

POSCO
Notes to Consolidated Financial Statements, Continued
For the years ended December 31, 2011 and 2010

27. Selling and Administrative Expenses

(a) Administrative expenses

Administrative expenses for years ended December 31, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Wages and salaries	₩ 606,819	446,023
Expenses related to defined benefit plan	60,271	36,708
Other employee benefits	164,508	116,293
Travel	56,635	43,592
Depreciation	172,807	110,093
Communication	13,061	9,195
Electric power	7,529	5,269
Taxes and public dues	50,617	34,869
Rental	65,559	54,739
Repairs	14,919	9,660
Insurance premium	18,239	10,252
Entertainment	17,905	17,050
Advertising	70,939	96,305
Research & development	212,472	141,314
Service fees	286,635	192,979
Supplies	14,357	17,012
Vehicles maintenance	21,491	15,851
Industry association Fee	10,200	10,403
Training	24,375	24,762
Conference	21,739	17,659
Warranty expense	14,166	19,733
Bad debt allowance	103,848	51,186
Others	19,173	19,423
	<u>₩ 2,048,264</u>	<u>1,500,370</u>

POSCO**Notes to Consolidated Financial Statements, Continued
For the years ended December 31, 2011 and 2010****(b) Selling expenses**

Selling expenses for the years ended December 31, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Freight	₩ 1,406,269	948,891
Operating expenses for distribution center	8,115	8,694
Sales commissions	85,410	69,823
Sales advertising	1,204	1,483
Sales promotion	16,179	12,096
Sample	7,321	3,478
Sales insurance premium	19,915	14,579
Contract cost	62,986	58,340
Others	4,729	2,956
	<u>₩ 1,612,128</u>	<u>1,120,340</u>

28. Other Operating Income and Expenses**(a) Other operating income**

Details of other operating income for the years ended December 31, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Gain on disposal of property, plant and equipment	₩ 13,812	26,366
Gain on disposal of investment of equity-accounted investees	2,247	2,942
Reversal of allowance for doubtful accounts	86,451	3,796
Miscellaneous income	219,973	186,267
Others	14,595	12,016
	<u>₩ 337,078</u>	<u>231,387</u>

POSCO
Notes to Consolidated Financial Statements, Continued
For the years ended December 31, 2011 and 2010

(b) Other operating expenses

Details of other operating expenses for the years ended December 31, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Loss on disposal of property, plant and equipment	₩ 60,550	83,494
Loss on disposal of investment property	8,826	11,896
Cost of idle assets	16,881	795
Other bad debt expenses	28,081	12,877
Contributions	66,558	74,343
Miscellaneous loss	90,744	101,105
Others	111,819	57,441
	<u>₩ 383,459</u>	<u>341,951</u>

29. 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 years ended December 31, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Changes in inventories	₩ 40,166,313	19,496,278
Employee benefits expenses	2,639,966	2,363,727
Depreciation (*1)	2,133,011	2,960,550
Amortisation	133,288	75,344
Other selling and administrative expenses (*2)	2,880,766	2,064,594
Other cost of sales (*2)	15,530,899	15,382,677
Losses on disposition	60,550	83,494
Donation	66,559	74,344
Other operating expenses	256,350	184,114
	<u>₩ 63,867,702</u>	<u>42,685,122</u>

(*1) Includes depreciation expense of investment properties.

(*2) Includes expenses for research and development, service fees, electric power and others.

POSCO
Notes to Consolidated Financial Statements, Continued
For the years ended December 31, 2011 and 2010

30. Finance Income and Costs

Details of finance income and costs for the years ended December 31, 2011 and 2010 are as follows:

(In millions of Won)

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Finance income		
Interest income	₩ 216,234	292,928
Dividend income	143,880	102,161
Gain on foreign currency transaction	1,454,103	844,321
Gain on foreign currency translation	259,014	204,568
Gain on derivatives transactions	549,439	180,933
Gain on valuation of derivatives	111,637	86,823
Gain on disposal of available-for-sale financial assets	454,543	2,590
Others	1,569	24,480
	<u>3,190,419</u>	<u>1,738,804</u>
Finance costs		
Interest expenses	788,348	586,883
Loss on foreign currency transaction	1,620,394	808,718
Loss on foreign currency translation	529,910	423,460
Loss on derivatives transactions	512,882	175,196
Loss on valuation of derivatives	188,742	17,784
Impairment of available-for-sale financial assets	152,804	57,172
Others	73,615	18,645
	<u>₩ 3,866,695</u>	<u>2,087,858</u>

POSCO**Notes to Consolidated Financial Statements, Continued
For the years ended December 31, 2011 and 2010****31. Income Taxes**

(a) The Company was subject to income taxes on taxable income at the following normal tax rates.

<u>Taxable income</u>	<u>2010</u>	<u>2011</u>	<u>Thereafter</u>
Up to ₩ 200 million	11.00%	11.00%	11.00%
Over ₩ 200 million up to ₩ 20 billion	24.20%	24.20%	22.00%
Over ₩ 20 billion	24.20%	24.20%	24.20%

In December 2011, the Korean government changed the corporate income tax rate (including resident tax) for taxable income exceeding ₩ 20 billion from 22.0% to 24.2% prospectively from 2012.

(b) Income tax expense for the years ended December 31, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Current income taxes	₩ 1,069,240	1,111,427
Deferred income tax due to temporary differences	(318,722)	103,054
Less: Items recorded directly to equity	317,591	(133,009)
Income tax expense	<u>₩ 1,068,109</u>	<u>1,081,472</u>

(c) The following table reconciles the expected amount of income tax expense based on statutory rates (24.2%) to the actual amount of taxes recorded by the Company for the years ended December 31, 2011 and 2010:

<i>(in millions of Won)</i>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Net income before income tax expense	₩ 4,782,395	5,267,123
Income tax expense computed at statutory rate	1,157,340	1,274,644
Adjustments:	(89,231)	(193,172)
Tax effects due to permanent differences	(13,798)	(28,973)
Tax credit	(193,633)	(268,873)
Unrecognised deferred tax assets	68,905	49,196
Tax rate change effect	17,661	-
Difference in tax rate	56,010	24,693
Others	(24,376)	30,785
Income tax expense	<u>₩ 1,068,109</u>	<u>1,081,472</u>
Effective rate (%)	22.33	20.53

(d) The income taxes (charged) credited directly in equity for the years ended December 31, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
(Loss) gain on valuation of available-for-sale investments	₩ (306,827)	122,651
Gains on sale of treasury stock	22,078	-
Others	(31,628)	(27,199)
	<u>₩ (316,377)</u>	<u>95,452</u>

POSCO
Notes to Consolidated Financial Statements, Continued
For the years ended December 31, 2011 and 2010

(e) The movements in deferred tax assets (liabilities) for the years ended December 31, 2011 and 2010 are as follows:

(in millions of \$/₩)	December 31, 2011			December 31, 2010		
	Dec. 31, 2010	Inc (Dec)	Dec. 31, 2011	Dec. 31, 2009	Inc (Dec)	Dec. 31, 2010
Deferred income tax due to temporary differences						
Reserve for special repairs	₩ (27,776)	(1,883)	(29,659)	(39,900)	11,224	(27,776)
Allowance for doubtful accounts	80,349	24,272	104,621	38,283	42,866	80,349
Reserve for technology developments	(269,892)	(96,340)	(366,232)	(179,828)	(90,664)	(269,892)
Depreciation expense	(61,129)	2,841	(58,288)	(76,485)	17,356	(61,129)
Share of profit or loss of equity-accounted investees	(170,016)	(54,120)	(224,136)	(52,151)	(117,865)	(170,016)
Reserve for inventory valuation	1,484	(2,996)	(1,514)	987	497	1,484
Revaluation of assets	(362,949)	(207,454)	(570,403)	(436,051)	23,102	(362,949)
Prepaid expenses	18,733	2,704	21,437	17,669	1,864	18,733
Impairment loss on property, plant and equipment	24,858	634	25,492	11,080	13,778	24,858
Loss on foreign currency translation	90,656	5,131	95,787	45,306	45,306	90,656
Accrued severance benefits	40,770	14,343	55,053	53,374	(12,664)	40,770
Group severance insurance deposits	(36,232)	(6,839)	(43,091)	(30,199)	(6,033)	(36,232)
Provision for construction losses	1,697	1,155	2,852	263	1,434	1,697
Provision for construction warranty	13,036	2,846	15,902	13,040	16	13,036
Appropriated retained earnings for technological development	(246)	81	(165)	(242)	(4)	(246)
Accrued income	(1,061)	(888)	(1,949)	(370)	(491)	(1,061)
Others	317,876	58,231	376,107	318,235	(1,522)	317,876
	<u>(339,862)</u>	<u>(258,291)</u>	<u>(598,153)</u>	<u>(318,789)</u>	<u>(21,893)</u>	<u>(339,862)</u>
Deferred income taxes recognized directly to equity						
Gain (loss) on valuation of available-for-sale securities	(305,406)	306,827	1,421	(182,755)	(122,651)	(305,406)
Others	4141	31,628	35,769	(23,058)	27,199	4,141
	<u>(301,265)</u>	<u>338,455</u>	<u>37,190</u>	<u>(205,813)</u>	<u>(95,452)</u>	<u>(301,265)</u>
Deferred tax from tax credit						
Tax credit carryforward and others	280,295	(25,418)	256,877	322,085	(41,790)	280,295
Deferred tax effect due to unrealized gains (losses) and others	(129,000)	120,625	(8,375)	234,726	(363,226)	(129,000)
₩	<u>(489,832)</u>	<u>177,358</u>	<u>(312,474)</u>	<u>31,209</u>	<u>(922,061)</u>	<u>(489,832)</u>

