310	56,961
Other bad debt expenses	(51)	(648)
Donations	23,585	26,021
Expenses on asset not in use	9,949	-
Miscellaneous losses	12,939	18,419
	<u>86,732</u>	<u>100,753</u>
Operating profits by previous GAAP	<u>₩ 3,558,950</u>	<u>4,302,325</u>

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33. Related Party Transactions

(a) Significant transactions, which occurred in the ordinary course of business, with related companies for the nine-month periods ended September 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.	₩ 21,074	6,500	₩ 1,176,181	1,813,291
POSCO Processing & Service Co., Ltd.	964,861	807,071	1,080,835	226,423
POSCO Coated & Color Steel Co., Ltd.	460,051	492,715	1,318	2,293
POSCO ICT Co., Ltd.	1,107	581	372,869	336,376
POSCO Chemtech Company Ltd.	314,745	65,748	552,443	418,365
POSCO TMC Co., Ltd.	126,183	116,828	449	58
POSCO AST Co., Ltd.	233,020	215,185	44,073	39,926
Daewoo International Corp.	2,664,011	-	2,600	-
POSCO NST Co., Ltd.	128,623	-	3,289	-
POSCO America Corporation	207,608	167,972	-	-
POSCO Canada Ltd.	-	-	217,148	124,385
POSCO Asia Co., Ltd.	1,488,258	871,361	147,623	92,831
POSCO-Japan Co., Ltd.	1,087,588	811,129	24,579	200,346
POSCO-IPPC Pvt. Ltd.	104,522	128,470	-	-
POSCO-Mexico Co., Ltd.	253,572	199,513	176	-
Daewoo International Singapore Pte. Ltd.	-	-	122,128	-
Others	638,045	1,188,937	811,748	649,025
	₩ 8,693,268	5,072,010	₩ 4,557,459	3,903,319
Associates				
SNNC Co., Ltd.	1,190	1,239	311,523	358,523
USS-POSCO Industries (UPI)	298,220	212,429	29	190
Poschrome(Proprietary) Ltd.	-	-	54,565	53,869
Others	161,400	20,253	42,875	35,338
	₩ 460,810	233,921	₩ 408,992	447,920
	₩ 9,154,078	5,305,931	₩ 4,966,451	4,351,239

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

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(b) Significant transactions, which occurred in the ordinary course of business, with related companies the related account balances as of September 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.	₩ 9,735	293	480	₩ 149,276	190,081	437,819
POSCO Processing & Service Co., Ltd.	111,465	129,133	114,783	16,064	6,842	2,696
POSCO Plantec Co., Ltd.	255	-	9	17,116	48,058	22,839
POSCO ICT Co., Ltd.	17	-	1	49,439	63,627	54,529
POSCO Coated & Color Steel Co., Ltd.	127,870	104,755	109,616	271	437	199
POSCO Chemtech Company Ltd.	36,924	33,743	6,880	81,783	62,669	66,008
POSCO TMC Co., Ltd.	16,582	11,823	11,678	101	15	24
POSCO AST Co., Ltd.	35,352	19,065	17,492	7,219	8,255	7,572
Daewoo International Corp.	206,789	139,756	-	207	-	-
POSCO NST Co., Ltd.	36,134	-	-	453	-	-
POSCO America Corporation	8,703	12,211	6,163	-	-	-
POSCO Asia Co., Ltd.	181,122	122,626	40,548	3,963	3,767	1,170
POSCO-TBPC Co., Ltd.	23,872	25,919	18,376	2	-	-
Qingdao Pohang Stainless Steel Co., Ltd.	7,817	13,805	24,404	-	-	-
POSCO-Vietnam Co., Ltd.	1,014	683	95,781	-	-	-
POSCO-Japan Co., Ltd.	57,092	28,515	25,972	170	4,958	6,701
POSCO-IPPC Pvt. Ltd.	6,560	10,412	12,356	-	-	-
POSCO-Mexico Co., Ltd.	180,706	80,443	16,247	-	-	-
Others	39,895	15,167	26,073	95,651	32,209	17,840
	₩ 1,087,904	748,349	526,859	₩ 421,715	420,918	617,397
Associates						
Posmate Co., Ltd.	₩ -	1,396	48	₩ 5,700	6,391	5,222
SNNC Co., Ltd.	209	182	1,974	33,291	57,512	26,963
USS-POSCO Industries (UPI)	35,795	58,347	39,100	-	-	-
Others	17,020	7,231	176	791	29,714	78
	₩ 53,024	67,156	41,298	₩ 39,782	93,617	32,263
	₩ 1,140,928	815,505	568,157	₩ 461,497	514,535	649,660

