

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>

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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	W (27,776)	(1,883)	(29,659)	(39,300)	11,724	(27,776)
Allowance for doubtful accounts	80,349	24,272	104,621	18,283	42,866	80,349
Reserve for technology developments	(269,892)	(96,340)	(366,232)	(179,828)	(90,064)	(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)	73,102	(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	45,380	90,656
Accrued severance benefits	40,710	14,343	55,053	53,374	(12,664)	40,710
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	13,056	2,846	15,902	13,040	16	13,056
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	55,231	373,107	318,235	(1,521)	317,876
	(339,862)	(258,291)	(598,153)	(318,789)	(21,893)	(339,862)
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	4,141	31,628	35,769	(23,058)	27,199	4,141
	(301,265)	338,455	37,190	(205,813)	(95,452)	(301,265)
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)
	W (49,832)	377,358	(312,494)	31,209	(322,061)	(49,832)

(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	W -	(29,659)	(29,659)
Allowance for doubtful accounts	104,672	(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
	823,869	(1,422,055)	(598,186)
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
	249,215	(212,025)	37,190
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)
	W 1,859,789	(2,172,283)	(312,494)

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>

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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)

	2011	2010
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:

	2011	2010
Total number of common shares issued	87,186,835	87,186,835
Weighted-average number of treasury shares	(9,935,017)	(10,153,957)
Weighted-average number of common shares outstanding	77,251,818	77,032,878

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)

	2011	2010
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	(14,595)	(12,016)
	(337,078)	(231,387)
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	111,819	57,442
	383,459	341,952
Operating profits by previous GAAP	₩ 5,454,482	5,544,085

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:

(in millions of Won)

	Receivables (*1)			Payables (*1)		
	2011	2010	January, 1 2010	2011	2010	January, 1 2010
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 Asin 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						
Posimate 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:

(in millions of Won)

	2011	2010
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

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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).

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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
	POSCO Investment Co., Ltd.	BOC and others	CNY	630,000,000
		HSBC	MYR	240,000,000
		HSBC and others	USD	255,000,000
	POSCO Mahanahim Steel Pvt. Ltd.	Export-Import Bank of Korea and others	USD	143,000,000
	POSCO VST Co., Ltd.	ANZ(Tapei) and others	USD	65,000,000
	POSCO-Mexico Co., Ltd.	HSBC and others	USD	60,000,000
	POSCO-VIETNAM Co., Ltd.	Export-Import Bank of Korea and others	USD	230,000,000
		Mizuho and others	JPY	4,806,760,000
		Mizuho and others	USD	160,000,000
	Zhangjiagang Pohang Stainless Steel Co., Ltd.			
	Zeus (Cayman) Ltd.	Creditor	JPY	12,825,000,000
	Zeus (Cayman) II Ltd.	Creditor	JPY	24,526,000,000
	Daewoo International Corporation	Daewoo (China) Co., Ltd.	Hana Bank	USD
		Daewoo Cement (Shandong) Co., Ltd.	Other overseas financial institution	EUR
Daewoo International Corporation			Korea Exchange Bank	CNY
			Export-Import Bank of Korea and others	USD
			Shinhan Bank	USD
POSCO E&C Co., Ltd.				
POSCO P&S Co., Ltd. POSCO ICT Co., Ltd. POSCO Energy Co., Ltd. Pos Calcium CO., Ltd. POSCO JAPAN Co., Ltd. Daewoo Textile Pergana LLC POSCO E&C (CHINA) Co., Ltd.				
POSCO E&C Co., Ltd.				

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

Guarantors	Guarantee beneficiary	Financial institution	Foreign Currency	Won Equivalent
[Associates]				
POSCO	BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	BOC and others	CNY 316,860,000	57,830
	United Spinal Pipe, LLC	Shinhan Bank	USD 8,220,000	9,480
	DMSA, AMSA	Other Bank	USD 24,500,000	28,256
Daewoo International Corporation		Other overseas financial institution	USD 123,866,667	142,855
			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
	CHUNGJU ENTERPRISE CITY DEVELOPMENT Co., Ltd.	NH Bank	KRW 22,458,760,000	22,459
	Pohang Technovalley PwF 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.	Ultrans LRT Co., Ltd.	Construction Guarantee Cooperative	KRW 64,637,717,095	64,638
	CHUNGJU 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 Liansheng Daewoo Corporation	China Construction Bank	CNY 100,000,000	18,251
[Others]				
Daewoo International Corporation	Ambatovy 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 ALDI 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
	CIPI	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.	PYUNGSAI 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.

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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
Seoung 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	(33,361)	-	-	(6,888)	90,818	50,569
Income tax expense	1,111,709	35,322	22,536	16,454	(117,912)	1,068,109
Segment 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)	3,035,895
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
Segment profit	4,068,737	94,014	256,183	12,913	(266,196)	4,185,651
Investment in associate	11,694,102	1,664,760	601,539	39,845	(10,693,841)	3,306,425
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)	18,276,777
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:

(in millions of Won)

	<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	
[Assets]	
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>
[Liabilities]	
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 Nilüfer 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:

(in millions of Won)	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.

POSCO

**Separate Financial Statements
December 31, 2011**

(With Independent Auditors' Report Thereon)

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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***(in millions of Won)*

	<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	<u>(33,077,807)</u>	<u>(26,171,690)</u>
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	<u>(179,993)</u>	<u>(201,605)</u>
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	<u>(1,370,668)</u>	<u>(1,067,240)</u>
Profit before income tax		4,065,720	4,677,354
Income tax expense	31	<u>(876,875)</u>	<u>(892,993)</u>
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	<u>(2,145)</u>	<u>(101,802)</u>
Other comprehensive income (loss) for the year, net of tax		<u>(924,476)</u>	<u>275,184</u>
Total comprehensive income, net of tax		<u>₩ 2,264,369</u>	<u>4,059,545</u>
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>	<i>Note</i>	<i>2011</i>	<i>2010</i>
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:

Shareholders' name	Number of shares	Ownership (%)
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 Depositary 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.

POSCO

Notes to Separate Financial Statements, Continued

As of December 31, 2011

Use of estimates and judgements

The preparation of the 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 critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the separated financial statements is included in the following notes:

- Note 12— Property, Plant and Equipment, net

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

- Note 17— Employee Benefits

POSCO**Notes to Separate Financial Statements, Continued
As of December 31, 2011****3. Summary of Significant Accounting Policies**

The significant accounting policies applied by the Company in preparation of its separate financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening K-IFRS statement of financial position at January 1, 2010 for the purpose of the transition to K-IFRS, unless otherwise indicated.

Investments in subsidiaries and associates

These separate financial statements are prepared and presented in accordance with K-IFRS No. 1027 *"Consolidated and Separate Financial Statements"*. The Company applied the cost method to investments in subsidiaries and associates in accordance with K-IFRS No. 1027. The carrying amount under previous K-GAAP on the date of transition to K-IFRS is considered to be the deemed cost of investments in subsidiaries and associates on the date of transition. Dividends from a subsidiary or associate are recognized in profit or loss when the right to receive the dividend is established.

Foreign currency transactions and translation

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, checking deposits, 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 Financial Statements, Continued****As of December 31, 2011**

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.

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

(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.

If the Company retains substantially all the risks and rewards of ownership of the transferred financial assets, the Company continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

(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.

POSCO**Notes to Separate Financial Statements, Continued
As of December 31, 2011****Non-current assets held for sale**

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset must be available for immediate sale in its present condition and its sale must be highly probable. The assets that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

The Company recognizes an impairment loss for any initial or subsequent write-down of an asset to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with K-IFRS No. 1036 *"Impairment of Assets"*.

A non-current asset that is classified as held for sale is not depreciated.

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.

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 separated 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 No. 1101.

Subsequent costs are recognized in the carrying amount of property, plant and equipment at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

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

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed. A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life. 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.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in profit or loss.

The estimated useful lives of the Company's assets 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

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

POSCO**Notes to Separate Financial Statements, Continued
As of December 31, 2011****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. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Company borrows funds specifically for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. 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.

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.

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

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.

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 grants are 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.

POSCO

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

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. Management reviews the indication of whether the leased asset may be impaired each reporting period.

(b) Operating leases

Leases 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.

POSCO**Notes to Separate Financial Statements, Continued
As of December 31, 2011****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 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 the estimated future cash flows of that 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.

In addition, for an investment in an equity instrument classified as available-for-sale securities, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

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

(i) **Financial assets measured 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.

POSCO**Notes to Separate Financial Statements, Continued
As of December 31, 2011****(ii) 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 shall not be reversed.

(iii) 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 shall not be 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.

Management estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then management 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 reflect 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.

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

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

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).

POSCO**Notes to Separate Financial Statements, Continued
As of December 31, 2011****Employee benefits****(i) Short-term employee benefits**

Short-term employee benefits are employee benefits that are due to be settled within 12 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.

(ii) Retirement benefits: defined contribution plans

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 a liability (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 a reduction in future payments or a cash refund.

(iii) Retirement benefits: 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 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.

Past service costs which are the change in the present value of the defined benefits obligation for employee service in prior period, resulting in the current period from the introduction of, or change to post-employment benefits, is 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 costs immediately.

