NEXTERA ENERGY INC
Form 424B2
August 27, 2010

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Maximum Aggregate Offering Price	Amount of Registration Fee (1)(2)
FPL Group Capital Inc 2.60% Debentures, Series due September 1, 2015	$400,000,000	$28,520
NextEra Energy, Inc. (formerly known as FPL Group, Inc.) Guarantee of FPL Group Capital Inc Debentures (3)		(4)
Total	$400,000,000	$28,520

(1) Calculated in accordance with Rule 457(r) under the Securities Act of 1933, as amended.

(2) This Calculation of Registration Fee table shall be deemed to update the Calculation of Registration Fee table in Registration Statement Nos. 333-160987, 333-160987-01, 333-160987-02, 333-160987-03, 333-160987-04, 333-160987-05, 333-160987-06, 333-160987-07 and 333-160987-08.

(3) The value attributable to the NextEra Energy, Inc. guarantee, if any, is reflected in the offering price of the FPL Group Capital Inc 2.60% Debentures, Series due September 1, 2015.

(4) Pursuant to Rule 457(n) under the Securities Act, no separate fee for the NextEra Energy, Inc. guarantee is payable.

Filed Pursuant to Rule 424(b)(2)
Registration No. 333-160987, 333-160987-01,
333-160987-02, 333-160987-03,
333-160987-04, 333-160987-05,
333-160987-06, 333-160987-07,
and 333-160987-08

PROSPECTUS SUPPLEMENT
(To prospectus dated August 3, 2009)

$400,000,000
2.60% Debentures, Series due September 1, 2015

The Debentures will be Absolutely, Irrevocably and Unconditionally Guaranteed by

NextEra Energy, Inc.

FPL Group Capital Inc ("FPL Group Capital") will pay interest, in cash, on the securities on March 1 and September 1 of each year, beginning March 1, 2011. FPL Group Capital, at its option, may redeem some or all of the securities at any time before their maturity date upon at least 30 but not more than 60 days notice, at the redemption price discussed under "Certain Terms of the Debentures Optional Redemption" beginning on page S-16 of this prospectus supplement.

FPL Group Capital's corporate parent, NextEra Energy, Inc., formerly known as FPL Group, Inc. ("NextEra Energy"), has agreed to absolutely, irrevocably and unconditionally guarantee the payment of principal, interest and premium, if any, on the securities. The securities and the guarantee are unsecured and unsubordinated and rank equally with other unsecured and unsubordinated indebtedness from time to time outstanding of FPL Group Capital and NextEra Energy, respectively. FPL Group Capital does not plan to list the securities on any securities exchange.

See "Risk Factors" beginning on page S-3 of this prospectus supplement to read about certain factors you should consider before making an investment in the securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Debenture	Total
Price to Public	99.967%	$ 399,868,000
Underwriting Discount	0.600%	$ 2,400,000
Proceeds to FPL Group Capital (before expenses)	99.367%	$ 397,468,000

In addition to the Price to Public set forth above, each purchaser will pay an amount equal to the interest, if any, accrued on the securities from the date that the securities are originally issued to the date that they are delivered to that purchaser.

The securities are expected to be delivered in book-entry only form through The Depository Trust Company, on or about August 31, 2010.

Joint Book-Running Managers

Barclays Capital **BNP PARIBAS** **Morgan Stanley** **RBS**

Co-Managers

COMMERZBANK **Daiwa Capital Markets** **Mitsubishi UFJ Securities**

Mizuho Securities USA Inc. **Scotia Capital**

The date of this prospectus supplement is August 26, 2010.

You should rely only on the information incorporated by reference or provided in this prospectus supplement and in the accompanying prospectus and in any written communication from FPL Group Capital, NextEra Energy or the underwriters specifying the final terms of the offering. None of FPL Group Capital, NextEra Energy or the underwriters has authorized anyone else to provide you with additional or different information. None of FPL Group Capital, NextEra Energy or the underwriters is making an offer of these securities in any jurisdiction where the offer is not permitted. You should not assume that the information in this prospectus supplement or in the accompanying prospectus is accurate as of any date other than the date on the front of those documents or that the information incorporated by reference is accurate as of any date other than the date of the document incorporated by reference.

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RISK FACTORS

The information in this section replaces the information in the Risk Factors section beginning on page 2 of the accompanying prospectus.

Before purchasing the securities, investors should carefully consider the following risk factors together with the risk factors and other information incorporated by reference or provided in the accompanying prospectus or in this prospectus supplement in order to evaluate an investment in the securities.

NextEra Energy s and FPL Group Capital s results of operations may be adversely affected by the extensive regulation of their businesses.

The operations of NextEra Energy and FPL Group Capital are subject to complex and comprehensive federal, state and other regulation. This extensive regulatory framework, some but not all of which is more specifically identified in the following risk factors, regulates, among other things, NextEra Energy s and FPL Group Capital s industry, rate and cost structure, operation of nuclear power facilities, construction and operation of generation, transmission and distribution facilities, acquisition, disposal, depreciation and amortization of assets and facilities, decommissioning costs, transmission reliability and present or prospective wholesale and retail competition. In their business planning and in the management of their operations, NextEra Energy and FPL Group Capital must address the effects of regulation on their businesses and proposed changes in the regulatory framework. Significant changes in the nature of the regulation of NextEra Energy s and FPL Group Capital s businesses could require changes to their business planning and management of their businesses and could adversely affect their results of operations and the value of their assets. NextEra Energy and its subsidiaries must periodically apply for licenses and permits from various local, state, federal and other regulatory authorities and abide by their respective orders. Should NextEra Energy or its subsidiaries be unsuccessful in obtaining necessary licenses or permits or should these regulatory authorities initiate any investigations or enforcement actions or impose penalties or disallowances on NextEra Energy or its subsidiaries, NextEra Energy s and FPL Group Capital s businesses could be adversely affected. NextEra Energy s results of operations also could be affected by Florida Power & Light Company s inability to negotiate or renegotiate franchise agreements on acceptable terms with municipalities and counties in Florida.