(f) Deferred tax assets and liabilities for the year ended December 31, 2011, 2010 and January 1, 2010 are as follows:

1) December 31, 2011

(in millions of Won)	December 31, 2011		
	Assets	Liabilities	Net
Deferred income tax due to temporary differences			
Reserve for special repairs	₩ -	(29,659)	(29,659)
Allowance for doubtful accounts	104,621	(51)	104,621
Reserve for technology developments	-	(366,232)	(366,232)
Depreciation expense	12,319	(70,607)	(58,288)
Share of profit or loss of equity-accounted investees	-	(224,136)	(224,136)
Reserve for inventory valuation	4,319	(5,833)	(1,514)
Revaluation of assets	-	(570,403)	(570,403)
Prepaid expenses	23,045	(1,608)	21,437
Impairment loss on property, plant and equipment	25,492	-	25,492
Loss on foreign currency translation	176,621	(80,834)	95,787
Accrued severance benefits	75,912	(20,859)	55,053
Group severance insurance deposits	-	(43,091)	(43,091)
Provision for construction losses	2,852	-	2,852
Provision for construction warranty	15,902	-	15,902
Appropriated retained earnings for technological development	-	(165)	(165)
Accrued income	-	(1,949)	(1,949)
Others	382,735	(6,628)	376,107
	<u>823,869</u>	<u>(1,422,055)</u>	<u>(598,186)</u>
Deferred income taxes recognized directly to equity			
Gain (loss) on valuation of available-for-sale investments	199,317	(197,896)	1,421
Others	49,898	(14,129)	35,769
	<u>249,215</u>	<u>(212,025)</u>	<u>37,190</u>
Deferred tax from tax credit			
Tax credit carryforward and others	292,255	(35,378)	256,877
Deferred tax effect due to unrealized gains (losses) and others	494,450	(502,825)	(8,375)
₩	<u>1,859,789</u>	<u>(2,172,283)</u>	<u>(312,494)</u>

POSCO
Notes to Consolidated Financial Statements, Continued
For the years ended December 31, 2011 and 2010

2) December 31, 2010

(in millions of Won)

	December 31, 2010		
	Assets	Liabilities	Net
Deferred income tax due to temporary differences			
Reserve for special repairs	₩ -	(27,776)	(27,776)
Allowance for doubtful accounts	80,349	-	80,349
Reserve for technology developments	-	(269,892)	(269,892)
Depreciation expense	7,555	(68,684)	(61,129)
Share of profit or loss of equity-accounted investees	-	(170,016)	(170,016)
Reserve for inventory valuation	1,484	-	1,484
Revaluation of assets	-	(362,949)	(362,949)
Prepaid expenses	18,852	(119)	18,733
Impairment loss on property, plant and equipment	24,858	-	24,858
Loss on foreign currency translation	193,582	(102,926)	90,656
Accrued severance benefits	61,414	(20,704)	40,710
Group severance insurance deposits	-	(36,232)	(36,232)
Provision for construction losses	1,697	-	1,697
Provision for construction warranty	13,056	-	13,056
Appropriated retained earnings for technological development	-	(246)	(246)
Accrued income	-	(1,061)	(1,061)
Others	345,109	(27,233)	317,876
	<u>747,956</u>	<u>(1,087,838)</u>	<u>(339,882)</u>
Deferred income taxes recognized directly to equity			
Gain (loss) on valuation of available-for-sale securities	266	(305,672)	(305,406)
Others	30,112	(25,971)	4,141
	<u>30,378</u>	<u>(331,643)</u>	<u>(301,265)</u>
Deferred tax from tax credit			
Tax credit carryforward and others	315,140	(34,845)	280,295
Deferred tax effect due to unrealized gains (losses) and others	341,471	(470,471)	(129,000)
	<u>₩ 1,434,945</u>	<u>(1,924,797)</u>	<u>(489,852)</u>

POSCO

Notes to Consolidated Financial Statements, Continued
For the years ended December 31, 2011 and 2010

3) January 1, 2010

(in millions of Won)

	December 31, 2010		
	Assets	Liabilities	Net
Deferred income tax due to temporary differences			
Reserve for special repairs	₩ -	(39,500)	(39,500)
Allowance for doubtful accounts	38,283	-	38,283
Reserve for technology developments	-	(179,828)	(179,828)
Depreciation expense	3,103	(81,588)	(78,485)
Share of profit or loss of equity-accounted investees	-	(52,151)	(52,151)
Reserve for inventory valuation	987	-	987
Revaluation of assets	-	(436,051)	(436,051)
Prepaid expenses	17,756	(87)	17,669
Impairment loss on property, plant and equipment	11,080	-	11,080
Loss on foreign currency translation	132,071	(86,765)	45,306
Accrued severance benefits	53,374	-	53,374
Group severance insurance deposits	-	(30,199)	(30,199)
Provision for construction losses	263	-	263
Provision for construction warranty	13,040	-	13,040
Appropriated retained earnings for technological development	-	(242)	(242)
Accrued income	-	(570)	(570)
Others	263,171	55,064	318,235
	<u>533,128</u>	<u>(851,917)</u>	<u>(318,789)</u>
Deferred income taxes recognized directly to equity			
Gain (loss) on valuation of available-for-sale investments	9,821	(192,576)	(182,755)
Others	4,874	(27,932)	(23,058)
	<u>14,695</u>	<u>(220,508)</u>	<u>(205,813)</u>
Deferred tax from tax credit			
Tax credit carryforward and others	362,608	(40,523)	322,085
Deferred tax effect due to unrealized gains (losses) and others	338,150	(103,424)	234,726
	<u>₩ 1,248,581</u>	<u>(1,216,372)</u>	<u>32,209</u>

(f) As of December 31, 2011, the Company did not recognize income tax effects associated with taxable temporary differences of ₩ 3,121,101 million (deferred tax liability ₩ 777,328 million) mainly relating to increase in retained earnings of subsidiaries since it is probable that the temporary difference will not reverse in the foreseeable future. As of December 31, 2011, the Company did not recognize income tax effect associated with deductible temporary differences of ₩ 1,352,764 million (deferred tax assets ₩ 327,369 million) mainly relating to loss of subsidiaries and affiliates due to remote possibility of realization.

POSCO
Notes to Consolidated Financial Statements, Continued
For the years ended December 31, 2011 and 2010

32. Earnings per Share

(a) Basic and diluted earnings per share for the years ended December 31, 2011 and 2010 are as follows:

(in millions of Won, except per share information)

	<u>2011</u>	<u>2010</u>
Profit attributable to controlling interest	₩ 3,648,136	4,105,623
Weighted-average number of common shares outstanding (*1)	77,251,818	77,032,878
Basic and diluted earnings per share	47,224	53,297

(*1) The weighted-average number of common shares used to calculate basic and diluted 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 shares	<u>(9,935,017)</u>	<u>(10,153,957)</u>
Weighted-average number of common shares outstanding	<u>77,251,818</u>	<u>77,032,878</u>

33. Operating Profit

Operating profit adjusted by previous GAAP for the years ended December 31, 2011 and 2010 are as follows:

(in millions of Won)

	<u>2011</u>	<u>2010</u>
Operating profits by K-IFRS	₩ 5,408,101	5,433,520
Deducted		
Gains on disposal of property, plant, and equipment	(13,812)	(26,366)
Gain on disposal of investment of equity-accounted investees	(2,247)	(2,942)
Reversal of allowance for doubtful accounts	(86,451)	(3,796)
Miscellaneous income	(219,973)	(186,267)
Others	<u>(14,595)</u>	<u>(12,016)</u>
	<u>(337,078)</u>	<u>(231,387)</u>
Added		
Loss on disposal of property, plant, and equipment	60,550	83,494
Loss on disposal of investment property	8,826	11,896
Idle tangible assets expenses	16,881	795
Other bad debt expenses	28,081	12,877
Donations	66,558	74,343
Miscellaneous expenses	90,744	101,105
Others	<u>111,819</u>	<u>57,442</u>
	<u>383,459</u>	<u>341,952</u>
Operating profits by previous GAAP	₩ <u>5,454,482</u>	<u>5,544,085</u>

POSCO**Notes to Consolidated Financial Statements, Continued
For the years ended December 31, 2011 and 2010****34. Related Party Transactions**

(a) Significant transactions with related companies for the year ended December 31, 2011 and 2010 are as follows:

(In millions of Won)

	Sales and others (*1)		Purchase and others (*2)	
	2011	2010	2011	2010
Subsidiaries(*3)				
POSCO E&C Co., Ltd.	₩ 26,536	7,441	₩ 1,687,665	2,292,524
POSCO Processing & Service Co., Ltd.	1,181,088	1,082,903	1,406,245	478,030
POSCO Coated & Color Steel Co., Ltd.	593,656	685,698	1,890	3,178
POSCO ICT Co., Ltd.	1,537	1,212	507,883	485,525
POSCO Chemtech Company Ltd.	423,643	142,677	755,515	573,973
POSCO TMC Co., Ltd.	168,314	151,323	884	91
POSCO AST Co., Ltd.	319,258	267,323	58,475	57,180
Daewoo International Corp.	3,896,857	867,916	5,599	3,799
POSCO NST Co., Ltd.	186,809	9,256	4,734	-
POSCO America Corporation	353,904	233,594	1	-
POSCO Canada Ltd.	-	-	289,047	170,842
POSCO Asia Co., Ltd.	2,029,781	1,377,802	178,395	148,706
POSCO-Japan Co., Ltd.	1,628,069	1,161,919	34,860	272,282
POSCO-IPPC Pvt. Ltd.	148,343	164,628	-	-
POSCO-Mexico Co., Ltd.	347,915	273,241	176	-
Daewoo International Singapore Pte. Ltd.	-	-	149,029	12,447
Others	927,595	1,432,296	1,198,091	750,526
	₩ 12,233,305	7,859,229	₩ 6,278,489	5,249,103
Associates(*3)				
SNNC Co., Ltd.	4,787	1,763	447,130	519,871
USS-POSCO Industries	342,594	308,998	29	264
Poschrome(Proprietary) Ltd.	-	-	72,502	80,282
Others	213,232	31,528	59,444	303,446
	₩ 560,613	342,289	₩ 579,105	903,863
	₩ 12,793,918	8,201,518	₩ 6,857,594	6,152,966

(*1) Sales and others include sales and other operating income. Sales are mainly sales of steel products and these are priced on an arm's length basis.

(*2) Purchase and others include purchase and overhead cost. Purchases and others are mainly related to purchased of construction services and purchase of raw materials to manufacture steel products. These are priced on an arm's length basis.

(*3) As of December 31, 2100, the Company provided guarantees to related parties (note 35).

POSCO**Notes to Consolidated Financial Statements, Continued**
For the years ended December 31, 2011 and 2010

(b) Significant transactions with related companies the related account balances as of December 31, 2011, 2010 and January 1, 2010 are as follows:

	Receivables (*1)			Payables (*1)		
	2011	2010	January, 1 2010	2011	2010	January, 1 2010
<i>(in millions of Won)</i>						
Subsidiaries						
POSCO E&C Co., Ltd.	₩ 647	293	480	₩ 241,918	190,081	437,819
POSCO Processing & Service Co., Ltd.	88,838	129,133	114,783	1,512	6,842	2,696
POSCO Plantec Co., Ltd.	65	-	9	42,534	48,058	22,839
POSCO ICT Co., Ltd.	30	-	1	62,583	63,627	34,529
POSCO Coated & Color Steel Co., Ltd.	116,252	104,755	109,616	335	437	199
POSCO Chemtech Company Ltd.	37,808	33,743	6,880	82,048	62,669	66,008
POSCO TMC Co., Ltd.	21,601	11,823	11,678	134	15	24
POSCO AST Co., Ltd.	33,266	19,065	17,492	7,090	8,255	7,572
Daewoo International Corp.	284,125	139,756	-	1,589	-	-
POSCO NST Co., Ltd.	64,012	-	-	676	-	-
POSCO America Corporation	32,346	12,211	6,163	-	-	-
POSCO Asia Co., Ltd.	227,476	122,626	40,548	1,407	3,767	1,170
POSCO-TBPC Co., Ltd.	27,381	18,376	-	-	-	-
Qingdao Pohang Stainless Steel Co., Ltd.	6,713	13,805	24,404	-	-	-
POSCO-Vietnam Co., Ltd.	422	683	95,781	-	-	-
POSCO-Japan Co., Ltd.	52,362	28,515	25,972	1,546	4,958	6,701
POSCO-IPPC Pvt. Ltd.	3,484	10,412	12,356	-	-	-
POSCO-Mexico Co., Ltd.	171,908	80,443	16,247	-	-	-
Others	81,255	15,167	26,073	83,201	32,209	17,840
	₩ 1,249,991	748,349	526,839	₩ 526,573	420,918	617,397
Associates						
Posinate Co., Ltd.	₩ -	1,396	48	₩ 7,198	6,391	5,222
SNNC Co., Ltd.	223	182	1,974	23,187	57,512	26,963
USS-POSCO Industries	-	58,347	39,100	-	-	-
Others	21,160	7,231	176	809	29,714	78
	₩ 21,383	67,156	41,298	₩ 31,194	93,617	32,263
	₩ 1,271,374	815,505	568,157	₩ 557,767	514,535	649,660

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

(c) For the years ended December 31, 2011 and 2010, details of compensation to key management officers are as follows:

	2011	2010
<i>(in millions of Won)</i>		
Short-term benefits	₩ 93,231	72,753
Other long-term benefits	23,407	16,757
Retirement benefits	26,971	21,110
	₩ 143,609	110,620

PUBLIC
FILE
167

POSCO
Notes to Consolidated Financial Statements, Continued
For the years ended December 31, 2011 and 2010

Key management officers include directors (including non-standing directors), executive officials and fellow officials who have significant influence and responsibilities in the Company's business and operations. In addition to compensation described above, the Company provided stock appreciation rights to its executive officers and recorded reversal of stock compensation expenses amounted to ₩ 4,223 million and ₩13,227 million, respectively, for the years ended December 31, 2011 and 2010 (note 24).

POSCO
Notes to Consolidated Financial Statements, Continued
For the years ended December 31, 2011 and 2010

35. Commitments and Contingencies

(a) Details of guarantees

Contingent liabilities on outstanding guarantees provided by the Company as of December 31, 2011, are as follows:

Guarantors	Guarantee beneficiary	Financial Institution	Foreign Currency	Won Equivalent
[The Company]				
POSCO	Guangdong Pohang Coated Steel Co., Ltd.	SMBC and others	USD 122,600,000	141,395
	POSCO Investment Co., Ltd.	BOC and others	CNY 630,000,000	114,981
		HSBC	MYR 240,000,000	87,110
		HSBC and others	USD 255,000,000	294,092
	POSCO Mahamahita Steel Pvt. Ltd.	Export-Import Bank of Korea and others	USD 143,000,000	164,922
	POSCO VST Co., Ltd.	ANZ(Tapei) and others	USD 65,000,000	74,965
	POSCO-Mexico Co., Ltd.	HSBC and others	USD 60,000,000	69,198
	POSCO-VIETNAM Co., Ltd.	Export-Import Bank of Korea and others	USD 230,000,000	265,259
		Mizuho and others	JPY 4,806,760,000	71,388
	Zhangjiagang Pohang Stainless Steel Co., Ltd.	Mizuho and others	USD 160,000,000	184,528
	Zeus (Cayman) Ltd.	Creditor	JPY 12,825,000,000	190,472
	Zeus (Cayman) II Ltd.	Creditor	JPY 24,526,000,000	364,250
Daewoo International Corporation	Daewoo (China) Co., Ltd.	Hana Bank	USD 15,000,000	17,300
	Daewoo Cement (Shandong) Co., Ltd.	Other overseas financial institution	EUR 24,565,296	36,703
		Korea Exchange Bank	CNY 43,000,000	7,848
		Export-Import Bank of Korea and others	USD 29,832,409	34,406
	Daewoo International America Corp.	Shinhan Bank	USD 500,000	577
	Daewoo International Australia Holdings Pty. Ltd.	Korea Exchange Bank	USD 7,198,000	8,301
	Daewoo International Japan Corp.	Shinhan Bank	JPY 1,000,000,000	14,852
		ANZ_KOREA	JPY 1,000,000,000	14,852
		MIZUHO	JPY 1,500,000,000	22,277
		SMBC	JPY 1,500,000,000	22,277
	Daewoo International Shanghai Pty. Ltd.	MIZUHO	USD 10,000,000	11,533
	Daewoo Paper Manufacturing Co., Ltd.	HSBC	USD 12,300,000	14,416
	Daewoo Textile Bukhara LLC	Export-Import Bank of Korea and others	USD 29,100,000	33,561
	Daewoo International MEXICO S.A. de C.V.	SMBC	USD 25,000,000	28,833
	PT. Bio Inti Agrindo	Export-Import Bank of Korea	USD 7,000,000	8,073
	POSCO E&C Vietnam Co., Ltd.	Korea Exchange Bank	USD 5,000,000	5,767
POSCO E&C Co., Ltd.		Export-Import Bank of Korea and others	USD 18,000,000	20,759
		POSCO Investment Co., Ltd.	USD 9,500,000	10,956
	HONG KONG POSCO E&C (CHINA) Investment Co., Ltd.	Woori Bank	USD 30,000,000	34,599
	International Business Center Corporation	Export-Import Bank of Korea and others	USD 20,000,000	23,066
POSCO P&S Co., Ltd.	POSCO Canada Pty., Ltd.	Hana Bank	USD 12,484,500	14,398
POSCO ICT Co., Ltd.	VECTUS Ltd.	POSCO Investment Co., Ltd.	USD 2,000,000	2,307
	POSCO ICT Indonesia	POSCO Investment Co., Ltd.	USD 1,500,000	1,730
POSCO Energy Co., Ltd.	PSC Energy Global Co., Ltd.	Other foreign banks	USD 129,879,356	149,790
	TECHREN Sales, LLC	Woori Bank	USD 9,571,600	11,039
Pos Calcium CO., Ltd.	Pos Calcium CO., Ltd.	Seoul Guarantee Insurance Co., Ltd.	KRW 48,982,500	49
	POSCO-JKPC Co., Ltd.	Higo bank and others	JPY 1,867,200,000	27,731
	POSCO-JNPC Co., Ltd.	Mizuho Bank and others	JPY 2,110,000,000	31,337
POSCO JAPAN Co., Ltd.	POSCO-JOPC Co., Ltd.	Mizuho Bank and others	JPY 1,847,500,000	27,438
	POSCO-JYPC Co., Ltd.	Mizuho Bank and others	JPY 1,333,780,580	19,809
Daewoo Textile Pergana LLC	Daewoo Textile Bukhara LLC	NBU	UZS 6,519,920,000	4,213
POSCO E&C (CHINA) Co., Ltd.	HONG KONG POSCO E&C (China) Investment Co., Ltd.	KB Bank(Seoul)	KRW 102,000,000,000	102,000
		Woori Bank(Beijing branch)	USD 33,000,000	38,059