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

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.

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.

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

Share capital

Common stock is classified as equity. Incremental costs directly attributable to the issuance of common stock are recognized as a deduction from equity, net of any tax effects.

When the Company repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Company acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

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 from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that 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, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. The appropriate timing for transfer of risks and rewards varies depending on the individual terms and conditions of the sales contract. For international sales, this timing depends on the type of incoterms of the contract.

(b) Services 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.

Financial income and financial costs

Financial 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.

Financial 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.

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

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

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

(ii) 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, associates, and interests in joint ventures, 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 all 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 reduces the carrying amount 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.

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

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.

New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Company for annual periods beginning after January 1, 2011, and the Company has not early adopted them.

(i) Amendments to K-IFRS No. 1107 "*Financial Instruments: Disclosures*"

The amendments require disclosing the nature of the transferred assets, their carrying amount, and the description of risks and rewards for each class of transferred financial assets that are not derecognized in their entirety. If the Company derecognizes transferred financial assets but still has their specific risks and rewards, the amendments require additional disclosures on their effect of risks. The amendments will be applied prospectively for the Company's annual periods beginning on or after July 1, 2011. The Company believes that there would be additional disclosures impact upon applying of this new standard.

(ii) Amendments to K-IFRS No. 1019 "*Employee Benefits*"

The standard requires recognition of actuarial gains and losses immediately in other comprehensive income and to calculate expected return on plan assets based on the rate used to discount the defined benefit obligation. The standard will be applied retrospectively for the Company's annual periods beginning on or after January 1, 2013. The Company is currently analyzing the effects of adopting this standard.

(iii) K-IFRS No. 1113 "*Fair Value Measurement*"

The standard defines fair value and a single framework for fair value, and requires disclosures about fair value measurements. The standard will be applied prospectively for the Company's annual periods beginning on or after January 1, 2013. The Company believes that there would be no significant impact upon applying of this new standard.

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

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.

POSCO**Notes to Separate Financial Statements, Continued
As of December 31, 2011****(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. Management believes that the Company 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.

POSCO**Notes to Separate Financial Statements, Continued**
As of December 31, 2011**(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 December 31, 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	11,632,396	9,412,997	6,381,092
Less: Cash and cash equivalents	<u>1,137,882</u>	<u>672,426</u>	<u>626,782</u>
Net borrowings	10,494,514	8,740,571	5,754,310
Total equity	37,598,016	36,023,495	32,657,246
Net borrowings-to-equity ratio	27.91%	24.26%	17.62%

5. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 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	₩ 149,982	886	817
Time deposits	810,000	300,000	380,465
Money market trust	157,900	111,500	228,700
Money market funds	20,000	260,040	-
Other cash and cash equivalents	-	-	16,800
	<u>₩ 1,137,882</u>	<u>672,426</u>	<u>626,782</u>

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

6. Trade Accounts and Notes Receivable

Trade accounts and notes receivable as of December 31, 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	₩ 4,222,187	3,553,135	2,963,035
Less: Allowance for doubtful accounts	<u>(1,945)</u>	<u>(4,687)</u>	<u>(11,252)</u>
	<u>4,220,242</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	<u>(228)</u>	<u>(228)</u>	<u>(569)</u>
	<u>24</u>	<u>24</u>	<u>1,306</u>
	<u>₩ 4,220,266</u>	<u>3,548,472</u>	<u>2,953,089</u>

The trade accounts and notes receivable sold to financial institutions, for which the derecognition conditions were not met, amounted to ₩ 342,307 million, ₩ 220,866 million and ₩ 267,874 million as of December 31, 2011, December 31, 2010 and January 1, 2010, respectively. The amounts are included in borrowings (note 14).

7. Other Financial Assets

(a) Other short-term financial assets as of December 31, 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	₩ 50,132	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 (*1)	982,111	2,362,621	5,280,927
Cash deposits (*2)	17,175	14,101	10,666
Other accounts receivable, net	330,616	174,965	137,560
Accrued income	10,585	28,888	49,987
Other checking accounts	1,415	147	-
Allowance account for credit losses	<u>(10,571)</u>	<u>(10,589)</u>	<u>(10,618)</u>
	<u>₩ 1,381,463</u>	<u>₩ 2,754,319</u>	<u>₩ 6,304,563</u>

(*1) Short-term financial instruments amounting to ₩ 1,670 million and ₩ 830 million are secured in relation to long term borrowings from a forestry association as of December 31, 2011 and 2010, respectively.

(*2) Deposit is restricted in relation to government assigned project.

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

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

(in millions of Won)

	2011	2010	January 1, 2010
Available-for-sale investments			
Long-term available-for-sale securities (bonds)	₩ 15,045	11	104,895
Long-term available-for-sale equity securities	3,716,014	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)	29,903	29,830	31,675
Loan and other receivable			
Cash deposits (*1)	40	40	40
Long-term loans	68,717	63,437	39,007
Long-term other accounts receivable	3,674	3,124	3,322
Deposits	13,618	2,213	1,771
Allowance account for credit losses	(14,453)	(14,489)	(14,472)
	<u>₩ 3,833,058</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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Notes to Separate Financial Statements, Continued
As of December 31, 2011

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

(In millions of Won)

	Number of Shares	Ownership (%)	Acquisition cost	Book Value		January 1, 2010
				2011	2010	
Marketable equity securities						
Nippon Steel Corporation	238,352,000	3.50	₩ 719,622	679,662	972,351	1,128,734
SK Telecom Co., Ltd. (*1,2)	4,528,117	5.61	1,250,656	640,221	809,280	743,845
KB Financial Group Inc.	15,454,067	4.00	715,356	560,983	786,950	783,015
Hyundai Heavy Industries Co., Ltd.	1,477,000	1.94	343,506	379,589	654,311	256,260
MacArthur Coal Limited (*3)	-	-	-	-	314,446	249,431
Shinhan Financial Group Inc.	4,369,881	0.92	228,778	173,703	231,167	188,779
Hana Financial Group Inc.	4,663,776	1.92	29,998	165,797	201,942	153,438
Thainox Public Stainless Co., Ltd. (*4)	-	-	-	-	70,724	67,659
Others (11 companies)			169,561	174,883	154,189	79,190
			3,457,477	2,774,838	4,195,360	3,650,351
Non-marketable equity securities						
Nacional Minerios S.A. (*5)	30,784,625	6.48	668,635	695,583	534,734	535,357
The Siam United Steel (*5)	11,071,000	12.30	34,658	61,119	69,013	65,135
Dongbu Metal Co., Ltd. (*5)	3,000,000	10.00	98,242	98,817	98,242	-
Others (28 companies) (*6)			93,366	85,657	33,768	20,549
			894,901	941,176	735,757	621,041
			₩ 4,352,378	3,716,014	4,931,117	4,271,392

- (*1) As of December 31, 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.
- (*2) The Company recorded impairment loss for investment of SK Telecom Co., Ltd. amounting to ₩ 503,058 million prior to January 1, 2010. During the year ended December 31, 2011, there was a further significant decline in the fair value of shares of SK Telecom Co., Ltd. for a prolonged period, which was considered as the objective evidence of impairment. As a result, an impairment losses of ₩ 107,377 million was recognized in profit or loss in 2011.
- (*3) The Company disposed all its investment in MacArthur Coal Limited with an cash consideration of ₩ 387,846 million and recognized related disposal gain amounting to ₩ 331,919 million in profit or loss in 2011, which primarily represents amount reclassified from reserve to profit or loss upon disposal.
- (*4) It was reclassified from available-for-sale securities to investments in subsidiaries and associates upon acquisition of additional 59.93% of shares in September 2011. After obtaining control, the Company acquired additional 19.61% of shares through tender offer. In results, the percentage of shares increased to 94.93% as of December 31, 2011.
- (*5) The fair value of the investment is based on an analysis performed by an external professional evaluation agency.
- (*6) These non-marketable equity securities are recorded at cost since fair value cannot be reliably measured.

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

8. Inventories

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

<i>(in millions of Won)</i>	2011	2010	January 1, 2010
Finished goods	₩ 974,585	698,219	344,191
Semi-finished goods	1,916,411	1,441,128	843,720
By-products	7,610	5,542	4,281
Raw materials	1,465,347	1,704,831	696,492
Fuel and materials	596,100	524,077	405,003
Materials-in-transit	2,184,547	1,624,765	702,807
Others	575	576	522
	<u>7,145,175</u>	<u>5,999,138</u>	<u>2,997,016</u>
Allowance for inventories valuation	(466)	(593)	(691)
	<u>₩ 7,144,709</u>	<u>5,998,545</u>	<u>2,996,325</u>

The amount of valuation losses of inventories recognized as a cost of goods sold during the year ended December 31, 2011 and 2010 are ₩ 466 million and ₩ 593 million, respectively.