NextEra Energy s financial performance could be negatively affected if Florida Power & Light Company is unable to recover, in a timely manner, certain costs, a return on certain assets or an appropriate return on capital from its customers through regulated rates and cost recovery clauses.

Florida Power & Light Company is a regulated entity subject to the jurisdiction of the Florida Public Service Commission (FPSC) over a wide range of business activities, including, among other items, the retail rates charged to its customers, the terms and conditions of its services, procurement of electricity for its customers, issuance of securities, transfers of some utility assets and facilities to affiliates, and aspects of the siting and operation of its generating plants and transmission and distribution systems for the sale of electric energy. The FPSC also has the authority to disallow recovery by Florida Power & Light Company of costs that it considers excessive or imprudently incurred. The regulatory process, which may be adversely affected by the political, regulatory and economic environment in Florida and elsewhere, can restrict Florida

Power & Light Company s ability to grow earnings and does not provide any assurance as to achievement of authorized or other earnings levels. NextEra Energy s financial condition and results of operations could be materially adversely affected if Florida Power & Light Company is unable to recover through retail base rates and cost recovery clauses any material amount of its costs in a timely manner, a return on certain assets or an appropriate return on capital.

Decisions of the FPSC have been and, in the future, may be adversely affected by the political, regulatory and economic environment in Florida and elsewhere and may adversely affect the financial condition and results of operations of NextEra Energy. These decisions may require, for example, Florida Power & Light Company to cancel or delay planned development activities and to reduce or delay other planned capital expenditures which could reduce the earnings potential of NextEra Energy.

NextEra Energy and FPL Group Capital are subject to federal regulatory compliance and proceedings which have significant compliance costs and expose them to substantial monetary penalties and other sanctions.

In addition to the regulatory risks that may affect NextEra Energy and FPL Group Capital discussed above, the extensive federal regulation of the operations of NextEra Energy and FPL Group Capital exposes the companies to significant and increasing compliance costs. NextEra Energy and FPL Group Capital also are subject to costs and other potentially adverse effects of regulatory investigations, proceedings, settlements, decisions and claims, including, among other items, potentially significant monetary penalties for non-compliance. As an example, under the Energy Policy Act of 2005, Florida Power & Light Company and NextEra Energy Resources, LLC (NextEra Energy Resources), as owners and operators of bulk power transmission systems and/or electric generation facilities, are subject to mandatory reliability standards. Compliance with these mandatory reliability standards may subject NextEra Energy and FPL Group Capital to higher operating costs and may result in increased capital expenditures. If Florida Power & Light Company or NextEra Energy Resources is found not to be in compliance with these standards, it may incur substantial monetary penalties and other sanctions.

NextEra Energy and FPL Group Capital may be adversely affected by increased governmental and regulatory scrutiny or negative publicity.

From time to time, political and public sentiment may result in a significant amount of adverse press coverage and other adverse public statements affecting NextEra Energy, Florida Power & Light Company and FPL Group Capital. Adverse press coverage and other adverse statements may result in some type of investigation by regulators, legislators and law enforcement officials or in lawsuits. Responding to these investigations and lawsuits, regardless of the ultimate outcome of the proceeding, can divert the time and effort of NextEra Energy s, Florida Power & Light Company s and FPL Group Capital s senior management from their businesses. Addressing any adverse publicity, governmental scrutiny and legal and enforcement proceedings is time consuming and expensive and, regardless of the factual basis for the assertions being made, can also have a negative impact on the reputation of NextEra Energy, Florida Power & Light Company and FPL Group Capital and on the morale and performance of their employees, which could adversely affect their businesses and results of operations.

NextEra Energy s and FPL Group Capital s businesses are subject to risks associated with legislative and regulatory initiatives.

NextEra Energy and FPL Group Capital operate in a changing market environment influenced by various legislative and regulatory initiatives, including, for example, initiatives regarding regulation, deregulation or restructuring of the energy industry and regulation of the commodities trading markets. NextEra Energy and its subsidiaries will need to adapt to any changes and may face increasing costs and competitive pressures in doing so. NextEra Energy Resources produces the majority of its electricity from clean and renewable fuels, such as nuclear, natural gas, and wind, operates in the competitive segment of the electric industry, has targeted the competitive segments of the electric industry for future growth and relies on the efficient operation of the commodities trading markets. NextEra Energy s and FPL Group Capital s results of operations and growth prospects could be adversely affected as a result of future legislation or regulatory initiatives, including, but not limited to, those that reverse or restrict the competitive restructuring of the energy industry or the effective operation of the commodities trading markets.

NextEra Energy and FPL Group Capital are subject to numerous environmental laws and regulations that require capital expenditures, increase their cost of operations and may expose them to liabilities.

NextEra Energy and FPL Group Capital are subject to extensive federal, state, and local environmental statutes, rules, and regulations relating to air quality, water quality, climate change, greenhouse gas (GHG), including, but not limited to, carbon dioxide (CO_2) emissions, waste management, hazardous wastes, marine and wildlife mortality, natural resources, health, safety and renewable portfolio standards (RPS) that could, among other things, restrict the output of some existing facilities, limit the use of some fuels required for the production of electricity, require additional pollution control equipment, and otherwise increase costs. There are significant capital, operating and other costs associated with compliance with these environmental statutes, rules and regulations, and those costs could be even more significant in the future as a result of new legislation, the current trend toward more stringent standards, and stricter and more expansive application of existing environmental regulations. Violations of certain of these statutes, rules and regulations could expose NextEra Energy and FPL Group Capital to third party disputes and potentially significant monetary and criminal penalties, as well as other sanctions for non-compliance.

NextEra Energy s and FPL Group Capital s businesses could be negatively affected by federal or state laws or regulations mandating new or additional limits on the production of GHG emissions.