POSCO
Notes to Consolidated Financial Statements, Continued
For the years ended December 31, 2011 and 2010

Guarantors	Guarantee beneficiary	Financial institution	Foreign Currency	Won Equivalent
[Associate]				
POSCO	BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	BOC and others	CNY 316,860,000	57,830
	United Spinal Pipe, LLC		USD 8,220,000	9,480
	DMSA, AMSA	Shinhan Bank	USD 24,500,000	28,256
Daewoo International Corporation		Other Bank	USD 123,866,667	142,855
		Other overseas financial institution	USD 16,133,333	18,607
	GLOBAL KOMSCO Daewoo LLC	Export-Import Bank of Korea and others	USD 5,950,000	6,862
POSCO E&C Co., Ltd.	PSIB Co., Ltd.	Hana Bank	KRW 356,600,000,000	356,600
	Taegisan Wind Power Corporation	Korea Development Bank	KRW 7,500,000,000	7,500
	CHUNGIU ENTERPRISE CITY DEVELOPMENT Co., Ltd.	NH Bank	KRW 22,458,760,000	22,459
	Pohang Technovalley Pvf Co. Ltd	Shinhan Bank	KRW 7,140,000,000	7,140
POSCO P&S Co., Ltd.	Sebang Steel	Fukuoka Bank	JPY 245,000,000	3,639
POSCO ICT Co., Ltd.	Uhrans LRT Co., Ltd.	Construction Guarantee Cooperative	KRW 64,637,717,095	64,638
	CHUNGIU ENTERPRISE CITY DEVELOPMENT Co., Ltd.	NH Bank	KRW 2,530,000,000	2,530
POSCO China Co., Ltd.	POSCO SeAH Steel Wire (Nantong) Co., Ltd.	POSCO Investment Co., Ltd.	USD 7,500,000	8,650
Daewoo(China) Co., Ltd.	Shanghai Lansheng Daewoo Coporation	China Construction Bank	CNY 100,000,000	18,251
[Others]				
Daewoo International Corporation	Armbatovy Project Investments Limited	Export-Import Bank of Korea and others	USD 46,653,812	53,806
	Sherritt International Corporation	Export-Import Bank of Korea and others	USD 6,090,268	7,024
POSCO E&C Co., Ltd.	Cooperative	NH Bank and others	KRW 3,000,000,000	3,000
	Other cooperatives	ABCP and others	KRW 935,687,702,025	935,688
	1st ALDJ PFV, Ltd	Hana Bank and others	KRW 277,212,000,000	277,212
	THE GALE INVESTMENTS COMPANY, L.L.C. and others	Woori Bank	USD 50,000,000	57,665
POSCO P&S Co., Ltd.	Asia Speciality Steel Co., Ltd.	Yamaguchi Bank	JPY 2,700,000,000	40,099
	QIP	Bank Muscat, Bank Sohar	USD 12,000,000	13,840
POSCO Plant Engineering Co., Ltd.	Oyeongpo wind power generation and oil	KB Bank	KRW 235,638,897,793	235,639
	GS CALTEX HOU and others	Korea Exchange Bank and others	USD 14,025,043	16,175
POSCO ICT Co., Ltd.	BTL business and others	Kyobo Life Insurance Co., Ltd and ot	KRW 1,604,990,406,464	1,604,990
POSCO M-TECH Co., Ltd.	PYUNGSAN SI Co., Ltd	Seoul Guarantee Insurance Co., Ltd.	KRW 441,611,863	442
	Hyundai Hysco Co., Ltd.	Seoul Guarantee Insurance Co., Ltd.	KRW 2,194,500,000	2,195
Daewoo Engineering Co., Ltd.	Kwanma Solar Co., Ltd. and others	Hana Bank	KRW 50,509,662,000	50,510
	Hyundai ENG Co., Ltd.	Engineering Financial Cooperative	KRW 65,937,188,179	65,937
PHP Co., Ltd	Expo apt	KB Bank	KRW 387,849,000,000	387,849
Daewoo Cement (Shandong) Co., Ltd.	SDAC	Bank of China	USD 35,000,000	40,366
			CNY 1,089,860,000	198,910
			EUR 24,565,296	36,703
			JPY 57,261,240,580	850,421
			KRW 4,126,376,427,919	4,126,376
			MYR 240,000,000	87,110
			USD 1,792,604,988	2,067,411
			UZS 6,519,920,000	4,213

(b) POSCO E&C Co., Ltd. has provided the completion guarantees for Samsung C&T Corporation and Namkwang Engineering & Construction Co., Ltd. amounting to ₩ 2,748,647 million. POSCO E&C Co., Ltd. provides payment guarantees on borrowings of customers such as Asset Backed Commercial Paper amounted to ₩ 695,343 million and Project Financing loan amounted to ₩ 444,836 million as of December 31, 2011.

POSCO
Notes to Consolidated Financial Statements, Continued
For the years ended December 31, 2011 and 2010

(c) Other commitments

POSCO	<p>POSCO 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 December 31, 2011, 261 million tons of iron ore and 38 million tons of coal remained to be purchased under such long-term contracts.</p> <p>POSCO entered into an agreement with Tangguh Liquefied Natural Gas (LNG) Consortium in Indonesia regarding the commitment to purchase 550 thousand tons of LNG annually for 20 years commencing in August 2005. Purchase price is subject to change, following the change of the monthly standard oil price (JCC) and also price ceiling is applicable.</p> <p>As of December 31, 2011, POSCO 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, USD 3.54 million and USD 4.12 million, respectively. The borrowings are related to the exploration of gas hydrates in Aral Sea, Uzbekistan, the exploration of gas hydrates in Namangan-Chust and the exploration of gas hydrates in Chinabad, west-Fergana,, respectively. The repayment of borrowings depends on the success of the projects. POSCO is not liable for the repayment of full or part of the money borrowed if the respective project fails. POSCO has agreed to pay a certain portion of its profits under certain conditions, as defined by borrowing agreements.</p>
POSCO E&C Co., Ltd	<p>To contractors involved in some of the construction contracts operator and financial institutions by agreement with the work of the operating funds operator ₩ 81,254 million deposit. POSCO E&C Co., Ltd manage the deposit accounts as a memorandum account without separate accounting treatment reflecting the economic substance because the operator is the owner of above-mentioned account.</p> <p>POSCO E&C Co., Ltd has bank overdraft agreements of up to ₩ 20,000 million with Woori Bank which is included in the limit of comprehensive loan agreements and ₩ 3,000 million with Korea Exchange Bank. Also POSCO E&C Co., Ltd. has comprehensive loan agreements of up to ₩ 260,000 million and USD 308 million with Woori Bank and ₩ 53,000 million with Korea Exchange Bank.</p>
POSCO ICT Co., Ltd.	<p>POSCO ICT Co., Ltd. has entered into the repayment agreement with SMS Energy Co.,Ltd., which borrowed money from several lenders including Hana Bank, for its new and renewable energy business. According to the agreement, if the borrower cannot redeem the loan, POSCO ICT Co., Ltd. should repay or undertake it amounting to ₩ 300,126 million and should take charge of revenues from selling electric power after the repayment. Also, if the borrower cannot run the new and renewable energy business due to default and bankruptcy, POSCO ICT Co., Ltd. may acquire the business unit from the borrower.</p>
POSCO Specialty Steel Co., Ltd.	<p>POSCO Specialty Steel Co., Ltd. has a loan agreement, secured by trade accounts receivable, of up to ₩280,000 million with Woori Bank and others. POSCO Specialty Steel Co., Ltd. has used ₩ 147,547 million of this loan agreement.</p> <p>POSCO Specialty Steel Co., Ltd. has agreements with Woori Bank and nine other banks for opening letters of credit of up to USD 98 million, and for a loan of up to ₩102,255 million. POSCO Specialty Steel Co., Ltd. has used USD 0.6 million, CHF 1.6 million, JPY 95 million and EUR 0.6 million for opening letters of credit and ₩ 9,737 million for a loan.</p>