9. Other Assets

Other current assets and other long-term assets as of December 31, 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	₩ 4,935	6,218	11,943
Prepaid expenses	18,677	13,648	8,466
	<u>23,612</u>	<u>19,866</u>	<u>20,409</u>
Other long-term assets			
Long-term prepaid expenses	9,452	10,687	5,332
Dishonored receivables	13	13	13
Others (*1)	262,322	263,459	4,032
Less : Allowance for doubtful accounts	(13)	(20)	(672)
	<u>₩ 271,774</u>	<u>274,139</u>	<u>8,705</u>

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

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

10. Investments in Subsidiaries and Associates

- (a) Investments in subsidiaries and associates as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows:

(in millions of Won)

	2011	2010	January 1, 2010
Subsidiaries	₩ 11,621,134	9,671,778	5,260,593
Associates	1,203,642	798,378	527,238
	<u>₩ 12,824,776</u>	<u>10,470,156</u>	<u>5,787,831</u>

- (b) Details of subsidiaries and carrying values as of December 31, 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
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 Energy Co., Ltd. (Formerly, POSCO Power Corp.)	Korea	Generation of electricity	100.00	649,148	649,148	649,148
POSCO Specialty Steel Co., Ltd.	Korea	Steel manufacturing and sales	100.00	628,842	628,842	628,842
POSCO P&S Co., Ltd.	Korea	Steel sales and service	95.31	421,927	421,927	421,927
POSCO AST Co., Ltd.	Korea	Steel manufacturing and sales	100.00	138,909	93,909	75,603
POSCO Coated & Color	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 sales	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 (18 companies)				342,434	316,525	213,375
				<u>₩ 7,540,133</u>	<u>7,324,331</u>	<u>3,337,767</u>

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

(in millions of Won)

[Foreign]	Country	Principal operations	Ownership (%)		2011	2010	January 1, 2010
POSCO-Thainox Co., Ltd. (*2)	Thailand	Stainless steel manufacturing	94.93	₩	616,783	-	-
PT. KRAKATAU STEEL POSCO	Indonesia	Steel manufacturing and sales	70.00		537,371	1,625	-
POSCO Australia Pty. Ltd.	Australia	Steel sales and mine development	100.00		330,623	330,623	330,623
Zhangjiagang Pohang Stainless Steel Co., Ltd.	China	Stainless steel manufacturing	58.60		285,664	283,845	283,845
POSCO WA Pty. Ltd.	Australia	Mine development	100.00		238,821	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		252,217	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		163,271	64,876	31,299
POSCO-Vietnam Co., Ltd.	Vietnam	Steel manufacturing	85.00		157,031	158,806	159,629
POSCO VST Co., Ltd.	Vietnam	Stainless steel manufacturing	95.65		145,649	105,348	71,901
POSCO America Corp.	USA	Trading-Steel	99.43		140,381	117,489	113,510
POSCO Investment Co., Ltd.	Hong Kong	Finance	100.00		88,797	92,884	94,629
POSCO-Mexico Co., Ltd.	Mexico	Plate steel manufacturing	80.68		86,163	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	70.00		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)					433,067	338,245	210,139
					<u>4,081,001</u>	<u>2,347,447</u>	<u>1,922,826</u>
				₩	<u>11,621,134</u>	<u>9,671,778</u>	<u>5,260,593</u>

(*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 79.54% of the ownership from the major stockholders and others. After obtaining control, Company acquired additional 19.61% of shares through tender offer. In results, the percentage of shares increased from 75.32% to 94.93% as of December 31, 2011.

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

(c) Details of associates and carrying values as of December 31, 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	Logistics and warehouse	49.00	100,655	100,655	100,655
POSCO M-TECH Co., Ltd.	Korea	Packing material manufacturing		-	107,278	5,989
Others (4 companies)				<u>23,678</u>	<u>17,532</u>	<u>18,384</u>
				<u>284,211</u>	<u>385,343</u>	<u>125,028</u>
[Foreign]						
POSCO-NPS Niobium LLC.	USA	Mine development	50.00	364,609	-	-
NMC	New Caledonia	Raw material manufacturing	49.00	189,197	189,197	189,197
COMPANHIA SIDERURGICA	Brazil	Steel manufacturing	20.00	132,891	-	-
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	63,983	64,383	65,029
Others (11 companies)				<u>69,789</u>	<u>60,493</u>	<u>49,022</u>
				<u>919,431</u>	<u>413,035</u>	<u>402,210</u>
				<u>₩ 1,203,642</u>	<u>798,378</u>	<u>527,238</u>

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

11. Investment Property, Net

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

(In millions of Won)

	2011	2010	January 1, 2010
Acquisition cost	₩ 166,444	121,666	135,350
Less: Accumulated depreciation	(49,026)	(29,393)	(30,988)
	<u>₩ 117,418</u>	<u>92,273</u>	<u>104,362</u>

The fair value of investment property as of December 31, 2011 is ₩ 310,000 million.

- (b) The changes in carrying value in investment property for the years ended December 31, 2011 and 2010 are as follows:

1) For the year ended December 31, 2011

(In millions of Won)

	Beginning	Acquisition	Disposal	Depreciation (*1)	Others (*2)	Ending
Land	₩ 41,877	₩ -	₩ -	₩ -	₩ 1,381	₩ 43,258
Buildings	48,514	86	(153)	(2,955)	23,284	68,776
Structures	1,882	-	-	(195)	3,697	5,384
	<u>₩ 92,273</u>	<u>₩ 86</u>	<u>₩ (153)</u>	<u>₩ (3,150)</u>	<u>₩ 28,362</u>	<u>₩ 117,418</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)

	Beginning	Depreciation (*1)	Others (*2)	Ending
Land	₩ 47,333	-	(5,456)	41,877
Buildings	54,855	(2,060)	(4,281)	48,514
Structures	2,174	(45)	(247)	1,882
	<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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Notes to Separate Financial Statements, Continued
As of December 31, 2011

12. Property, Plant and Equipment, Net

- (a) Property, plant and equipment as of December 31, 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>
Cost	₩	42,575,270	39,666,445	35,918,640
Less : Accumulated depreciation		(21,041,006)	(19,655,335)	(17,505,772)
Less : Accumulated impairment		(1,129)	-	-
	₩	<u>21,533,135</u>	<u>20,011,110</u>	<u>18,412,868</u>

- (b) The changes in carrying value of property, plant and equipment 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>	<u>Beginning</u>	<u>Acquisition (*1)</u>	<u>Disposal</u>	<u>Depreciation</u>	<u>Impairment</u>	<u>Others (*2,3)</u>	<u>Ending</u>
Land	₩ 1,068,294	₩ 209,399	₩ (948)	₩ -	₩ -	₩ (1,381)	₩ 1,275,364
Buildings	2,502,213	584,977	(3,194)	(228,836)	(273)	(23,130)	2,831,757
Structures	1,942,405	291,663	(10,229)	(155,965)	(142)	(6,384)	2,061,348
Machinery and equipment	11,736,629	2,556,617	(36,318)	(1,301,849)	(24,394)	(14,356)	12,916,329
Vehicles	22,753	5,407	(22)	(8,797)	-	-	19,341
Tools	27,807	24,307	(13)	(14,077)	(2)	-	38,022
Furniture and fixtures	66,345	31,153	(4)	(25,155)	(5)	-	72,334
Lease assets	8,918	-	-	(637)	-	-	8,281
Construction-in-progress	2,635,746	3,393,445	-	-	-	(3,719,032)	2,310,159
	₩ 20,011,110	₩ 7,097,168	₩ (30,728)	₩ (1,735,316)	₩ (24,816)	₩ (3,764,283)	₩ 21,533,135

(*1) Includes acquisition cost transferred from construction-in-progress in relation to the expansion of Gwangyang sintering plates and coke establishment plants and others amounting to ₩ 3,703,723 million.

(*2) The Company plans to dispose of equipment of existing steel manufacturing plant due to the completion and expected use of new plant. Impairment losses amounting to ₩ 24,816 million are recognized since the fair value less cost to sell exceeds the carrying amount of related equipment. Book value of property, plant and equipment which are expected to be sold by the first half of 2012, net of impairment recorded, in the amount of ₩ 16,887 million, are reclassified to non-current assets held for sale.

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

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

2) For the year ended December 31, 2010

(in millions of Won)	Beginning	Acquisition (*1)	Disposal	Depreciation	Others (*2)	Ending
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
	<u>₩ 18,412,868</u>	<u>₩ 9,661,649</u>	<u>₩ (65,422)</u>	<u>₩ (2,561,227)</u>	<u>₩ (5,436,758)</u>	<u>₩ 20,011,110</u>

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

(*2) Includes 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 years ended December 31, 2011 and 2010 are as follows:

(in millions of Won)	2011	2010
Weighted average expenditure	₩ 472,258	₩ 48,080
Borrowing costs capitalized	21,823	2,275
Capitalisation rate	4.62%	4.73%

(d) Based on a life asset study performed in 2011, the Company changed the useful life of certain machinery and equipment in its steel business from 8 years to 15 years. During the year ended December 31, 2011, the depreciation costs decreased by ₩ 1,200,505 million as a result of this change in the useful life.