Federal or state laws or regulations may be adopted that would impose new or additional limits on GHG, including, but not limited to, CO_2 and methane, from electric generating units storing and combusting fossil fuels like coal and natural gas. The potential effects of such GHG emission limits on NextEra Energy s and FPL Group Capital s electric generating units are subject to significant uncertainties based on, among other things, the timing of the implementation of any new requirements, the required levels of emission reductions, the nature of any market-based or tax-based mechanisms adopted to facilitate reductions, the relative availability of GHG emission reduction offsets, the development of cost effective, commercial-scale carbon capture and storage technology and supporting regulations and liability mitigation measures, and the range of available compliance alternatives. While NextEra Energy s and FPL Group Capital s electric generating units emit GHGs at a lower rate of emissions than most of the U.S. electric generation sector, the results of operations of NextEra Energy and FPL Group Capital could be adversely affected to the extent that any new GHG emission limits, among other potential impacts:

- create substantial additional costs in the form of taxes or emission allowances;

- make some of NextEra Energy s and FPL Group Capital s electric generating units uneconomical to operate in the long term;

- require significant capital investment in carbon capture and storage technology, fuel switching, or the replacement of high-emitting generation facilities with lower-emitting generation facilities; or

- affect the availability or cost of fossil fuels.

The operation and maintenance of nuclear generation facilities involve risks that could result in fines or the closure of nuclear units owned by Florida Power & Light Company or NextEra Energy Resources and in increased costs and capital expenditures.

Florida Power & Light Company and NextEra Energy Resources own, or hold undivided interests in, eight nuclear generation units in four states. The operation and maintenance of the facilities involve inherent risks, including, but not limited to, the following:

The nuclear generation facilities are subject to environmental, health and financial risks, such as risks relating to site storage of spent nuclear fuel, the disposition of spent nuclear fuel, emissions of tritium and other radioactive elements in the event of a nuclear accident or failure or otherwise, the threat of a terrorist attack and other potential liabilities arising out of the ownership or operation of the facilities. Although Florida Power & Light Company and NextEra Energy Resources maintain decommissioning funds and external insurance coverage which are intended to minimize the financial exposure to some of these risks, the cost of decommissioning the facilities could exceed the amount available in the decommissioning funds, and the liability and property damages could exceed the amount of insurance coverage. In the event of an incident at any nuclear reactor in the United States, Florida Power & Light Company and NextEra Energy Resources could be assessed significant retrospective assessments and/or retrospective insurance premiums as a result of their participation in a secondary financial protection system and nuclear insurance mutual companies.

The U.S. Nuclear Regulatory Commission (NRC) has broad authority to impose licensing and safety-related requirements for the construction, operation and maintenance of nuclear generation facilities. In the event of non-compliance, the NRC has the authority to impose fines or shut down a nuclear unit, or to take both of these actions, depending upon its assessment of the severity of the situation, until compliance is achieved. NRC orders or new regulations related to increased security measures and any future safety requirements promulgated by the NRC could require Florida Power & Light Company and NextEra Energy Resources to incur substantial operating and capital expenditures at their nuclear generation facilities. In addition, any serious nuclear incident occurring at an Florida Power & Light Company or NextEra Energy Resources plant could result in substantial remediation costs and other expenses. A major incident at a nuclear facility anywhere in the world could cause the NRC to limit or prohibit the operation or licensing of any domestic nuclear unit. An incident at a nuclear facility anywhere in the world also could cause the NRC to impose additional conditions or other requirements on the industry, which could increase costs and result in additional capital expenditures.

The operating licenses for Florida Power & Light Company s and NextEra Energy Resources nuclear generation facilities, other than Duane Arnold Energy Center (Duane Arnold), extend through at least 2030. In 2008, NextEra Energy Resources applied to extend Duane Arnold s operating license for an additional 20 years beyond its current expiration date of 2014. If the NRC does not renew the operating license for Duane Arnold or any of Florida Power & Light Company s or NextEra Energy Resources nuclear generation units cannot be operated through the end of their respective operating licenses, NextEra Energy s or FPL Group Capital s results of operations could be adversely affected by increased depreciation rates, impairment charges and accelerated future decommissioning costs.

Terrorist threats and increased public scrutiny of nuclear generation facilities could result in increased nuclear licensing or compliance costs which are difficult or impossible to predict.

NextEra Energy s and FPL Group Capital s operating results could suffer if they do not proceed with projects under development or are unable to complete the construction of, and capital improvements to, generation, transmission, distribution and other facilities on schedule and within budget.

NextEra Energy and FPL Group Capital may incur significant costs for development of projects, including, but not limited to, preliminary engineering, permitting, legal, and other expenses before it can be established whether a project is feasible, economically attractive, or capable of being financed. The ability of NextEra Energy and FPL Group Capital to complete construction of, and capital improvement projects for, their generation, transmission, distribution and other facilities on schedule and within budget may be adversely affected by escalating costs for materials and labor and regulatory compliance, delays in obtaining permits and other approvals, disputes involving third parties, negative publicity, transmission interconnection issues and other factors or failures. If any development project or construction or capital improvement project is not completed or is delayed or subject to cost overruns, NextEra Energy s and FPL Group Capital s operational and financial results may be adversely affected. In any such event, among other matters, NextEra Energy and FPL Group Capital could be subject to additional costs, which, with respect to NextEra Energy, may not be recoverable at Florida Power & Light Company from ratepayers, termination payments under committed contracts, loss of tax credits or the write-off of their investment in the project.

The operation and maintenance of power generation, transmission and distribution facilities involve significant risks that could adversely affect the results of operations and financial condition of NextEra Energy and FPL Group Capital.