POSCO
Notes to Consolidated Financial Statements, Continued
For the years ended December 31, 2011 and 2010

(d) Litigation in progress

As of December 2011, the Company and certain subsidiaries are defendants in legal actions arising from the normal course of business. Details of amount claimed are as follows:

(in millions of Won, in thousand of foreign currencies)

Company	Legal actions	Amount	Legal equivalent amount	Description
POSCO	12	KRW 8,806	8,806	Lawsuit on the claim for damages
POSCO E&C Co., Ltd.	44	KRW 31,067	31,067	Lawsuit on the claim for payment
POSCO P&S Co., Ltd.	1	KRW 931	931	Lawsuit on the claim for damages
POSCO Plant Engineering Co., Ltd.	4	KRW 3,088	3,088	Lawsuit on the claim for payment
POSCO ICT Co., Ltd.	8	KRW 2,211	2,211	Lawsuit on the claim for payment
Seung Gwang Co., Ltd.	2	KRW 2,277	2,277	Imposed high tax rate
POSCO E&C (China) Co., Ltd.	1	CNY 3,790	692	Lawsuit on the claim for payment of work completed related with the subcontractor and second
POSCO Engineering Co., Ltd. (formerly Daewoo Engineering Co., Ltd.)	8	KRW 20,774	20,774	Lawsuit on the claim for damages
POSBRO Co., Ltd.	1	KRW 435	435	Lawsuit on the claim for payment
Daewoo International Corporation	1	CNY 30,000	5,475	Lawsuit on the claim for damages
	1	EUR 5,000	7,471	
	1	INR 4,458,849	97,025	
	3	KRW 711	711	
	3	USD 824	951	
	1	UYU 1,103	66	

The Company believes that although the outcome of these matters is uncertain, the impacts of these matters are not expected to be material to the Company.

(e) Other contingencies

As of December 31, 2011, POSCO has provided three blank promissory notes and one blank check to Korea Resources Corporation as collateral for long-term domestic borrowings, and has provided six blank promissory notes and three blank checks to Korea National Oil Corporation as collateral for long-term foreign currency borrowings.

As of December 31, 2011, POSCO E&C Co., Ltd. has provided ten blank promissory notes, ten blank checks and six other notes, amounting to ₩61,704 million approximately, to Korea Housing Guarantee Co., Ltd. and other financial institutions as collateral for agreements and outstanding loans.

Daewoo International Co., Ltd has provided fifty-six blank promissory notes to Korea National Oil Corporation as collateral for the guarantee on performance for contracts and others.

POSCO
Notes to Consolidated Financial Statements, Continued
For the years ended December 31, 2011 and 2010

36. Cash Flows from Operating Activities

(a) Adjustments for operating cash flows for the years ended December 31, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Depreciation (*1)	₩ 2,133,011	2,960,550
Amortization	133,288	75,344
Finance income (*2)	(1,734,280)	(879,110)
Finance costs (*2)	2,245,957	1,278,630
Income tax expense	1,068,109	1,081,472
Share of profit or loss of equity-accounted investees	(50,569)	(182,657)
Accrual of severance benefits	236,999	173,971
Bad debt expenses	45,477	60,266
Others	186,374	49,449
	<u>₩ 4,264,366</u>	<u>4,617,915</u>

(*1) Depreciation expense of investment properties is included.

(*2) Finance income and finance costs do not contain gains or losses on foreign currency transaction and gains or losses on foreign currency translation.

(b) Changes in operating assets and liabilities for the years ended December 31, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Trade accounts and notes receivable	₩ (2,402,346)	(538,949)
Other financial assets	(187,607)	226,211
Inventories	(2,538,178)	(3,518,927)
Other current assets	(310,397)	(137,246)
Other long-term assets	47,929	(77,912)
Accounts payable	265,993	(342,177)
Other financial liabilities	260,306	35,008
Other current liabilities	384,943	185,226
Provisions	(36,511)	9,157
Payment of severance benefits	(574,759)	(90,951)
Plan assets	252,671	(140,173)
Other long-term liabilities	(12,791)	(62,737)
	<u>₩ (4,850,747)</u>	<u>(4,453,470)</u>

POSCO

Notes to Consolidated Financial Statements, Continued
For the years ended December 31, 2011 and 2010

37. Operating Segments

- (a) Our operating businesses are organized based on the nature of markets and customers. We have four reportable operating segments— steel, construction, trading and others. The steel segment includes production of steel products and revenue of such products. The engineering and construction segment includes planning, designing and construction of industrial plants, civil engineering projects and commercial and residential buildings, both in Korea and overseas. The trading segment consists of exporting and importing a wide range of steel products and raw materials that are both obtained from and supplied to POSCO, as well as between other suppliers and purchasers in Korea and overseas.
- (b) The segment results are measured based on amounts in accordance with K-IFRS without any adjustment for corporate allocations and segment profit is after tax amounts. The segment assets and liabilities are measured based on total assets and liabilities in accordance with K-IFRS without any adjustment for corporate allocations.
- (c) Revenue and segment profit of each segment for the years ended December 31, 2011 and 2010 are as follows:

1) For the year ended December 31, 2011

<i>(in millions of Won)</i>	Steel	Trading	Construction	Others	Consolidation adjustments (*1)	Total
External revenues	39,151,930	21,097,356	5,476,209	3,213,230	-	68,938,725
Internal revenues	(17,138,610)	(7,525,555)	(2,996,933)	(2,446,417)	-	(30,107,515)
Interest income	154,671	43,842	22,744	22,025	(27,048)	216,234
Interest expenses	551,478	93,532	69,050	110,615	(36,327)	788,348
Depreciation and amortization	2,128,182	37,320	31,238	178,429	(108,870)	2,266,299
Share of profit or loss of equity-accounted investees	(33,364)	-	-	(6,888)	90,818	50,569
Income tax expense	1,111,709	35,322	22,536	16,454	(117,912)	1,068,109
Segments profit	3,689,461	195,298	154,618	155,277	(480,368)	3,714,286
Investment in associates	14,226,687	1,899,762	918,079	186,490	(13,396,434)	3,834,584
Acquisition of non-current assets	W 9,385,381	607,076	207,619	594,514	(241,343)	10,553,247

(*1) Consolidation adjustment means eliminated intercompany transactions, residuals, unrealized profit and loss related to preparing consolidated financial statements.

2) For the year ended December 31, 2010

<i>(in millions of Won)</i>	Steel	Trading	Construction	Others	Consolidation adjustments(*1)	Total
External revenues	35,527,373	6,236,030	4,348,796	1,775,056	-	47,887,255
Internal revenues	(10,725,583)	(3,174,342)	(3,574,669)	(1,104,332)	-	(18,578,926)
Interest income	243,306	5,829	25,312	23,986	(5,505)	292,928
Interest expenses	425,024	27,859	60,292	91,799	(18,091)	586,883
Depreciation and amortization	2,949,227	16,613	30,545	74,079	(34,569)	3,035,893
Share of profit or loss of equity-accounted investees	(1,324)	(852)	-	(9,516)	194,348	182,656
Income tax expense	1,025,156	(47,967)	69,780	5,080	39,423	1,081,472
Segments profit	4,088,737	94,014	356,183	12,913	(266,196)	4,185,651
Investment in associate	11,694,102	1,664,760	601,539	39,845	(10,693,841)	3,306,423
Acquisition of non-current assets	W 10,500,517	669,485	169,591	1,480,715	3,116,884	15,937,192

(*1) Consolidation adjustment means eliminated intercompany transactions, residuals, unrealized profit and loss related to preparing consolidated financial statements.

POSCO
Notes to Consolidated Financial Statements, Continued
For the years ended December 31, 2011 and 2010

(d) Financial positions of each segment as December 31, 2011, 2010 and January 1, 2010 are as follows:

1) December 31, 2011

<i>(In millions of Won)</i>	Steel	Trading	Construction	Others	Consolidation adjustments (*1)	Total
Assets						
Current assets	20,943,153	7,844,405	6,770,417	3,193,162	(5,194,227)	33,556,910
Non-current assets	47,018,230	4,276,155	1,994,281	3,470,135	(11,906,874)	44,851,927
	67,961,383	12,120,560	8,764,698	6,663,297	(17,101,101)	78,408,837
Liabilities						
Current liabilities	11,421,186	7,150,414	4,324,096	2,238,771	(5,529,110)	19,605,357
Non-current liabilities	11,748,724	2,556,208	1,230,001	2,289,512	249,116	18,073,561
	23,169,910	9,706,622	5,554,097	4,528,283	(5,279,994)	37,678,918

(*1) Consolidation adjustment means eliminated intercompany transactions, residuals, unrealized profit and loss related to preparing consolidated financial statements.