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13. Intangible Assets, Net

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

<i>(In millions of Won)</i>		2011	2010	January 1, 2010
Acquisition cost	₩	893,196	853,218	946,417
Less : Accumulated depreciation		(670,300)	(624,081)	(744,803)
	₩	<u>222,896</u>	<u>229,137</u>	<u>201,614</u>

(b) Changes in carrying values of intangible assets 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>		Increase		Decrease		Ending
Beginning	Acquisition (*2)	Development	Disposal	Depreciation	Reclassification (*3)	
Intellectual property rights ₩	4,919	2,533	-	(319)	(757)	6,376
Membership (*1)	56,494	-	-	(214)	(11,757)	44,523
Development expense	32,308	-	11,152	-	(14,278)	29,182
Port facilities usage rights	112,683	-	-	-	(13,130)	99,553
Other intangible assets	22,733	27,122	-	(1)	(6,392)	43,262
₩	<u>229,137</u>	<u>29,655</u>	<u>11,152</u>	<u>(534)</u>	<u>(34,757)</u>	<u>222,896</u>

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

(*2) Includes acquisition cost transferred from construction-in-progress amounting to ₩15,309 million.

(*3) Memberships that should be returned after specific period are reclassified to financial instruments. Reclassification amounts are present value of balance.

2) For the year ended December 31, 2010

(in millions of Won)		Increase		Decrease		Ending
		Beginning	Acquisition (*2)	Development	Disposal	
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.

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

14. Borrowings

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

(in millions of Won)		2011	2010	January 1, 2010
Short-term borrowings				
Short-term borrowings	₩	1,786,590	1,339,937	698,784
Current portion of long-term borrowings		7,571	750	-
Current portion of loans from foreign financial institutions		951	963	1,065
Current portion of debentures		500,000	1,777,956	-
Less : Current portion of discount on debentures issued		(732)	(3,242)	-
		<u>2,294,380</u>	<u>3,116,364</u>	<u>699,849</u>
Long-term borrowings				
Long-term bank borrowings		892,296	467,378	80,831
Foreign loan		3,071	4,074	5,572
Debentures		8,502,852	5,872,258	5,649,690
Less : Discount on debentures issued		(81,696)	(58,215)	(64,917)
Add : Premium on debentures redemption		21,493	11,138	10,067
		<u>9,338,016</u>	<u>6,296,633</u>	<u>5,681,243</u>
	₩	<u>11,632,396</u>	<u>9,412,997</u>	<u>6,381,092</u>

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

(in millions of Won)			Annual		2011	2010	January 1, 2010
Bank	Issuance date	Maturity date	interest rate (%)				
Mizho	2011.09.23	2012.04.09	1.28 ~ 1.29	₩	226,558	-	-
BOA	2011.11.10	2012.05.16	1.54 ~ 1.59		100,458	-	-
SMBC	2011.09.19	2012.03.19	0.89 ~ 1.47		114,352	-	-
JP Morgan	2011.10.04	2012.06.05	1.13 ~ 1.74		228,996	120,423	-
HSBC	2011.10.21	2012.05.02	1.51 ~ 1.92		91,269	224,586	38,590
DEUTSCHE	2011.10.10	2012.05.16	1.38 ~ 1.54		142,420	111,686	-
DBS	2011.09.16	2012.06.13	1.08 ~ 1.73		272,026	-	-
ANZ	2011.10.21	2012.01.19	1.51		54,393	223,945	138,510
RBS	2011.10.07	2012.01.05	1.23		106,837	41,050	22,163
CA and others					106,974	397,381	231,647
Others (discount on accounts receivable)					342,307	220,866	267,874
				₩	<u>1,786,590</u>	<u>1,339,937</u>	<u>698,784</u>

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Notes to Separate Financial Statements, Continued
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- (c) Current portion of long-term borrowings as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows:

(In millions of Won)		Issuance date	Maturity date	Annual Interest rate (%)	2011	2010	January 1, 2010
	Borrowers						
Borrowings	Korea Resources Corporation	2006.10.31	2021.09.15	1.25	₩ 3,000	750	-
Borrowings	Korea Resources Corporation	2006.12.28	2021.12.15	1.25	1,510	-	-
Borrowings	Woori Bank	2009.06.11	2017.03.15	1.25	1,990	-	-
Borrowings	Woori Bank	2009.11.26	2017.03.15	1.25	660	-	-
Borrowings	Woori Bank	2009.12.31	2017.03.15	1.25	411	-	-
Loans from foreign financial institutions	NATIXIS (*1)	1984.06.30	2017.12.31	2.00	951	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	499,268	-	-
Debentures	1st Samurai Private Equity Bonds	2008.12.29	2011.12.29	Tibor(6M)+1.60	-	696,029	-
Debentures	Yen dominated FRN	2008.11.11	2011.11.11	Tibor(6M)+2.60	-	279,230	-
					₩ 507,790	1,776,427	1,065

(*1) As of December 31, 2011, Korea Development Bank has provided guarantees for loans from foreign financial institutions.

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

(In millions of Won)		Issuance date	Maturity date	Annual Interest rate (%)	2011	2010	January 1, 2010
	Borrowers						
Borrowings	Woori Bank and others (*1)	2006.10.31~ 2011.08.11	2017.03.15~ 2039.08.11	1.25~2.25	₩ 100,494	90,598	75,519
Borrowings	Korea National Oil Corporation	2007.12.27~ 2011.12.27	2022.12.29~ 2024.12.29	Government bond -2.25	10,441	8,004	5,312
Borrowings	Korea EXIM Bank	2010.02.18~ 2011.11.29	2017.02.28~ 2018.03.23	4.09~4.50	781,361	368,776	-
Loans from foreign financial institutions	NATIXIS (*2)	1984.06.30~ 1986.03.31	2014.12.30~ 2017.03.31	2.00	3,071	4,074	5,572
Debentures	Domestic debentures 301 and others	2008.08.05~ 2011.11.28	2013.08.05~ 2021.11.28	3.78~6.52	3,588,982	2,492,833	2,293,320
Debentures	Global Bond (*3) and others	2006.06.28~ 2011.12.22	2013.06.28~ 2021.12.22	0~8.75	4,853,667	3,332,348	3,301,520
					₩ 9,338,016	6,296,633	5,681,243

(*1) Short-term financial instruments amounting to ₩ 1,670 million and ₩ 830 million are secured in relation to long term borrowings from a forestry association as of December 31, 2011 and 2010, respectively.

(*2) As of December 31, 2011, Korea Development Bank has provided guarantees for loans from foreign financial institutions.

(*3) 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) II 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) II Ltd.

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

15. Other Financial Liabilities

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

(In millions of Won)

	2011	2010	January 1, 2010
Financial guarantee liabilities	₩ 6,336	6,445	-
Accounts payable	806,913	728,575	987,977
Accrued expenses	248,597	210,040	146,105
Dividends payable	6,050	5,569	5,143
Finance lease liabilities	1,108	1,047	1,023
Withholdings	9,396	6,405	17,066
Derivative instruments liabilities	10,898	-	-
	₩ 1,089,298	958,081	1,157,314

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

(In millions of Won)

	2011	2010	January 1, 2010
Financial guarantee liabilities	₩ 11,163	9,150	15,210
Long-term accounts payable	86,871	-	-
Accrued expenses	19,618	22,287	72,436
Derivatives liabilities	12,771	885	2,133
Finance lease liabilities	7,824	8,835	10,126
Long-term withholdings	9,052	11,009	852
	₩ 147,299	52,166	100,757

16. Provisions

The changes in provisions for the years ended December 31, 2011 and 2010 are as follows:

- 1) For the year ended December 31, 2011

(In millions of Won)

	Beginning	Increase	Decrease	Ending
Estimated allowance at the end of period (*1) ₩	9,582	304,869	(310,000)	4,451

(*1) Represents the provision for bonuses.

- 2) For the year ended December 31, 2010

(In millions of Won)

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

POSCO**Notes to Separate Financial Statements, Continued
As of December 31, 2011****17. Employee Benefits**

The Company introduced a retirement pension program for all employees in June 2011. The employees and directors who are in the employment with the Company had an option to choose whether they will join the defined contribution plan or the 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 year ended December 31, 2011 is ₩ 6,807 million, which is included in profit or loss based on the function of the related employees.

(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 December 31, 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	₩ 690,321	1,013,165	815,993
Fair value of plan assets	(513,673)	(689,162)	(599,170)
Net defined benefit obligations	₩ 176,648	324,003	216,823

(d) The changes in present value of defined benefit obligations for the years ended December 31, 2011 and 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 (*1)	108,879	93,206
Interest costs	47,607	44,534
Actuarial losses	6,157	125,100
Benefits paid	(485,487)	(65,668)
Defined benefit obligation at the end of period	₩ 690,321	1,013,165

(*1) This amount includes a gain from a plan settlement in the amount of ₩ 1,887 million for the year ended December 31, 2011.