The operation and maintenance of power generation, transmission and distribution facilities involve many risks, such as those identified elsewhere in these risk factors and those arising due to:

- risks of start-up operations;

- failures in the supply, availability or transportation of fuel;

- the impact of unusual or adverse weather conditions, including, but not limited to, natural disasters such as hurricanes, floods, earthquakes and droughts;

- performance below expected or contracted levels of output or efficiency;

- breakdown or failure of equipment, transmission and distribution lines or pipelines;

- availability of replacement equipment;
- risks of human injury from energized equipment;
- availability of adequate water resources and ability to satisfy water discharge requirements;
- inability to properly manage or mitigate known equipment defects throughout NextEra Energy s and FPL Group Capital s generation fleets and transmission and distribution systems;
- use of new or unproven technology; and
- dependence on a specific fuel source.

The occurrence of any of these effects or events could result in, among other matters, lost revenues due to prolonged outages, increased expenses due to monetary penalties or fines, replacement equipment costs or an obligation to purchase or generate replacement power at potentially higher prices to meet contractual obligations. Insurance, warranties or performance guarantees may not cover any or all of the lost revenues or increased expenses. Breakdown or failure of an operating facility of NextEra Energy Resources, for example, may prevent NextEra Energy Resources from performing under applicable power sales agreements which, in some situations, could result in termination of the agreement or subject NextEra Energy Resources to liability for liquidated damages.

NextEra Energy s and FPL Group Capital s competitive energy business is subject to development and operating risks that could limit the revenue growth of this business and have other negative effects on NextEra Energy s and FPL Group Capital s results of operations and financial condition.

NextEra Energy and FPL Group Capital conduct their competitive energy business through NextEra Energy Resources. To operate successfully in the competitive wholesale energy markets, NextEra Energy Resources must, among other things, efficiently develop and operate its generating assets, procure adequate supplies of fuel and associated transportation at acceptable prices, successfully and timely complete project restructuring activities, maintain the qualifying facility status of certain projects and complete its energy deliveries in a timely manner. Its ability to do so is subject to a variety of risks. In addition to risks such as those identified elsewhere in these risk factors, risks that specifically affect NextEra Energy Resources success in competitive wholesale markets include:

The ability of NextEra Energy Resources to develop electric power generation facilities may be affected by factors beyond its control, such as increased competition from other and new sources of power generation, excess generation capacity and shifting demand for power, legal and regulatory developments and general economic conditions. Risks related to project siting, financing, construction, permitting, governmental approvals and the negotiation of project agreements may impede development activities.

There can be significant volatility in market prices for fuel, electricity and renewable and other energy commodities. NextEra Energy Resources inability or failure to hedge effectively its assets or positions against changes in commodity prices, volumes, interest rates, counterparty credit risk or other risk measures could significantly impair NextEra Energy s and FPL Group Capital s results of operations.

A portion of NextEra Energy Resources power generation facilities operate wholly or partially without long-term power purchase agreements. As a result, power from these facilities is sold on the spot market or on a short term contractual basis, which may increase the volatility of NextEra Energy s and FPL Group Capital s results of operations.

NextEra Energy Resources depends upon power transmission and natural gas transportation facilities owned and operated by others. If transmission or transportation of sufficient power or natural gas is unavailable or disrupted, NextEra Energy Resources ability to sell and deliver its wholesale power or natural gas may be limited.

NextEra Energy s and FPL Group Capital s competitive energy business is dependent on continued public policy support and governmental support for renewable energy, particularly wind and solar projects.

NextEra Energy s and FPL Group Capital s competitive energy business, NextEra Energy Resources, depends heavily on government policies that support renewable energy and enhance the economic feasibility of developing wind and solar energy projects. The federal government and several of the states in which NextEra Energy Resources operates or into which it sells power provide incentives that support the sale of energy from renewable sources, such as wind and solar energy.

The American Recovery and Reinvestment Act of 2009 includes, among other things, provisions that allow companies building wind facilities the option to choose among the following three investment cost recovery mechanisms: (1) production tax credits which were extended for wind facilities through 2012, (2) investment tax credits (ITCs) of 30% of the cost for qualifying wind facilities placed in service prior to 2013, or (3) an election to receive a cash grant of 30% of the cost of qualifying wind facilities placed in service in 2009 or 2010, or if construction began prior to December 31, 2010 and the wind facility is placed in service prior to 2013. An election to receive a cash grant of 30%, in lieu of the 30% ITC also applies to the cost of qualifying solar facilities placed in service in either 2009 or 2010, or if construction began prior to December 31, 2010 and the solar facility is placed in service prior to 2017. In order for NextEra Energy Resources to continue to economically develop wind and solar energy projects in the future, it will need to utilize the investment cost recovery mechanisms currently available as well as requiring similar public policy support in the future.

In addition to federal financial incentives, NextEra Energy Resources relies on state incentives that support the sale of energy generated from renewable sources, such as state adopted RPS which require electricity providers in the state to meet a certain percentage of their retail sales with energy from renewable sources. The legislation creating these RPS requirements, however, usually grants the relevant state public utility commission the ability to reduce electric supply companies obligations to meet the RPS requirements in specified circumstances. Any reduction or elimination of the RPS requirements could result in less demand for generation from NextEra Energy Resources wind and solar energy projects.

NextEra Energy and FPL Group Capital are subject to credit and performance risk from customers and suppliers.

NextEra Energy, FPL Group Capital and Florida Power & Light Company are exposed to risks associated with the creditworthiness and performance of their key customers and of their key vendors under contracts for the supply of equipment, materials, fuel and other goods and services required for their business operations and for the construction and operation of, and for capital improvements to, their facilities. Adverse conditions in the energy industry or the general economy, as well as circumstances of individual customers and vendors, may affect the ability of some customers and vendors to perform as required under their contracts. If any vendor fails to fulfill its contractual obligations, NextEra Energy, FPL Group Capital and Florida Power & Light Company may need to make arrangements with other suppliers, which could result in higher costs, untimely completion of power generation facilities and other projects, and/or a disruption of their operations. If the defaulting counterparty is in poor financial condition, NextEra Energy, FPL Group Capital and Florida Power & Light Company may not be able to recover damages for any contract breach.