2) December 31, 2010

<i>(In millions of Won)</i>	Steel	Trading	Construction	Others	Consolidation adjustments (*1)	Total
Assets						
Current assets	18,484,564	6,144,044	4,735,659	2,030,014	(3,721,904)	27,672,377
Non-current assets	42,289,172	3,461,662	1,741,701	2,948,123	(8,694,609)	41,746,049
	60,773,736	9,605,706	6,477,360	4,978,137	(12,416,513)	69,418,426
Liabilities						
Current liabilities	11,171,303	5,864,783	3,174,657	1,650,165	(3,584,131)	18,272,777
Non-current liabilities	8,398,810	1,654,248	457,709	1,757,701	336,014	12,604,482
	19,570,113	7,519,031	3,632,366	3,407,866	(3,248,117)	30,881,259

(*1) Consolidation adjustment means eliminated intercompany transactions, residuals, unrealized profit and loss related to preparing consolidated financial statements.

3) January 1, 2010

<i>(In millions of Won)</i>	Steel	Trading	Construction	Others	Consolidation adjustments (*1)	Total
Assets						
Current assets	16,581,002	868,757	4,013,112	1,395,054	(2,428,070)	20,429,855
Non-current liabilities	33,832,385	484,705	1,903,873	2,223,557	(7,347,228)	31,097,292
	50,413,387	1,353,462	5,916,985	3,618,611	(9,775,298)	51,527,147
Liabilities						
Current liabilities	6,319,553	832,316	2,747,825	1,239,736	(2,125,799)	9,013,631
Non-current liabilities	7,475,908	6,906	1,018,288	993,512	(314,780)	9,179,834
	13,795,461	839,222	3,766,113	2,233,248	(2,440,579)	18,193,465

(*1) Consolidation adjustment means eliminated intercompany transactions, residuals, unrealized profit and loss related to preparing consolidated financial statements.

POSCO
Notes to Consolidated Financial Statements, Continued
For the years ended December 31, 2011 and 2010

(e) As of December 31, 2011, 2010, adjustment for segment's profit and loss differences are as follows:

<i>(in millions of Won)</i>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Segments profit	4,194,654	4,451,847
Elimination of intersegment profits	(480,368)	(266,196)
Income tax expense	1,068,109	1,081,472
Profit before income tax expense	4,782,395	5,267,123

(f) Revenue by geographic area for years ended December 31, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>		<u>December 31, 2011</u>	<u>December 31, 2010</u>
Domestic	₩	53,986,926	37,759,641
Japan		2,386,578	1,503,703
China		6,070,588	5,133,279
Asia		2,645,428	1,763,108
North America		1,281,906	426,138
Others		2,567,299	1,301,386
	₩	<u>68,938,725</u>	<u>47,887,255</u>

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers.

(g) Non-current assets by geographic area as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows:

<i>(in millions of Won)</i>		<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Domestic	₩	29,386,052	27,145,016	21,141,361
Japan		320,009	292,742	267,777
China		1,474,983	1,384,862	1,047,802
Asia		1,752,302	754,191	744,832
North America		110,702	72,809	29,460
Others		1,181,597	900,654	423,953
	₩	<u>34,225,645</u>	<u>30,550,274</u>	<u>23,655,185</u>

Non-current assets by geographic area include investment property, property, plant and equipment, goodwill and other intangible assets. In preparing information on the basis of geography, segment non-current assets are based on the geographical location of the assets.

POSCO**Notes to Consolidated Financial Statements, Continued
For the years ended December 31, 2011 and 2010****38. Business Combinations****(a) Daewoo International Corporation**

POSCO acquired a 68.15% controlling financial interest in Daewoo International Corporation, a Korean Company listed on the Korean Securities Exchange ("Daewoo International"), for ₩ 3,371,481 million in cash in 2010. The acquisition was consummated on September 20, 2010. Daewoo International is engaged in various business activities, such as providing export services, export agent services, intermediary trading, manufacturing, distribution and natural resource development. As a result of the acquisition, the Company expects to enhance its competitiveness through securing the export capability and to create the synergy effect between the Company and its subsidiaries. The results of operations of Daewoo International Corporation have been consolidated from the date of acquisition. Therefore, comparability with POSCO's consolidated financial statements for prior years is impacted accordingly.

Goodwill recognised as a result of POSCO's acquisition of Daewoo International Corporation was as follows:

<i>(in millions of Won)</i>	<u>Amount</u>
I. Consideration transferred	₩ 3,371,481
II. Non-controlling interests (*1)	1,042,678
Total	<u>4,414,159</u>
III. Acquired identifiable assets and liabilities	
[A]ssets]	
Cash and cash equivalents	403,971
Trade accounts and notes receivable and other financial assets	2,881,084
Inventories	722,807
Property, plant and equipment and intangible assets	3,182,679
Other assets	1,642,274
Total	<u>8,832,815</u>
[L]iabilities]	
Trade accounts and notes payable and other financial liabilities	1,058,922
Borrowings	3,733,623
Other liabilities	790,033
Total	<u>5,582,578</u>
Total acquired net assets	<u>3,250,237</u>
VI. Goodwill recognized	<u>₩ 1,163,922</u>

(*1) Non-controlling interests are measured by their proportion of fair value of net assets identifiable.

POSCO
Notes to Consolidated Financial Statements, Continued
For the years ended December 31, 2011 and 2010

The fair value of property, plant and equipment and intangible assets (customer relationship and trademark) have been determined based on an independent valuation.

If the Company had acquired Daewoo International Corporation as of January 1, 2010, consolidated sales and net income for the year ended December 31, 2010 would have been ₩ 57,967,590 million and ₩ 4,129,693 million, respectively. The Company's consolidated sales and net income for the period September 20, 2010 through December 31, 2010 were ₩ 3,951,609 million and ₩ 870,295 million, respectively.

(b) POSCO-Thainox Public Company Limited.

The Company has acquired shares in POSCO-Thainox Public Company Limited. from the previous largest shareholder on September 23, 2011 to strengthen global competitiveness and preoccupy in stainless steel market. The Company obtained control of POSCO-Thainox Public Company Limited. since the percentage of shares increased from 15.39% to 75.32%. Goodwill recognised in this business combination is as follows:

(in millions of Won)

	<u>Amount</u>
I. Consideration transferred	
Acquisition cost of existing shares	₩ 42,302
Fair value adjustment of existing shares (*1)	57,080
Cash	390,474
Total	<u>489,856</u>
II. Non-controlling interests (*2)	121,413
Total	<u>611,269</u>
III. Acquired identifiable assets and liabilities	
[Assets]	
Cash and cash equivalents	62,080
Trade accounts and notes receivable and other financial assets	102,464
Inventories	149,901
Property, plant and equipment and intangible assets	340,487
Other assets	20,129
Total	<u>675,061</u>
[Liabilities]	
Trade accounts and notes payable and other financial liabilities	147,382
Borrowings	11,803
Other liabilities	23,867
Total	<u>183,052</u>
Total acquired net assets	<u>492,009</u>
VI. Goodwill recognized	<u>₩ 119,260</u>

POSCO
Notes to Consolidated Financial Statements, Continued
For the years ended December 31, 2011 and 2010

- (*1) Fair value adjustment of ₩ 57,080 million was calculated by revaluing existing shares to fair value, which was recognised as other operating income.
- (*2) Non-controlling interests are measured by their proportion of fair value of net assets identifiable.

After obtaining control, Company acquired additional 19.61% of shares amounting to ₩ 126,927 million through tender offer. In results, the percentage of shares increased from 75.32% to 94.93% as of December 31, 2011. Carrying value of POSCO-Thainox Public Company's net assets is ₩ 667,571 million. Regarding this transaction, non-controlling interests decreased by ₩ 95,885 million and related differential amounts amounting to ₩ 31,043 million was deducted from consolidated capital surplus since it is equity transaction between consolidated entities.

If the Company had acquired POSCO-Thainox Public Company Limited as of 1 January, 2011, sales and net income in the consolidated financial statement are ₩ 69,243,204 million and ₩ 3,726,225 million, respectively. After acquisition date, sales and net income of this subsidiary are ₩ 92,798 million and ₩ 11,658 million, respectively.

39. Transition to K-IFRS

The previously issued consolidated financial statements as of December 31, 2010 and the statements of financial position at the date of transition are stated in accordance with previous GAAP. However these consolidated financial statements have been prepared in accordance with K-IFRS 1101 *"First-time Adoption of Korean International Financial Reporting Standards"*.