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

- (e) The changes in the fair value of plan assets for the years ended December 31, 2011 and 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		26,886	29,888
Actuarial losses		(460)	(5,415)
Contributions of participants		95,080	100,000
Benefits paid		(296,995)	(34,481)
Plan assets at the end of period	₩	<u>513,673</u>	<u>689,162</u>

- (f) The fair value of plan assets as of December 31, 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	₩	513,607	-	-
Equity instruments		10	512,850	446,718
Debt instruments		-	176,312	152,452
Others		56	-	-
	₩	<u>513,673</u>	<u>689,162</u>	<u>599,170</u>

- (g) The amounts recognized in the statements of comprehensive income for the years ended December 31, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>		<u>2011</u>	<u>2010</u>
Current service costs	₩	108,879	93,206
Interest costs		47,607	44,534
Expected return on plan assets		(26,886)	(29,888)
	₩	<u>129,600</u>	<u>107,852</u>

The above expenses by function are as follows:

<i>(in millions of Won)</i>		<u>2011</u>	<u>2010</u>
Cost of sales	₩	98,275	77,055
Selling and administrative expenses		23,853	15,280
Others		7,472	15,517
	₩	<u>129,600</u>	<u>107,852</u>

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

- (h) Actuarial gains and losses, net of tax recognized in other comprehensive income for the year ended December 31, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	2011	2010
Beginning	₩ (101,802)	-
Current actuarial losses	(6,618)	(130,515)
Effect on change of tax rate	4,473	28713
Ending	₩ (103,947)	(101,802)

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

	2011	2010	January 1, 2010
Discount rate	4.32%	5.21%	5.21%
Expected return on plan assets	3.95%	4.66%	4.66%
Expected future increases in salaries	2.30%	3.00%	3.00%

18. Other Liabilities

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

<i>(in millions of Won)</i>	2011	2010	January 1, 2010
Other current liabilities			
Advances received	₩ 21,149	33,241	25,615
Withholding	25,534	24,388	34,009
Unearned revenue	1,772	4,182	2,012
Deferred revenue	-	200	-
	₩ 48,455	62,011	61,636

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

<i>(in millions of Won)</i>	2011	2010	January 1, 2010
Other long-term liabilities			
Unearned revenue	₩ 1,200	1,276	2,305
Others	3,000	3,000	3,972
	₩ 4,200	4,276	6,277

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

19. Financial Instruments

(a) Classification of financial instruments

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

<i>(in millions of Won)</i>		2011	2010	January 1, 2010
Financial assets at fair value through profit or loss	₩	50,132	182,208	795,811
Available-for-sale financial assets		3,731,559	4,931,628	4,397,017
Held-to-maturity investments		29,903	31,808	51,675
Loans and receivables		6,761,074	6,845,356	9,078,061
	₩	10,572,668	11,991,000	14,322,564

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

<i>(in millions of Won)</i>		2011	2010	January 1, 2010
Financial liabilities at fair value through profit or loss:				
Derivatives liabilities held for trading	₩	23,669	885	2,133
Financial liabilities evaluated as amortised cost:				
Accounts payable		1,395,846	1,310,877	739,746
Borrowings		11,632,396	9,412,997	6,381,092
Financial guarantee liabilities (*1)		17,499	15,595	15,210
Others		1,195,429	993,766	1,240,729
		14,241,170	11,733,235	8,376,777
	₩	14,264,839	11,734,120	8,378,910

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

(*1) Financial guarantee contracts recognized in financial guarantee liabilities as of December 31, 2011 are as follows:

<i>(in millions of Won)</i>			
Guarantee beneficiary	Financial institution	Foreign currency	Won equivalent
POSCO Maharashtra Steel Pvt. Ltd.	Comerica Bank	USD 143,000,000	164,922
United Spiral Pipe, LLC	Shinhan Bank	USD 24,500,000	28,256
	Export-Import Bank of Korea	USD 200,000,000	230,660
POSCO-Vietnam Co., Ltd.	MIZUHO	JPY 2,256,760,000	33,516
	SUMITOMO	JPY 2,550,000,000	37,872
BX STEEL POSCO Cold RolledSheet Co., Ltd.	China Construction Bank	CNY 159,360,000	29,085
	Corporation and others	USD 8,220,000	9,480
Zhangjiagang Pohang Stainless Steel Co., Ltd.	Mizuho and others	USD 160,000,000	184,528
	BOA and others	USD 135,000,000	155,695
	BOC and others	CNY 630,000,000	114,981
POSCO Investment Co., Ltd.	HSBC and others	USD 120,000,000	138,396
	HSBC	MYR 240,000,000	87,110
POSCO-VST Co., Ltd.	ANZ and others	USD 65,000,000	74,964
POSCO-Mexico S.A. DE C.V	HSBC and others	USD 60,000,000	69,198
POSCO(Guangdong) Coated Steel Co., Ltd.	SMBC and others	USD 122,600,000	141,395
		USD 1,038,320,000	1,197,494
		JPY 4,806,760,000	71,388
		CNY 789,360,000	144,066
		MYR 240,000,000	87,110

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

3) Financial income and cost by category of financial instrument for the year ended December 31, 2011 and 2010 is as follows:

① December 31, 2011

(in millions of Won)

(in millions of Yen)	Financial income and costs						Other comprehensive loss		
	Interest income (cost)	Dividend income (*1)	Gain and loss on foreign currency transactions	Gain and loss on foreign currency translations	Gain and loss on disposal	Others		Total	
Financial assets at fair value through profit or loss	W	-	-	-	(3,358)	132	(3,226)	-	
Available-for-sale financial assets		-	132,911	-	-	331,003	(107,377)	356,537	(922,331)
Held-to-maturity investments		1,611	-	-	-	-	-	1,611	-
Loans and receivables		102,409	-	(14,116)	7,953	(345)	(1,799)	93,902	-
Financial liabilities at fair value through profit or loss		-	-	-	-	-	(6,745)	(6,745)	-
Financial liabilities are evaluated as amortised cost		(420,538)	-	(95,305)	(173,266)	-	(17,497)	(706,806)	-
	W	(316,518)	132,911	(109,621)	(165,313)	327,100	(133,386)	(264,727)	(922,331)

(*1) Financial income and cost in the statement of comprehensive income also includes the dividends from subsidiaries and associates of ₩ 134,418 million for the year ended December 31, 2011.

② December 31, 2010

(in millions of Won)

(In millions of Won)	Financial income and costs						Other comprehensive income	
	Interest income (cost)	Dividend income (*1)	Gain and loss on foreign currency transactions	Gain and loss on foreign currency translations	Gain and loss on disposal	Others		Total
Financial assets at fair value through profit or loss	W -	-	-	-	42,110	1,882	43,992	-
Available-for-sale financial assets	886	67,417	-	-	692	-	68,995	376,986
Held-to-maturity investments	2,042	-	-	-	-	-	2,042	-
Loans and receivables	203,055	-	(29,709)	(5,421)	(618)	-	167,307	-
Financial liabilities at fair value through profit or loss	-	-	-	-	-	1,248	1,248	-
Financial liabilities are evaluated as amortized cost	(317,729)	-	30,812	(168,177)	-	(1,838)	(456,932)	-
	W (111,746)	67,417	1,103	(173,598)	43,184	1,292	(173,348)	376,986

(*1) Financial profit in the statement of comprehensive income includes the dividends from subsidiaries and associates of ₩ 66,184 million for the year ended December 31, 2010.

POSCO**Notes to Separate Financial Statements, Continued
As of December 31, 2011****(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 December 31, 2011, December 31, 2010 and January 1, 2010 is as follows:

<i>(in millions of Won)</i>		2011	2010	January 1, 2010
Cash and cash equivalents	₩	1,137,882	672,426	626,782
Financial assets at fair value through profit or loss		50,132	182,208	795,811
Available-for-sale financial assets		3,731,559	4,931,628	4,397,017
Held-to-maturity investments		29,903	31,808	51,675
Loans and other receivables		1,402,927	2,624,458	5,498,190
Trade accounts and notes receivable		4,220,241	3,548,448	2,951,783
Long-term trade accounts and notes receivable		24	24	1,306
	₩	<u>10,572,668</u>	<u>11,991,000</u>	<u>14,322,564</u>

The Company provided financial guarantee for the repayment of loans of subsidiaries and associates. As of December 31, 2011, December 31, 2010 and January 1, 2010, the maximum exposure to credit risk are amounted to ₩ 1,500,058 million, ₩ 1,857,538 million and ₩ 1,680,693 million respectively.