NextEra Energy s results of operations may continue to be negatively affected by slower customer growth and customer usage in Florida Power & Light Company s service area.

NextEra Energy s results of operations are affected by the growth in customer accounts in Florida Power & Light Company s service area and by customer usage, each of which directly influences the demand for electricity and the need for additional power generation and power delivery facilities at Florida Power & Light Company. A lack of growth or slower growth in the number of Florida Power & Light Company s retail customers or in non weather related customer usage, such as that which has occurred over the past several years, could adversely affect NextEra Energy s results of operations. Customer growth and customer usage are affected by a number of factors outside the control of NextEra Energy, such as mandated energy efficiency measures, demand side management goals, and economic and demographic conditions in Florida and elsewhere such as population, job and income growth, housing starts and new business formation. As a result, NextEra Energy may make, but not fully realize the anticipated benefits from, significant investments and expenditures, which could adversely affect its results of operations.

NextEra Energy s and FPL Group Capital s financial position and results of operations are subject to risks associated with weather conditions, such as the impact of severe weather.

NextEra Energy s and FPL Group Capital s results of operations can be negatively affected by changes in the weather. Weather conditions directly influence the demand for electricity and natural gas, affect the price of energy commodities, and can affect the production of electricity at power generating facilities, including, but not limited to, wind, solar and hydro-powered facilities. For example, the level of wind resource affects the results of operations of wind generating facilities. Since the levels of wind, solar and hydro resources are variable and difficult to predict, NextEra Energy s and FPL Group Capital s results of operations for individual wind, solar and hydro facilities vary or may vary significantly from period to period depending on the level of available resources. To the extent that resources are not available at planned levels, the returns from these facilities may be less than expected.

In addition, NextEra Energy s and FPL Group Capital s financial position and results of operations would be affected by the impact of severe weather, such as hurricanes, floods and earthquakes, which can be destructive and cause power outages and property damage, affect fuel supply, and require NextEra Energy and FPL Group Capital to incur additional costs to restore service and repair damaged facilities. A disruption or failure of electric generation, transmission or distribution systems or natural gas transmission, storage or distribution systems in the event of a hurricane, tornado, or other severe weather event could prevent Florida Power & Light Company and NextEra Energy Resources from operating their businesses in the normal course. At Florida Power & Light Company, recovery of these costs to restore service and repair damaged facilities is subject to FPSC approval, and any determination by the FPSC not to permit timely and full recovery of the costs incurred would result in a negative financial impact on NextEra Energy.

Disruptions, uncertainty or volatility in the credit and capital markets may negatively affect NextEra Energy s and FPL Group Capital s ability to fund their liquidity and capital needs and to meet their growth objectives, and can also adversely impact the results of operations and financial condition of NextEra Energy and FPL Group Capital and exert downward pressure on the market price of NextEra Energy s common stock.

NextEra Energy, FPL Group Capital and Florida Power & Light Company rely on access to capital and credit markets as significant sources of liquidity for capital requirements and other operations not satisfied by operating cash flows. Disruptions, uncertainty or volatility in those credit and capital markets, such as conditions existing during periods in 2008 and 2009, could increase NextEra Energy s, FPL Group Capital s and Florida Power & Light Company s cost of capital. If NextEra Energy, FPL Group Capital and Florida Power & Light Company are unable to access regularly the credit and capital markets on terms that are reasonable, they may have to delay raising capital, issue shorter-term securities and/or incur an unfavorable cost of capital, which, in turn, could adversely affect their ability to grow their businesses and could contribute to lower earnings and reduced financial flexibility. The market price and trading volume of NextEra Energy s common stock are subject to fluctuations as a result of, among other factors, general stock market conditions and changes in market sentiment regarding the operations, business, growth prospects and financing strategies of NextEra Energy and its subsidiaries.

NextEra Energy s, FPL Group Capital s and Florida Power & Light Company s inability to maintain their current credit ratings may adversely affect NextEra Energy s, FPL Group Capital s and Florida Power & Light Company s liquidity, limit the ability of NextEra Energy, FPL Group Capital and Florida Power & Light Company to grow their businesses, and increase interest costs, while the liquidity of the companies also could be impaired by the inability of their credit providers to maintain their current credit ratings or to fund their credit commitments.

The inability of NextEra Energy, FPL Group Capital and Florida Power & Light Company to maintain their current credit ratings could affect their ability to raise capital or obtain credit on favorable terms, which, in turn, could impact NextEra Energy s, FPL Group Capital s and Florida Power & Light Company s ability to grow their businesses, service indebtedness or repay borrowings, and would likely increase their interest costs. Some of the factors that can affect credit ratings are cash flows, liquidity, the amount of debt as a component of total capitalization, and political, legislative and regulatory actions. NextEra Energy, FPL Group Capital and Florida Power & Light Company cannot assure that one or more of their ratings will not be lowered or withdrawn entirely by a rating agency.

The inability of NextEra Energy s, FPL Group Capital s and Florida Power & Light Company s credit providers to maintain credit ratings acceptable under various agreements, or to fund their credit commitments, could require NextEra Energy, FPL Group Capital or Florida Power & Light Company, among other things, to renegotiate requirements in agreements, find an alternative credit provider with acceptable credit ratings to meet funding requirements, or post cash collateral.

The use of derivative contracts by NextEra Energy and FPL Group Capital in the normal course of business could result in financial losses or the payment of margin cash collateral that could adversely affect their results of operations or cash flows.