Accordingly, the Company adjusted the financial statements as of December 31, 2010 and previous statements of financial position at the date of transition reported in accordance with previous GAAP. The transition from previous GAAP to K-IFRS affected its reported financial position, financial performance and cash flows is as follows:

- (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 No. 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 of prior to the date of transition to K-IFRS as deemed cost at the date of transition for certain items of property, plant and equipment and use

POSCO
Notes to Consolidated Financial Statements, Continued
For the years ended December 31, 2011 and 2010

the fair value at the date of transition as deemed cost at the date of transition 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) Cumulative translation differences

The Company has elected to set the previously cumulative translation differences to zero at the date of transition and these exemption are applied to all foreign operations.

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.

POSCO
Notes to Consolidated Financial Statements, Continued
For the years ended December 31, 2011 and 2010

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

1) Employee Benefits

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 statement of financial position. Under K-IFRS, the Company recognized defined benefit obligation based on actuarial assumptions.

2) Goodwill acquired in the business combination or a gain from a bargain purchase

Under previous GAAP, the Company amortized goodwill acquired in a business combination on a straight-line method of less than 20 years and a gain from a bargain purchase reversed in weighted average useful life of depreciable assets. Under K-IFRS, goodwill is not amortized, but is tested for impairment annually. Also, a gain from a bargain purchase is recognized in profit or loss on the acquisition date.

3) Transfer of financial assets

Under previous GAAP, the Company recognized transfer of the financial assets to financial institution as disposal transaction when the control is transferred. Under K-IFRS, if the Company retains substantially all the risks and rewards of ownership of the financial asset, it is recognized in the financial liabilities instead of derecognition of financial assets.

4) Deferred taxes

Under previous GAAP, the Company recognized deferred tax assets or deferred tax liabilities as the difference between the book base and its tax base regarding the investment in subsidiaries and others. However, under K-IFRS, the Company recognizes deferred tax assets or deferred tax liabilities considering how the temporary differences will be realized.

5) A lot-solid apartment after rental

Under previous GAAP, a lot-solid apartment after rental is accounted for as an operating lease. Under K-IFRS, a lot-solid apartment of the rental is accounted for as a finance lease.

POSCO
Notes to Consolidated Financial Statements, Continued
For the years ended December 31, 2011 and 2010

(c) Changes in scope of subsidiaries

	Changes	Subsidiaries
Inclusion(35)	Included in the scope of consolidation under K-IFRS. These entities were not consolidated under K-GAAP since their total assets were less than ₩10 billion.	PT. POSNESIA, Qingdao Pos-metal Co., Ltd., POSCO E&C India Private Ltd., POSCO E&C SMART, Pohang SFC Co., Ltd., POSWITH Co., Ltd., Basis Industries, Dalian POSCON Dongbang Automatic Co., Ltd., SANPU TRADING CO., LTD., Zhangjiagang BLZ Pohang International Trading Co., Ltd., POSCO Australia GP Limited, POSCO Mexico Human Tech., POSCO Mexico East Steel Distribution Center Co., Ltd., POSTECH BD Newundertaking fund, POSCO Gulf Logistics LLC., POSBRO Co., Ltd., POSCO ICT-China, DWEMEX S.A.DE C.V., POS MPC Servicios de C.V., EUROTALY S.A., POSCO South East Asia Pte. Ltd., VECTUS Ltd., POMIC Co., Ltd., POSCO Maharashtra Steel Pvt. Ltd., POSCO India Chennai Steel Processing Centre Pvt. Ltd., POSCO Turkey Nilufer Processing Center, POSCO Vietnam Ha Noi Processing Center Co., Ltd., POSCO (Liaoning) Automotive Processing Center Co., Ltd., POSCO E&C Venezuela C.A, POSFINE Co., Ltd., PT. MRI, Mapo high broad parking Co., Ltd., Dakos Co., Ltd., POSCALCIUM Company, Ltd
	Included in the scope of consolidation under K-IFRS, SIC12: Consolidation-Special Purpose Entities	ZEUS(Cayman) Ltd.
Exclusion(5)	The Company owns less than 50% of voting power. These entities are excluded from the scope of consolidation assuming that the Company does not have de facto control.	Metapolis Co., Ltd., POSMATE Co., Ltd., POSCO M-TECH Co., Ltd., Universal Studios Resort Asset Management Corp., VSC POSCO Steel Corporation

(d) Effects on financial position, financial performance and cash flows by the transition from previous GAAP to K-IFRS

1) Reconciliations of the financial position on January 1, 2010:

<i>(in millions of Won)</i>	Total assets	Total liabilities	Total equity
Previous GAAP	₩ 50,311,748	18,647,434	31,664,314
Adjustments :			
Changes of consolidation	(455,814)	(526,348)	70,534
Revaluation of machinery and equipment	1,939,001	-	1,939,001
Transfer of a financial asset	111,759	111,932	(173)
Recognition of financial guarantee liabilities	6,295	6,295	-
Reversal of negative goodwill	10,352	-	10,352
Actuarial valuation of defined benefit liabilities	(63)	36,603	(36,666)
Finance lease	(355,899)	(359,542)	3,643
Construction contracts	448,066	428,736	19,330
Other adjustments	(192,101)	467	(192,568)
Deferred tax effect	(296,198)	(152,112)	(144,086)
Total adjustments	1,215,398	(453,969)	1,669,367
K-IFRS	₩ 51,527,146	18,193,465	33,333,681

POSCO
Notes to Consolidated Financial Statements, Continued
For the years ended December 31, 2011 and 2010

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

<i>(in millions of Won)</i>	Total assets	Total liabilities	Total equity	Net income	Total comprehensive income
Previous GAAP	₩ 67,945,933	30,744,512	37,201,421	4,217,695	4,840,977
Adjustments :					
Changes in scope of consolidated companies	(1,246,713)	(985,200)	(261,513)	206,889	130,970
Revaluation of machinery and equipment	1,633,056	-	1,633,056	(305,945)	(305,945)
Transfer of a financial asset	1,344,849	1,338,732	6,117	1,635	1,635
Recognition of financial guarantee liabilities	21,304	27,443	(6,139)	(1,618)	(1,618)
Reversal of negative goodwill	9,819	-	9,819	9,819	9,819
Withdrawal of amortization on goodwill	68,364	-	68,364	68,364	68,364
Actuarial valuation of defined benefit liabilities	(4,067)	91,357	(95,424)	144,073	(8,052)
Finance lease	(542,848)	(557,959)	15,111	11,469	11,469
Construction contracts	367,427	339,184	28,243	(2,942)	(2,942)
Capitalization of financial cost	63,382	92,186	(28,804)	1,733	1,733
Other adjustments	(89)	260,492	(260,581)	(221,402)	(36,850)
Deferred tax effect	(241,991)	(469,488)	227,497	55,881	55,881
Total adjustments	1,472,493	136,747	1,335,746	(32,044)	(75,536)
K-IFRS	₩ 69,418,426	30,881,259	38,537,167	4,185,651	4,765,441

3) Cash flow statement

Under K-IFRS, 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 flow operating activities. 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.

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151

POSCO

**Separate Financial Statements
December 31, 2011**

(With Independent Auditors' Report Thereon)

Table of Contents

	Page
Independent Auditors' Report	1
Separate Financial Statements	
Separate Statements of Financial Position	3
Separate Statements of Comprehensive Income	5
Separate Statements of Changes in Equity.....	6
Separate Statements of Cash Flows	7
Notes to Separate Financial Statements	8
Independent Accountants' Review Report on Internal Accounting Control System	76
Report on the Operations of Internal Accounting Control System	77

Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors and Stockholders
POSCO:

We have audited the accompanying separate statements of financial position of POSCO (the "Company") as of December 31, 2011, 2010, and January 1, 2010 and related separate statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and 2010. Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these separate financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the separate financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011, 2010 and January 1, 2010 and the results of its operations and its cash flows for the years ended December 31, 2011 and 2010, in accordance with Korean International Financial Reporting Standards.

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

As described in note 12 to the financial statements, the Company changed the useful life of major machinery and equipment from 8 years to 15 years from January 1, 2011. For the year ended December 31, 2011, this change resulted in a reduction in depreciation expenses of 1,200,505 million.

The procedures and practices utilized in the Republic of Korea to audit such separate financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying separate financial statements are for use by those knowledgeable about Korean auditing standards and their application in practice.

Seoul, Korea
March 8, 2012

This report is effective as of March 8, 2012, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

POSCO
Separate Statements of Financial Position
As of December 31, 2011, 2010 and January 1, 2010

<i>(in millions of Won)</i>	<u>Notes</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Assets				
Cash and cash equivalents	5,19	₩ 1,137,882	672,426	626,782
Trade accounts and notes receivable, net	6,19,34	4,220,242	3,548,448	2,951,783
Other short-term financial assets	7,19,34	1,381,463	2,754,319	6,304,563
Inventories	8	7,144,709	5,998,545	2,996,325
Assets held for sale	12	16,887	-	-
Other current assets	9	23,612	19,866	20,409
Total current assets		13,924,795	12,993,604	12,899,862
Long-term trade accounts and notes receivable, net	6,19,34	24	24	1,306
Other long-term financial assets	7,19,34	3,833,058	5,015,783	4,438,130
Investments in subsidiaries and associates	10	12,824,776	10,470,156	5,787,831
Investment property, net	11	117,418	92,273	104,362
Property, plant and equipment, net	12	21,533,135	20,011,110	18,412,868
Intangible assets, net	13	222,896	229,137	201,614
Other long-term assets	9	271,774	274,139	8,705
Total non-current assets		38,803,081	36,092,622	28,954,816
Total assets		₩ 52,727,876	49,086,226	41,854,678

See accompanying notes to the separate financial statements.