2) Impairment losses on financial assets

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

<i>(in millions of Won)</i>		2011	2010	January 1, 2010
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 Reversal of impairment losses on financial assets for the years ended December 31, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>		2011	2010
Reversal of bad debt expenses	₩	(2,753)	(6,626)
Reversal of other bad debt expenses		(51)	(665)
	₩	<u>(2,804)</u>	<u>(7,291)</u>

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

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

(in millions of Won)	2011		2010		January 1, 2010	
	Trade accounts and notes receivable	Impairment	Trade accounts and notes receivable	Impairment	Trade accounts and notes	Impairment
Not due	₩ 3,890,405	-	3,416,549	2,727	2,739,546	3,235
Over due less than 1 month	210,630	-	53,385	37	69,678	49
1 month - 3 months	69,962	-	37,554	26	9,881	7
3 months - 12 months	40,521	-	37,978	27	26,077	18
over 12 months	10,921	2,174	7,921	2,098	119,728	8,512
	₩ 4,222,439	2,174	3,553,387	4,915	2,964,910	11,821

- ④ Changes in the allowance for doubtful accounts for the years ended December 31, 2011 and 2010 were as follows:

(in millions of Won)	2011	2010
Beginning	₩ 30,013	37,583
Reversal of bad debt expenses	(2,804)	(7,291)
Other decreases	2	(279)
Ending	₩ 27,211	30,013

(c) Liquidity risk

Contractual maturities for non-derivative financial liabilities, including estimated interest, are as follows:

(in millions of Won)	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							
Trade accounts payable	₩ 1,395,846	1,395,846	1,395,846	-	-	-	-
Borrowings (*1)	11,632,396	13,350,458	1,314,591	1,198,391	205,479	8,162,778	2,469,219
Financial guarantee liabilities	17,499	1,500,058	1,500,058	-	-	-	-
Other financial liabilities	1,195,429	1,195,429	1,061,561	272	10,231	120,516	2,849
	₩ 14,241,170	17,441,791	5,272,056	1,198,663	215,710	8,283,294	2,472,068

- (*1) Includes cash flows of embedded derivatives instruments in relation to exchangeable bonds (exchange right).
(*2) For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

POSCO**Notes to Separate Financial Statements, Continued**
As of December 31, 2011**(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 December 31, 2011, December 31, 2010 and January 1, 2010 is as follows:

(in millions of Won)	2011		2010		January 1, 2010	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
EUR	₩ 23,790	11,449	19,335	11,900	29,249	12,571
USD	888,896	5,842,319	838,688	4,266,232	964,986	2,481,972
JPY	83,627	2,129,999	56,377	2,444,452	44,839	2,211,387
Others	1,363	18,590	230	2,582	235	2,582
	<u>₩ 997,676</u>	<u>8,002,357</u>	<u>914,630</u>	<u>6,725,166</u>	<u>1,039,309</u>	<u>4,708,512</u>

- 2) For the years ended December 31, 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:

(in millions of Won)	2011		2010	
	10% increase	10% decrease	10% increase	10% decrease
EUR	₩ 1,234	(1,234)	744	(744)
USD	(495,342)	495,342	(342,754)	342,754
JPY	(204,637)	204,637	(238,808)	238,808

(e) Interest rate risk

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

(in millions of Won)	2011	2010	January 1, 2010
Fixed rate			
Financial assets	₩ 2,286,554	3,312,165	6,915,564
Financial liabilities	<u>(11,525,827)</u>	<u>(8,347,135)</u>	<u>(5,426,485)</u>
	(9,239,273)	(5,034,970)	1,489,079
Variable rate			
Financial liabilities	₩ (106,569)	(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.

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

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

As of December 31, 2011 and 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 year ended December 31, 2011 and 2010 are as follows:

(in millions of Won)	2011		2010	
	1% increase	1% decrease	1% increase	1% decrease
Variable rate financial instruments	(1,066)	1,066	(10,659)	10,659

(f) Fair value

1) Fair value and book value

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

(in millions of Won)	2011		2010		January 1, 2010	
	Book Value	Fair Value	Book Value	Fair Value	Book Value	Fair Value
Assets measured at fair value						
Financial assets held for trading	W 50,132	50,132	182,208	182,208	795,811	795,811
Available-for-sale financial assets	3,630,357	3,630,357	4,799,107	4,799,107	4,250,843	4,250,843
	<u>3,680,489</u>	<u>3,680,489</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	1,137,882	1,137,882	672,426	672,426	626,782	626,782
Current trade accounts and note receivable	4,220,265	4,220,265	3,548,472	3,548,472	2,953,089	2,953,089
Loans and other receivables	1,402,927	1,402,927	2,624,458	2,624,458	5,498,190	5,498,190
Field-to-maturity investments	29,903	29,903	31,808	31,808	51,675	51,675
	<u>6,790,977</u>	<u>6,790,977</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	23,669	23,669	885	885	2,133	2,133
Liabilities measured amortised cost						
Trade accounts payable	1,395,846	1,395,846	1,310,877	1,310,877	739,746	739,746
Borrowings	11,632,396	12,048,152	9,412,997	9,884,031	6,381,092	6,705,438
Financial guarantee liabilities	17,499	17,499	15,595	15,595	15,210	15,210
Others	1,195,429	1,195,429	993,766	993,766	1,240,729	1,240,729
	<u>W 14,241,170</u>	<u>14,656,926</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 December 31, 2011, December 31, 2010 and January 1, 2010 are as follows:

	2011	2010	January 1, 2010
Borrowings	1.80% ~ 4.62%	1.19% ~ 5.14%	1.28% ~ 5.38%

POSCO**Notes to Separate Financial Statements, Continued**
As of December 31, 2011**3) The fair value hierarchy**

- ① The Company 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 December 31, 2011, December 31, 2010 and January 1, 2010 are as follows:

a. December 31, 2011

<i>(in millions of Won)</i>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial Assets				
Financial assets held for trading	-	50,132	-	50,132
Available-for-sale financial assets	2,774,838	-	855,519	3,630,357
	<u>2,774,838</u>	<u>50,132</u>	<u>855,519</u>	<u>3,680,489</u>
Financial Liabilities				
Derivatives liabilities held for trading	-	23,669	-	23,669

b. December 31, 2010

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

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

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

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Beginning	₩ 603,747	600,492
Change to level 3 (*1)	98,242	-
Other comprehensive income	153,530	3,255
Ending	<u>₩ 855,519</u>	<u>603,747</u>

(*1) Financial assets classified as level 3 from current year.

20. Share Capital and Capital 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 December 31, 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 December 31, 2011, total shares of ADRs are 52,974,264 equivalents to 13,243,566 of common stock.

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

21. Reserves

(a) Reserves as of December 31, 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 securities, net of tax	₩ 156,707	1,079,038	702,052

(b) The changes in fair value of available-for-sale securities for the years ended December 31, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Beginning balance	₩ 1,079,038	₩ 702,052
Changes in fair value of available-for-sale securities	(769,627)	483,315
Reclassification to profit or loss upon disposal	(331,977)	-
Impairment of available-for-sale investments	(75,480)	-
Tax effects	254,752	(106,329)
Ending balance	<u>₩ 156,707</u>	<u>₩ 1,079,038</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 December 31, 2011, the Company holds 9,942,391 shares of treasury stock for price stabilization in accordance with the Board of Director's resolution.

POSCO**Notes to Separate Financial Statements, Continued
As of December 31, 2011****23. Retained Earnings**

- (a) Retained earnings as of December 31, 2011, December 31, 2010 and January 1, 2010 are summarized as follows:

<i>(in millions of Won)</i>	2011	2010	January 1, 2010
Legal reserve	₩ 241,202	241,202	241,202
Reserve for business rationalization	918,300	918,300	918,300
Reserve for research and manpower development	1,333,333	1,128,333	720,000
Appropriated retained earnings for business expansion	26,507,500	23,557,500	21,557,500
Appropriated retained earnings for dividends	1,626,993	1,395,895	1,211,224
Unappropriated retained earnings	7,495,292	8,465,548	8,069,289
	<u>₩ 38,122,620</u>	<u>35,706,778</u>	<u>32,717,515</u>

- (b) Statements of appropriation of retained earnings as of December 31, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	2011	2010
Retained earnings before appropriation		
Unappropriated retained earnings carried over from prior year	₩ 4,501,703	4,975,571
Actuarial losses	(2,145)	(101,802)
Interim dividends	(193,111)	(192,582)
Dividends (ratio) per share		
₩2,500 (50%) in 2011		
₩2,500 (50%) in 2010		
Profit for the year	<u>3,188,845</u>	<u>3,784,361</u>
	7,495,292	8,465,548
Transfer from discretionary reserve		
Reserve for research and manpower resource development	<u>133,333</u>	<u>195,000</u>
Appropriation of retained earnings		
Cash dividends		
Dividends (ratio) per share	579,333	577,747
₩7,500 (150%) in 2011		
₩7,500 (150%) in 2010		
Reserve for research and manpower development	330,000	400,000
Appropriated retained earnings for business expansion	6,203,000	2,950,000
Appropriated retained earnings for dividends	<u>231,733</u>	<u>231,098</u>
	7,344,066	4,158,845
Unappropriated retained earnings carried forward to subsequent year	<u>₩ 284,559</u>	<u>4,501,703</u>

The date of appropriation for 2011 is March 16, 2012 and the date of appropriation for 2010 was February, 25, 2011.