NextEra Energy and FPL Group Capital use derivative instruments, such as swaps, options, futures and forwards, some of which are traded in the over-the-counter markets or on exchanges, to manage their commodity and financial market risks, and to engage in trading and marketing activities. NextEra Energy and FPL Group Capital could recognize financial losses as a result of volatility in the market values of these derivative instruments, or if a counterparty fails to perform or make payments under these derivative instruments, and could suffer a reduction in operating cash flows as a result of the requirement to post margin cash collateral. In the absence of actively quoted market prices and pricing information from external sources, the valuation of these derivative instruments involves management s judgment or use of estimates. Although NextEra Energy and FPL Group Capital execute transactions in derivative instruments on either recognized exchanges or via the over-the-counter markets, depending on the most favorable credit and market execution factors, there is greater volatility and less liquidity in transactions executed in over-the-counter markets and, as a result, NextEra Energy and FPL Group Capital may not be able to execute such transactions in times of market volatility. As a result, changes in the underlying assumptions or use of alternative valuation methods could affect the reported fair value of these derivative instruments. In addition, Florida Power & Light Company s use of such instruments could be subject to prudence challenges and, if found imprudent, could result in disallowances of cost recovery for such use by the FPSC.

NextEra Energy and FPL Group Capital provide full energy and capacity requirement services, which include, for example, load-following services and various ancillary services, primarily to distribution utilities to satisfy all or a portion of such utilities power supply obligations to their customers. The supply costs for these transactions may be affected by a number of factors, including, but not limited to, events that may occur after NextEra Energy and FPL Group Capital have committed to supply power, such as weather conditions, fluctuating prices for energy and ancillary services, and the ability of the distribution utilities customers to elect to receive service from competing suppliers. If the supply costs are not favorable, NextEra Energy s and FPL Group Capital s operating costs could increase and result in the possibility of reduced earnings or incurring losses.

NextEra Energy and FPL Group Capital, through NextEra Energy Resources, are active participants in energy markets. The liquidity of regional energy markets is an important factor in NextEra Energy Resources ability to manage risks in these operations. Over the past several years, other market participants have ended or significantly reduced their activities as a result of several factors, including, but not limited to, government investigations, changes in market design, and deteriorating credit quality. Liquidity in the energy markets can be adversely affected by price volatility, restrictions on the availability of credit, and other factors. As a result, reductions in liquidity may restrict the ability of NextEra Energy Resources to manage its risks, and this could negatively affect NextEra Energy s and FPL Group Capital s financial results.

NextEra Energy and FPL Group Capital have hedging and trading procedures and associated risk management tools, such as separate but complementary financial, credit, operational, compliance and legal reporting systems, internal controls, management review processes and other mechanisms, that may not work as planned. Risk management tools and metrics such as daily value at risk, earnings at risk, stop loss limits and liquidity guidelines are based on historical price movements. If price movements significantly or persistently deviate from historical behavior, the risk management tools may not protect against significant losses. As a result of these and other factors, NextEra Energy and FPL Group Capital cannot predict with precision the impact that risk management decisions may have on their financial results.

NextEra Energy s and FPL Group Capital s ability to successfully identify, complete and integrate acquisitions is subject to significant risks, including, but not limited to, the effect of increased competition for acquisitions resulting from the consolidation of the power industry.

NextEra Energy and FPL Group Capital are likely to encounter significant competition for acquisition opportunities that may become available as a result of the consolidation of the power industry in general. In addition, NextEra Energy and FPL Group Capital may be unable to identify attractive acquisition opportunities at favorable prices and to complete and integrate them successfully and in a timely manner.

NextEra Energy and FPL Group Capital may be unable to meet their ongoing and future financial obligations and to pay dividends on their common stock if their subsidiaries are unable to pay upstream dividends or repay funds to NextEra Energy or FPL Group Capital or if NextEra Energy or FPL Group Capital are required to perform under guarantees of obligations of their subsidiaries.

NextEra Energy and FPL Group Capital are holding companies and, as such, have no material operations of their own. Substantially all of NextEra Energy s and FPL Group Capital s consolidated assets are held by subsidiaries. NextEra Energy s and FPL Group Capital s ability to meet their financial obligations, including, but not limited to, their guarantees, and to pay dividends on their common stock is primarily dependent on the subsidiaries net income and cash flows, which are subject to the risks of their respective businesses, and their ability to pay upstream dividends or to repay funds. The subsidiaries have financial obligations, including, but not limited to, payment of debt service, which they must satisfy before they can fund NextEra Energy and FPL Group Capital. NextEra Energy s and FPL Group Capital s subsidiaries are separate legal entities and have no obligation to provide NextEra Energy or FPL Group Capital with funds for their payment obligations. In addition, the dividend-paying ability of some of the subsidiaries is limited by contractual restrictions which are contained in outstanding financing agreements and which may be included in future financing agreements. The future enactment of laws or regulations also may prohibit or restrict the ability of NextEra Energy s and FPL Group Capital s subsidiaries to pay upstream dividends or to repay funds. NextEra Energy guarantees many of the obligations of its consolidated subsidiaries, other than Florida Power & Light Company, through guarantee agreements with FPL Group Capital. FPL Group Capital guarantees many of the obligations of its consolidated subsidiaries through guarantee agreements. These guarantees may require NextEra Energy and FPL Group Capital to provide substantial funds to their subsidiaries or their creditors or counterparties at a time when NextEra Energy and FPL Group Capital are in need of liquidity to fund their own obligations or to pay dividends. In addition, in the event of a subsidiary s liquidation or reorganization, NextEra Energy s and FPL Group Capital s right to participate in a distribution of assets is subject to the prior claims of the subsidiary s creditors.

Changes in tax laws, as well as judgments and estimates used in the determination of tax-related asset and liability amounts, could adversely affect NextEra Energy s and FPL Group Capital s results of operations, financial condition and liquidity.