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

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- (c) For the nine-month periods ended September 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	₩ 23,198	12,433
Other long-term benefits	18,020	16,685
Retirement benefits	6,250	4,809
Share-based payment	(4,748)	(10,602)
	₩ 42,720	23,325

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 September 30, 2011, 275 million tons of iron ore and 43 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 September 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.

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(g) Litigation in progress

The Company is involved in 12 lawsuits and claims for alleged damages aggregating to ₩ 9,107 million as of September 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 September 30, 2011.

(h) As of September 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 nine-month periods ended September 30, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Accrual of severance benefits	₩ 99,293	81,369
Depreciation	1,282,777	1,843,351
Depreciation of investment properties	2,385	1,575
Amortization	25,483	27,202
Reverse of bad debt expenses	(2,725)	(6,462)
Finance costs	917,524	427,248
Losses on disposal of property, plant, and equipment	40,310	56,961
Income tax expense	650,718	857,102
Finance income	(443,675)	(440,708)
Gains on disposal of property, plant and equipment	(8,580)	(13,211)
Others	8,269	(5,983)
	<u>₩ 2,571,779</u>	<u>2,828,444</u>

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

<i>(in millions of Won)</i>		<u>2011</u>	<u>2010</u>
Financial assets held for trading	₩	152,208	116,305
Trade accounts and notes receivable		(554,494)	(532,140)
Other accounts receivable		(111,198)	(46,450)
Advance payments		(4,384)	5,877
Prepaid expenses		(60,511)	(61,549)
Inventories		(1,309,092)	(2,722,222)
Long-term guarantee deposits		535	(389)
Trade accounts payable		141,861	795,347
Dividends Payable		(88)	(107)
Other accounts payable		(70,088)	(223,134)
Accrued expenses		(26,323)	17,894
Advances received		13,730	15,182
Withholdings		(3,299)	(3,404)
Unearned revenue		(2,818)	3,787
Other long-term liabilities		26,399	30,711
Derivatives liabilities held for trading		16,040	-
Payment severance benefits		(471,837)	(49,456)
Plan assets		207,118	(6,817)
	₩	<u>(2,056,241)</u>	<u>(2,660,565)</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 September 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).

In preparing its opening K-IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with K-GAAP (previous GAAP). An explanation of how the transition from previous GAAP to K-IFRSs has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

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- (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.

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.

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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.

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	<u>1,861,914</u>	<u>155,959</u>	<u>1,705,955</u>
K-IFRS	<u>₩ 41,854,679</u>	<u>9,197,433</u>	<u>32,657,246</u>

(*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.

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

(in millions of Won)

	<u>Total Assets</u>	<u>Total Liabilities</u>	<u>Total Shareholders' Equity</u>	<u>Profit For The Period</u>	<u>Total Comprehensive Income</u>
Previous GAAP	₩ 45,809,625	11,834,037	33,975,588	3,677,422	3,696,538
Adjustments :					
Derecognition of financial assets	256,840	257,239	(399)	170	170
Revaluation of machinery and equipment	1,661,305	-	1,661,305	(210,331)	(210,331)
Financial guarantee liabilities	11,583	12,008	(425)	(424)	(424)
Defined benefit liabilities	(7,669)	50,085	(57,754)	101,768	(31,004)
Cancellation of equity method application	(259,564)	-	(259,564)	(168,593)	(168,593)
Other adjustment	(5,900)	161	(6,061)	3,619	3,619
Deferred tax effect	(207,644)	(163,972)	(43,672)	15,093	15,093
Total adjustment	<u>1,448,951</u>	<u>155,521</u>	<u>1,293,430</u>	<u>(258,698)</u>	<u>(391,470)</u>
K-IFRS	₩ <u>47,258,576</u>	<u>11,989,558</u>	<u>35,269,018</u>	<u>3,418,724</u>	<u>3,305,068</u>

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>Profit For The Period</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.