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

24. 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 year ended December 31, 2011 and 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 year ended December 31, 2011	-	(1,530)	(2,693)	(4,223)

- (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	3.43%
Expected life	104 days
Expected price-volatility	16.59%
Rate of expected dividends	2.63%
Stock price	380,000
Fair value	₩ 184,157

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

25. Revenue

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

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Revenues		
Goods	₩ 39,083,842	32,500,258
Others	87,861	81,779
	<u>₩ 39,171,703</u>	<u>32,582,037</u>

26. Selling and Administrative Expenses

(a) Administrative expenses

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

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Wages and salaries	₩ 159,201	148,969
Expenses related to defined benefit plan	26,254	15,905
Other employee benefits	67,211	55,255
Travel	20,349	20,795
Depreciation	22,571	17,464
Amortization	16,050	15,571
Rental	37,513	26,844
Repairs	17,988	13,051
Advertising	94,958	84,720
Research & development	146,745	94,241
Service fees	163,596	157,804
Supplies	5,598	7,445
Vehicles maintenance	7,220	6,320
Industry association fee	6,778	7,563
Training	20,301	21,744
Conference	6,569	7,010
Reverse of bad debt expenses	(2,753)	(6,626)
Others	30,183	28,351
	<u>₩ 846,332</u>	<u>722,426</u>

POSCO**Notes to Separate Financial Statements, Continued
As of December 31, 2011****(b) Selling expenses**

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

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Freight and custody expenses	₩ 826,147	702,391
Operating expenses for distribution center	7,804	8,686
Sales commissions	63,463	49,635
Sales advertising	920	1,546
Sales promotion	5,148	7,792
Sample	2,611	1,776
Sales insurance premium	11,089	11,970
	<u>₩ 917,182</u>	<u>783,796</u>

27. Research and Development Expenses

Research and development expenses recognized as expense for the years ended December 31, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Selling and administrative expenses	₩ 146,745	94,241
Cost of sales	362,765	381,802
	<u>₩ 509,510</u>	<u>476,043</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>2011</u>	<u>2010</u>
Gain on disposal of property, plant and equipment	₩ 10,840	21,611
Gain on disposal of intangible assets	38	-
Gain on disposal of investment in subsidiaries and associates	719	-
Gain on disposal of other long-term assets	-	283
Miscellaneous income	34,043	60,105
	<u>₩ 45,640</u>	<u>81,999</u>

POSCO**Notes to Separate Financial Statements, Continued
As of December 31, 2011****(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>2011</u>	<u>2010</u>
Loss on disposal of property, plant, and equipment	₩	60,174	111,689
Loss on disposal of intangible assets		320	25
Impairment of property, plant, and equipment		24,816	-
Reversal of other bad debt expenses		(51)	(665)
Donations		50,787	59,647
Expenses on assets not in use		16,568	-
Miscellaneous loss		27,379	30,909
	₩	<u>179,993</u>	<u>201,605</u>

29. Expenses by nature

Expenses that are recorded by nature as cost of sales, selling 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>2011</u>	<u>2010</u>
Changes in inventories (*1)	₩	(753,844)	(952,794)
Raw materials and consumables used		27,336,030	20,201,672
Employee benefits expenses		1,226,922	1,165,277
Outsourced processing cost		1,943,507	1,694,715
Depreciation (*2)		1,738,466	2,563,332
Amortization		34,757	36,046
Ordinary research & development expenses		509,510	476,043
Electricity and water expenses		602,806	462,918
Service fees		231,404	223,982
Advertising expenses		94,958	84,720
Freight and custody expenses		826,147	702,391
Commission paid		63,463	49,635
Loss on disposal of property, plant, and equipment		60,174	111,689
Other expenses		1,107,015	1,059,891
	₩	<u>35,021,315</u>	<u>27,879,517</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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Notes to Separate Financial Statements, Continued
As of December 31, 2011

30. Finance Income and Costs

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

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Financial income		
Interest income	₩ 104,020	205,983
Dividend income	267,329	133,602
Gains on disposal of financial assets held for trading	2,030	15,373
Gains on derivative transactions	69	26,737
Gains on foreign currency transactions	495,251	485,694
Gains on foreign currency translations	35,456	88,335
Gains on disposal of available-for-sale securities	331,919	1,222
Others	4,285	3,130
	<u>1,240,359</u>	<u>960,076</u>
Financial costs		
Interest expenses	420,538	317,729
Losses on foreign currency transactions	604,872	484,592
Losses on foreign currency translations	200,769	261,933
Impairment of available-for-sale securities	107,377	-
Others	37,112	2,986
	<u>₩ 1,370,668</u>	<u>1,067,240</u>

POSCO**Notes to Separate Financial Statements, Continued
As of December 31, 2011****31. Income Taxes**

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

Taxable income	2010	2011	Thereafter
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>	2011	2010
Current income taxes	₩ 525,374	874,405
Deferred income taxes	114,353	96,204
Less: Items credited (charged) directly to shareholders' equity	237,148	(77,616)
Income tax expense	₩ 876,875	892,993

(c) The expected amount of income tax expense based on statutory rates compared to the actual amount of taxes recorded by the Company for the years ended December 31, 2011 and 2010 are as follows:

<i>(in millions of Won)</i>	2011	2010
Profit before income tax expense	₩ 4,065,720	4,677,354
Income tax expense computed at statutory rate	983,878	1,131,920
Adjustments:	(107,003)	(238,927)
Tax credit	(174,057)	(256,138)
Additional payment of income taxes	1,088	33,417
Effect of tax rate change	53,459	-
Others	12,507	(16,206)
Income tax expense	₩ 876,875	892,993
Effective rate (%)	21.6%	19.1%

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

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

<i>(in millions of Won)</i>		2011	2010
Net changes in fair value of available-for-sale securities	₩	254,753	(106,329)
Defined benefit plan actuarial losses		4,473	28,713
Gain on disposal of treasury shares		(22,078)	-
	₩	237,148	(77,616)

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

<i>(in millions of Won)</i>		2011			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)	(39,500)	11,724	(27,776)
Reserve for technology developments		(264,000)	(94,160)	(358,160)	(176,000)	(88,000)	(264,000)
Depreciation expense		(65,129)	1,901	(63,228)	(78,445)	13,316	(65,129)
Prepaid expenses		18,851	3,028	21,879	17,757	1,094	18,851
Reappraisal of property, plant and equipment		(345,058)	(208,147)	(553,205)	(411,760)	66,702	(345,058)
Loss on foreign currency translation		81,066	12,845	93,911	39,783	41,283	81,066
Defined benefit liability		130,271	(27,533)	102,738	124,158	6,113	130,271
Plan assets		(151,406)	26,870	(124,536)	(117,198)	(34,208)	(151,406)
Accrued revenues		(6,600)	4,286	(2,314)	(11,957)	5,357	(6,600)
Others		332,126	(48,246)	283,880	327,065	5,061	332,126
		(297,655)	(331,039)	(628,695)	(326,097)	28,442	(297,655)
Deferred tax from tax credit							
Tax credit carryforward		239,526	(42,540)	196,986	286,556	(47,030)	239,526
		239,526	(42,540)	196,986	286,556	(47,030)	239,526
Deferred income taxes recognized directly to equity							
Gain (loss) on valuation of available-for-sale securities		(285,750)	254,753	(50,030)	(198,454)	(106,329)	(304,783)
Defined benefit plan actuarial losses		28,713	4,473	33,186	-	28,713	28,713
		(257,037)	259,226	(16,844)	(179,421)	(77,616)	(276,070)
	₩	(334,199)	(114,353)	(448,552)	(237,995)	(96,204)	(334,199)

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

(f) Deferred tax assets (liabilities) as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows:

(In millions of Won)

	2011			2010			January 1, 2010		
	Assets	Liabilities	Net	Assets	Liabilities	Net	Asset	Liabilities	Net
Deferred income tax due to temporary differences									
Reserve for special repairs	₩ -	29,639	(29,639)	-	27,776	(27,776)	-	39,300	(39,300)
Reserve for technology developments	-	358,160	(358,160)	-	264,000	(264,000)	-	176,000	(176,000)
Depreciation expense	15,661	76,889	(63,228)	16,664	81,793	(65,129)	18,815	97,260	(78,445)
Prepaid expenses	21,879	-	21,879	18,851	-	18,851	17,757	-	17,757
Reappraisal of property, plant and equipment	-	553,205	(553,205)	-	345,058	(345,058)	-	411,760	(411,760)
Loss on foreign currency translation	173,776	79,865	93,911	182,981	101,915	81,066	125,696	85,913	39,783
Defined benefit liability	102,738	-	102,738	130,271	-	130,271	124,158	-	124,158
Plan assets	-	124,536	(124,536)	-	151,406	(151,406)	-	117,198	(117,198)
Accrued revenue	-	2,314	(2,314)	-	6,600	(6,600)	-	11,957	(11,957)
Others	583,540	299,660	283,880	875,768	543,642	332,126	775,311	448,246	327,065
	<u>897,594</u>	<u>1,526,288</u>	<u>(628,694)</u>	<u>1,224,535</u>	<u>1,522,190</u>	<u>(297,655)</u>	<u>1,061,737</u>	<u>1,387,834</u>	<u>(326,097)</u>
Deferred tax from tax credit									
Tax credit carryforward	196,986	-	196,986	239,526	-	239,526	286,556	-	286,556
	<u>196,986</u>	<u>-</u>	<u>196,986</u>	<u>239,526</u>	<u>-</u>	<u>239,526</u>	<u>286,556</u>	<u>-</u>	<u>286,556</u>
Deferred income taxes recognized directly to equity									
Gain (loss) on valuation of available-for-sale securities	-	50,030	(50,030)	-	304,783	(304,783)	50,083	248,537	(198,454)
Defined benefit plan actuarial losses	33,186	-	33,186	28,713	-	28,713	-	-	-
	<u>33,186</u>	<u>50,030</u>	<u>(16,844)</u>	<u>28,713</u>	<u>304,783</u>	<u>(276,070)</u>	<u>50,083</u>	<u>248,537</u>	<u>(198,454)</u>
₩	<u>1,127,766</u>	<u>1,576,318</u>	<u>(448,552)</u>	<u>1,492,774</u>	<u>1,826,973</u>	<u>(334,199)</u>	<u>1,398,376</u>	<u>1,636,371</u>	<u>(237,995)</u>