NextEra Energy s and FPL Group Capital s provision for income taxes and reporting of tax-related assets and liabilities requires significant judgments and the use of estimates. Amounts of tax-related assets and liabilities involve judgments and estimates of the timing and probability of recognition of income, deductions and tax credits, including, but not limited to, estimates for potential adverse outcomes regarding tax positions that have been taken and the ability to utilize tax benefit carryforwards, such as net operating loss and tax credit carryforwards. Actual income taxes could vary significantly from estimated amounts due to the future impacts of, among other things, changes in tax laws, regulations and interpretations, financial condition and results of operations of NextEra Energy and its subsidiaries, as well as the resolution of audit issues raised by taxing authorities. Ultimate resolution of income tax matters may result in material adjustments to tax-related assets and liabilities which could impact, either positively or negatively, NextEra Energy s and FPL Group Capital s results of operations, financial condition and liquidity.

NextEra Energy s and FPL Group Capital s retail businesses are subject to the risk that sensitive customer data may be compromised, which could result in an adverse impact to their reputation and/or the results of operations of the retail business.

NextEra Energy s and FPL Group Capital s retail businesses require access to sensitive customer data in the ordinary course of business. NextEra Energy s and FPL Group Capital s retail business may also need to provide sensitive customer data to vendors and service providers who require access to this information in order to provide services, such as call center services, to the retail business. If a significant breach occurred, the reputation of NextEra Energy s and FPL Group Capital s retail business could be adversely affected, customer confidence could be diminished, customer information could be used for identity theft purposes, or NextEra Energy s and FPL Group Capital s retail business could be subject to legal claims, any of which may have a negative impact on the business and/or results of operations.

A failure in NextEra Energy s and FPL Group Capital s operational systems or infrastructure, or those of third parties, could impair their liquidity, disrupt their businesses, result in the disclosure of confidential information and cause losses.

NextEra Energy s and FPL Group Capital s businesses are highly dependent on their ability to process and monitor, on a daily basis, a very large number of transactions, many of which are highly complex, and cross numerous and diverse markets. Due to the size, scope and geographical reach of NextEra Energy s and FPL Group Capital s businesses, and due to the complexity of the process of power generation, transmission and distribution, the development and maintenance of NextEra Energy s and FPL Group Capital s operational systems and infrastructure is challenging. NextEra Energy and FPL Group Capital s operating systems and facilities may fail to operate properly or become disabled as a result of events that are within their control, such as operator error, and that are wholly or partially outside of their control, such as a result of severe weather or terrorist activities. Any such failure or disabling event could adversely affect NextEra Energy s and FPL Group Capital s ability to process transactions and provide services.

NextEra Energy and FPL Group Capital also face the risks of operational failure, termination, or capacity constraints of third parties providing electric and gas transmission services, particularly those at NextEra Energy Resources.

Threats of terrorism and catastrophic events that could result from terrorism, cyber attacks, or individuals and/or groups attempting to disrupt NextEra Energy s and FPL Group Capital s businesses may impact the operations of NextEra Energy and FPL Group Capital in unpredictable ways and could adversely affect NextEra Energy s and FPL Group Capital s results of operations, financial condition and liquidity.

NextEra Energy and FPL Group Capital are subject to the potentially adverse operating and financial effects of terrorist acts and threats, as well as cyber attacks and other disruptive activities of individuals or groups. NextEra Energy s and FPL Group Capital s generation, transmission and distribution facilities, fuel storage facilities, information technology systems and other infrastructure facilities and systems and physical assets, could be direct targets of, or indirectly affected by, such activities. Terrorist acts or other similar events could harm NextEra Energy s and FPL Group Capital s businesses by limiting their ability to generate, purchase or transmit power and by delaying their development and construction of new generating facilities and capital improvements to existing facilities. These events, and governmental actions in response, could result in a material decrease in revenues and significant additional costs to repair and insure NextEra Energy s and FPL Group Capital s assets, and could adversely affect NextEra Energy s and FPL Group Capital s operations by contributing to disruption of supplies and markets for natural gas, oil and other fuels. They could also impair NextEra Energy s and FPL Group Capital s ability to raise capital by contributing to financial instability and lower economic activity.

NextEra Energy and FPL Group Capital operate in a highly regulated industry that requires the continued operation of sophisticated information technology systems and network infrastructure. Despite NextEra Energy s and FPL Group Capital s implementation of security measures, all of their technology systems are vulnerable to disability, failures or unauthorized access due to such activities. If NextEra Energy s or FPL Group Capital s technology systems were to fail or be breached and be unable to recover in a timely way, NextEra Energy and FPL Group Capital would be unable to fulfill critical business functions, and sensitive confidential and other data could be compromised, which could have a material adverse effect on NextEra Energy s and FPL Group Capital s results of operations, financial condition and liquidity.

The implementation of security guidelines and measures and maintenance of insurance, to the extent available, addressing such activities could increase costs. These types of events could materially adversely affect NextEra Energy s and FPL Group Capital s results of operations, financial condition and liquidity. In addition, these types of events could require significant management attention and resources, and could adversely affect NextEra Energy s and FPL Group Capital s reputation among customers and the public.

The ability of NextEra Energy and FPL Group Capital to obtain insurance and the terms of any available insurance coverage could be adversely affected by international, national, state or local events and company-specific events, as well as the financial condition of insurers. NextEra Energy s and FPL Group Capital s insurance coverage may not provide protection against all significant losses.

The ability of NextEra Energy, FPL Group Capital and Florida Power & Light Company to obtain insurance, as well as the cost and coverage of such insurance, could be affected by developments affecting their businesses, as well as by international, national, state or local events, as well as the financial condition of insurers. Insurance coverage may not continue to be available at all or at rates or on terms similar to those presently available to NextEra Energy, FPL Group Capital and Florida Power & Light Company. A loss for which NextEra Energy, FPL Group Capital and Florida Power & Light Company are not fully insured could materially and adversely affect their financial condition and results of operations. NextEra Energy s, FPL Group Capital s and Florida Power & Light Company s insurance may not be sufficient or effective under all circumstances and against all hazards or liabilities to which the companies may be subject.

The businesses and results of operations of NextEra Energy and FPL Group Capital could be negatively affected by the lack of a qualified workforce, work strikes or stoppages and increasing personnel costs.