POSCO
Separate Statements of Financial Position
As of December 31, 2011, 2010 and January 1, 2010

<i>(in millions of Won)</i>	Notes	December 31, 2011	December 31, 2010	January 1, 2010
Liabilities				
Trade accounts payable	19,34	₩ 1,395,846	1,310,877	739,746
Short-term borrowings and current installments of long-term borrowings	6,14,19	2,294,380	3,116,364	699,849
Other short-term financial liabilities	15,19,34	1,089,298	958,081	1,157,314
Current income tax liabilities	31	182,715	594,539	290,638
Provisions	16	4,451	9,582	5,154
Other current liabilities	18	48,455	62,011	61,636
Total current liabilities		5,015,145	6,051,454	2,954,337
Long-term borrowings, excluding current installments	7,14,19	9,338,016	6,296,633	5,681,243
Other long-term financial liabilities	15,19	147,299	52,166	100,757
Defined benefit obligations	17	176,648	324,003	216,823
Deferred tax liabilities	31	448,552	334,199	237,995
Other long-term liabilities	18	4,200	4,276	6,277
Total non-current liabilities		10,114,715	7,011,277	6,243,095
Total liabilities		15,129,860	13,062,731	9,197,432
Equity				
Share capital	20	482,403	482,403	482,403
Capital surplus	20	1,227,692	1,158,539	1,158,539
Reserves	21	156,707	1,079,038	702,052
Treasury shares	22	(2,391,406)	(2,403,263)	(2,403,263)
Retained earnings	23	38,122,620	35,706,778	32,717,515
Total equity		37,598,016	36,023,495	32,657,246
Total liabilities and equity		₩ 52,727,876	49,086,226	41,854,678

See accompanying notes to the separate financial statements.

POSCO
Separate Statements of Comprehensive Income
For the years ended December 31, 2011 and 2010

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

	Notes	2011	2010
Revenue	25,34	₩ 39,171,703	32,582,036
Cost of sales	29,34	(33,077,807)	(26,171,690)
Gross profit		6,093,896	6,410,346
Selling and administrative expenses			
Administrative expenses	19,26,29	(846,332)	(722,426)
Selling expenses	26,29	(917,182)	(783,796)
Other operating income	28,34	45,640	81,999
Other operating expenses	19,28,29,34	(179,993)	(201,605)
Operating profit	33	4,196,029	4,784,518
Financial income and costs			
Financial income	19,30	1,240,359	960,076
Financial costs	19,30	(1,370,668)	(1,067,240)
Profit before income tax		4,065,720	4,677,354
Income tax expense	31	(876,875)	(892,993)
Profit for the year		3,188,845	3,784,361
Other comprehensive income (loss), net of tax			
Net changes in fair value of			
available-for-sale investments	7,21	(922,331)	376,986
Defined benefit plan actuarial loss	17	(2,145)	(101,802)
Other comprehensive income (loss) for the year, net of tax		(924,476)	275,184
Total comprehensive income, net of tax		₩ 2,264,369	4,059,545
Basic and diluted earnings per share	32	₩ 41,279	49,127

See accompanying notes to the separate financial statements.

POSCO

Separate Statements of Changes in Equity For the years ended December 31, 2011 and 2010

(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	702,052	(2,403,263)	32,717,515	32,657,246
Comprehensive income :						
Profit for the period	-	-	-	-	3,784,361	3,784,361
Net changes in fair value of available-for-sale investments, net of tax	-	-	376,986	-	-	376,986
Defined benefit plan actuarial losses, net of tax	-	-	-	-	(101,802)	(101,802)
Transactions with owners of the Company, recognized directly in equity :						
Year-end dividends	-	-	-	-	(500,714)	(500,714)
Interim dividends	-	-	-	-	(192,582)	(192,582)
Balance as of December 31, 2010	₩ 482,403	1,158,539	1,079,038	(2,403,263)	35,706,778	36,023,495
Balance as of January 1, 2011	₩ 482,403	1,158,539	1,079,038	(2,403,263)	35,706,778	36,023,495
Comprehensive income :						
Profit for the period	-	-	-	-	3,188,845	3,188,845
Net changes in fair value of available-for-sale investments, net of tax	-	-	(922,331)	-	-	(922,331)
Defined benefit plan actuarial losses, net of tax	-	-	-	-	(2,145)	(2,145)
Transactions with owners of the Company, recognized directly in equity :						
Year-end dividends	-	-	-	-	(577,747)	(577,747)
Interim dividends	-	-	-	-	(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 December 31, 2011	₩ 482,403	1,227,692	156,707	(2,391,406)	38,122,620	37,598,016

See accompanying notes to the separate financial statements.

POSCO
Separate Statements of Cash Flows
For the years ended December 31, 2011 and 2010

<i>(in millions of Won)</i>	Note	2011	2010
Cash flows from operating activities			
Cash generated from operations	₩	4,112,650	4,349,686
Profit for the period		3,188,845	3,784,361
Adjustments	36	2,882,166	3,795,000
Changes in operating assets and liabilities	36	(1,958,361)	(3,229,675)
Interest received		122,212	251,126
Interest paid		(378,490)	(277,049)
Dividends received		267,316	133,602
Income taxes paid		(937,198)	(570,065)
Net cash provided by operating activities		<u>3,186,490</u>	<u>3,887,300</u>
Cash flows from investing activities			
Disposal of short-term financial instruments		5,108,712	16,971,778
Disposal of available-for-sale investments		392,619	125,386
Disposal of held-to-maturity investments		-	20,000
Decrease in long-term loans		14,760	5,435
Disposal of investments in subsidiaries and associates		22,125	-
Disposal of property, plant and equipment		1,404	(21,802)
Acquisition of short-term financial investments		(3,731,276)	(13,766,906)
Acquisition of available-for-sale financial assets		(245,389)	(177,030)
Increase in long-term loans		(20,039)	(29,865)
Acquisition of investments in subsidiaries and associates		(2,275,307)	(4,681,700)
Acquisition of property, plant and equipment		(3,304,376)	(4,245,572)
Acquisition of intangible assets		(25,499)	(24,664)
Others		145	(264,656)
Net cash used in investing activities		<u>(4,062,121)</u>	<u>(6,089,596)</u>
Cash flows from financing activities			
Proceeds from borrowings		5,693,070	4,910,152
Increase in long-term financial liabilities		3,781	54,655
Disposal of treasury shares		164,384	-
Repayment of borrowings		(3,686,447)	(1,973,852)
Decrease in long-term financial liabilities		(3,757)	(49,719)
Acquisition of treasury shares		(61,296)	-
Payment of cash dividends		(770,858)	(693,296)
Net cash provided by financing activities		<u>1,338,877</u>	<u>2,247,940</u>
Net increase in cash and cash equivalents		463,246	45,644
Cash and cash equivalents at beginning of the year		672,426	626,782
Effect of exchange rate fluctuations on cash held		2,210	-
Cash and cash equivalents at end of the year	₩	<u>1,137,882</u>	<u>672,426</u>

See accompanying notes to the separate financial statements.

POSCO
Notes to Separate Financial Statements
As of December 31, 2011

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 ten of its overseas liaison offices.

As of December 31, 2011, major shareholders are as follows:

<u>Shareholders' name</u>	<u>Number of shares</u>	<u>Ownership (%)</u>
National Pension Service	5,937,323	6.81
Nippon Steel Corporation (*1)	4,394,712	5.04
SK Telecom Co., Ltd.	2,481,310	2.85
Pohang University of Science and Technology	1,905,000	2.18
Shinhan Financial Group Inc. (*2)	1,870,879	2.15
Others	70,597,611	80.97
	<u>87,186,835</u>	<u>100.00</u>

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

(*2) Include number of shares subsidiaries hold at the end of the reporting period under commercial law.

As of December 31, 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.

POSCO
Notes to Separate Financial Statements, Continued
As of December 31, 2011

2. Statement of Compliance

Statement of compliance

The separate 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 financial statements in accordance with K-IFRS.

These financial statements are separate financial statements prepared in accordance with K-IFRS No. 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.

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 Company's reported financial position and financial performance is explained in note 37.

The separate financial statements were authorized for issue by the Board of Directors on February 23, 2012.

Basis of measurement

The separate financial statements have been prepared on 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 instruments 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) Defined benefit obligations are measured at the present value of the defined benefit obligations less the fair value of the plan assets.

Functional and presentation currency

These separate 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.