(g) As of December 31, 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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Notes to Separate Financial Statements, Continued
As of December 31, 2011

32. Earnings Per Share

Basic and diluted earnings per share for the years ended December 31, 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	₩ 3,188,845	3,784,361
Weighted-average number of common shares outstanding (*)	<u>77,251,818</u>	<u>77,032,878</u>
Basic and diluted earnings per share	<u>41,279</u>	<u>49,127</u>

(*) 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 stock	<u>(9,935,017)</u>	<u>(10,153,957)</u>
Weighted-average number of common stock outstanding	<u>77,251,818</u>	<u>77,032,878</u>

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

33. Operating Profit

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

<i>(In millions of Won)</i>	2011	2010
Operating profits by K-IFRS	₩ 4,196,028	4,784,518
Deducted		
Gains on disposal of property, plant, and equipment	10,840	21,611
Gains on disposal of other long-term assets	-	283
Gains on disposal of intangible assets	38	-
Gains on disposal of investment in subsidiaries and associates	719	-
Miscellaneous income	34,043	60,105
	45,640	81,999
Added		
Loss on disposal of property, plant, and equipment	60,174	111,689
Loss on disposal of other long-term assets	-	5
Loss on disposal of intangible assets	320	25
Impairment of property, plant, and equipment	24,816	-
Reversal of other bad debt expenses	(51)	(665)
Donations	50,787	59,647
Expenses on asset not in use	16,568	-
Miscellaneous losses	27,379	30,904
	179,993	201,605
Operating profits by previous GAAP	₩ 4,330,381	4,904,124

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

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)		Purchases and others (*1)	
	2011	2010	2011	2010
Subsidiaries				
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	<u>927,595</u>	<u>1,432,296</u>	<u>1,198,091</u>	<u>750,526</u>
	₩ 12,233,305	7,859,229	₩ 6,278,489	5,249,103
Associates				
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	<u>213,232</u>	<u>31,528</u>	<u>59,444</u>	<u>303,446</u>
	₩ 560,613	342,289	₩ 579,105	903,863
	<u>₩ 12,793,918</u>	<u>8,201,518</u>	<u>₩ 6,857,594</u>	<u>6,152,966</u>

(*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 purchase 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, 2011, the Company provided guarantees to related parties (note 19).

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

(b) Significant transactions with related companies the related account balances as of December 31, 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.	₩ 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	54,529
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	25,919	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	526,859	₩ 526,573	420,918	617,397
Associates						
Posmate 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 payable and other payables.

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

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

<i>(in millions of Won)</i>	2011	2010
Short-term benefits	₩ 29,371	16,346
Other long-term benefits	21,905	21,415
Retirement benefits	7,428	5,696
	<u>₩ 58,704</u>	<u>43,457</u>

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. The Company recognized expense related to stock appreciation rights(note 24) which were decreased by ₩ 4,223 million and ₩ 13,227 million for the year ended December 31, 2011 and 2010, respectively.

35. Commitments and Contingencies

- (a) 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 December 31, 2011, 261 million tons of iron ore and 38 million tons of coal remained to be purchased under such long-term contracts.
- (b) 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.
- (c) 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.
- (d) Litigation in progress

The Company is involved in 12 lawsuits and claims for alleged damages aggregating to ₩ 8,806 million as of December 31, 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 December 31, 2011.

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

- (e) As of December 31, 2011, the Company 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.

36. Cash Flows from Operating Activities

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

<i>(in millions of Won)</i>	2011	2010
Accrual of severance benefits	₩ 129,600	107,852
Depreciation	1,735,316	2,561,227
Depreciation of investment properties	3,150	2,105
Amortization	34,757	36,046
Reversal of bad debt expenses	(2,804)	(7,291)
Finance costs	656,600	580,811
Loss on disposal of property, plant, and equipment	60,174	111,689
Income tax expense	876,875	892,993
Finance income	(743,797)	(459,009)
Gain on disposal of property, plant and equipment	(10,840)	(21,611)
Impairment of financial assets available for sales	107,377	-
Others	35,758	(9,812)
	<u>₩ 2,882,166</u>	<u>3,795,000</u>

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

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

<i>(in millions of Won)</i>	<u>2011</u>	<u>2010</u>
Financial assets held for trading	₩ 132,208	325,485
Trade accounts and notes receivable	(663,827)	(690,248)
Other accounts receivable	(156,186)	(37,140)
Advance payments	15	5,726
Prepaid expenses	(3,793)	(5,183)
Inventories	(1,146,630)	(3,002,813)
Long-term guarantee deposits	339	(444)
Trade accounts payable	86,164	571,969
Dividends Payable	482	425
Other accounts payable	74,146	(259,137)
Accrued expenses	10,445	20,668
Advances received	(12,093)	7,627
Withholdings	1,147	(16,692)
Unearned revenue	(2,486)	1,089
Other long-term liabilities	(5,617)	4,653
Derivatives liabilities held for trading	10,898	-
Payment severance benefits	(485,487)	(65,668)
Plan assets	201,914	(89,992)
	<u>₩ (1,958,361)</u>	<u>(3,229,675)</u>

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

37. Transition to K-IFRS

As stated in note 2, the financial statements are the separate financial statements prepared in accordance with K-IFRS No. 1101 *'First-time Adoption of Korean International Financial Reporting Standards'*.

The significant accounting policies stated in note 3 were applied to the separate financial statements for the year ended December 31, 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-IFRS 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.

(a) Exemptions elected from K-IFRS No. 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 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.

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

6) Leases

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

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

1) Defined benefit liabilities

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

2) Derecognition of financial assets

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

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)

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

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

POSCO**Notes to Separate Financial Statements, Continued
As of December 31, 2011****2) Reconciliation of financial position as of December 31, 2010 and the financial performance for the year ended December 31, 2010:***(in millions of Won)*

	Total Assets	Total Liabilities	Total Equity	Profit For the year	Total Comprehensive Income
Previous GAAP	W 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	895,982	(45,324)	941,306	(418,430)	(747,528)
K-IFRS	W 49,086,227	13,062,731	36,023,496	3,784,361	4,059,545

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.

Independent Auditors' Review Report on Internal Accounting Control System

English Translation of a Report Originally Issued in Korean

To the President of
POSCO:

We have reviewed the accompanying Report on the Operations of Internal Accounting Control System ("IACS") of POSCO (the "Company") as of December 31, 2011. The Company's management is responsible for designing and maintaining effective IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying report of management's assessment of IACS, the Company's management stated: "Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2011, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee."

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

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

Based on our review, nothing has come to our attention that Report on the Operations of Internal Accounting Control System as of December 31, 2011 is not prepared in all material respects, in accordance with IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company's IACS in existence as of December 31, 2011. We did not review the Company's IACS subsequent to December 31, 2011. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

Seoul, Korea
March 8, 2012

Notice to Readers

This report is annexed in relation to the audit of the separate financial statements as of December 31, 2011 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Joint-stock Companies of the Republic of Korea.

Report on the Operations of Internal Accounting Control System

To the Board of Directors and Audit Committee of
POSCO:

I, as the Internal Accounting Control Officer ("IACO") of POSCO (the "Company"), have assessed the status of the design and operations of the Company's internal accounting control system ("IACS") for the year ended December 31, 2011.

The Company's management including IACO is responsible for the design and operations of its IACS. I, as the IACO, have assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial reporting and the preparation of financial statements for external purposes. I, as the IACO, applied the IACS Framework for the assessment of design and operations of the IACS.

Based on the assessment of the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2011, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee.

Chief Executive Officer or President

Internal Accounting Control Officer

February 13, 2012

Appendix A-7

Table of Income Statements

INCOME STATEMENT (POSCO) [INDEXED]

Accounts	2011 Year		Investigation period: 1 Apr 2011 - 31 Mar 2012	
	All products	The goods	All products	The goods
Net sales (1)	1,000	1,000	1,000	1,000
Cost of sales (2)	844	874	856	878
Gross profit (3=1-2)	156	126	144	122
Administrative Expenses (4)	-	22	-	22
Selling Expenses (5)	-	23	-	24
Other operating income (6)	1	1	1	1
Other operating expenses (7)	-	5	-	6
Operating profit (8=3+4+5+6+7)	107	78	94	71
Financial income (9)	32	32	32	32
Financial costs (10)	-	35	-	36
Profit before tax (11=8+9+10)	104	74	90	68
Tax (12)	22	22	20	20
Net profit (13=11-12)	81	52	71	49

Appendix A-8

Company's Turnover Table

Turnover Table (POSCO) [INDEXED]

	2011 Year		Investigation period: 1 Apr 2011 - 31 Mar 2012	
	Volume	Value	Volume	Value
Total company turnover (all products)		10,000		10,000
domestic market		6,247		6,171
exports to Australia		11		12
exports to other countries		3,742		3,817
Turnover of the sector including the goods		2,435		2,442
domestic market		1,499		1,501
exports to Australia		4		3
exports to other countries		932		938
Turnover of the goods		2,435		2,442
domestic market		1,499		1,501
exports to Australia		4		3
exports to other countries		932		938