NextEra Energy, FPL Group Capital and Florida Power & Light Company may not be able effectively and profitably to obtain new customers, or grow their customer base, service existing customers and meet their other business plan goals if they do not attract and retain a qualified workforce. The lack of a qualified workforce, including, for example, the loss or retirement of key executives and other employees, may adversely affect service and productivity and contribute to higher training and safety costs. Over the next several years, a significant portion of NextEra Energy s, FPL Group Capital s and Florida Power & Light Company s workforce, including, but not limited to, many workers with specialized skills maintaining and servicing the nuclear generation facilities and electrical infrastructure, will be eligible to retire. Such highly skilled individuals may not be able to be replaced quickly due to the technically complex work they perform. Personnel costs also may increase due to inflationary or competitive pressures on payroll and benefits costs and revised terms of collective bargaining agreements with union employees. Employee strikes or work stoppages could disrupt operations and lead to a loss of customers and revenue.

Poor market performance and other economic factors could affect NextEra Energy s nuclear decommissioning funds asset value or defined benefit pension plan s funded status, which may adversely affect NextEra Energy s liquidity and financial results.

NextEra Energy, FPL Group Capital and Florida Power & Light Company are required to maintain decommissioning funds to satisfy their future obligations to decommission their nuclear power plants. In addition, NextEra Energy sponsors a qualified noncontributory defined benefit pension plan for substantially all employees of NextEra Energy and its subsidiaries. A decline in the market value of the assets held in the decommissioning funds or in the defined benefit pension plan due to poor investment performance or other factors may increase the funding requirements for these obligations. Moreover, NextEra Energy s defined benefit pension plan is sensitive to changes in interest rates, since, as interest rates decrease the funding liabilities increase, potentially increasing benefits costs and funding requirements. Any increase in benefits costs or funding requirements may have an adverse effect on NextEra Energy s and FPL Group Capital s liquidity and financial results.

Increasing costs associated with health care plans may adversely affect NextEra Energy s and FPL Group Capital s results of operations, financial position and liquidity.

The costs of providing health care benefits to employees and retirees have increased substantially in recent years. NextEra Energy and FPL Group Capital believe that their employee benefit costs, including costs related to health care plans for employees and former employees, will continue to rise. The increasing costs and funding requirements associated with NextEra Energy s health care plans may adversely affect the companies results of operations, financial position and liquidity.

USE OF PROCEEDS

The information in this section adds to the information in the Use of Proceeds section on page 9 of the accompanying prospectus. Please read these two sections together.

The $400,000,000 aggregate principal amount of 2.60% Debentures, Series due September 1, 2015 offered by this prospectus supplement and the accompanying prospectus are referred to in this prospectus supplement as the Debentures.

FPL Group Capital will add the net proceeds from the sale of the Debentures, which are expected to be approximately $397.1 million (after deducting the underwriting discount and other offering expenses) to its general funds.

FPL Group Capital expects to use its general funds to repay all or a portion of its total indebtedness outstanding under term loan agreements with various commercial banks in the aggregate principal amount of $520 million, which loans mature on or before September 17, 2011 and which bear floating-rate interest at specified margins over the London InterBank Offered Rate. After repaying all or a portion of its total indebtedness outstanding under those term loan agreements, FPL Group Capital expects to use its general funds for other general corporate purposes, including the repayment of commercial paper. As of August 25, 2010, FPL Group Capital had $1.374 billion of commercial paper outstanding which had maturities of up to 117 days and which had annual interest rates ranging from 0.43% to 0.59%. FPL Group Capital will temporarily invest in short term instruments any proceeds that are not immediately used for such repayments.

CONSOLIDATED RATIO OF EARNINGS TO FIXED CHARGES

The information in this section adds to the information in the Consolidated Ratio of Earnings to Fixed Charges and Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends section on page 10 of the accompanying prospectus.

NextEra Energy s consolidated ratio of earnings to fixed charges for the year ended December 31, 2009 and the six months ended June 30, 2010 was 2.91 and 3.32, respectively.

CONSOLIDATED CAPITALIZATION OF NEXTERA ENERGY AND SUBSIDIARIES

The following table shows NextEra Energy s consolidated capitalization as of June 30, 2010, and as adjusted to reflect the issuance of the Debentures and the other transactions described below. This table, which is presented in this prospectus supplement solely to provide limited introductory information, is qualified in its entirety by, and should be considered in conjunction with, the more detailed information incorporated by reference or provided in this prospectus supplement or in the accompanying prospectus.

		Adjusted(a)	
	June 30, 2010	**Amount**	**Percent**
	(In Millions)		
Common shareholders equity	$13,529	$13,574	43.6%
Long-term debt (excluding current maturities)	17,171	17,571	56.4%
Total capitalization	$30,700	$31,145	100.0%

(a) To give effect to the (i) issuance of the Debentures offered by this prospectus supplement and (ii) issuance of NextEra Energy common stock in connection with NextEra Energy s continuous offering program (from which NextEra Energy received approximately $45.2 million of net proceeds) from July 1 through August 25, 2010. Adjusted amounts do not reflect the deduction of any discounts or commissions in connection with the issuance of the Debentures. Adjusted amounts do not reflect principal repayments of amortizing loans, principal repayments on storm-recovery bonds, increases in debt associated with a reclaimed water agreement, the effect of adjustments related to premiums, discounts or fair value swaps or foreign currency translation adjustments. Adjusted amounts also do not reflect any possible additional borrowings or issuance and sale of additional securities by NextEra Energy and its subsidiaries, including FPL Group Capital, from time to time after the date of this prospectus supplement.

CERTAIN TERMS OF THE DEBENTURES

The information in this section adds to the information in the Description of FPL Group Capital Senior Debt Securities section beginning on page 25 of the accompanying prospectus. Please read these two sections together.

General. FPL Group Capital will issue the Debentures under the Indenture, dated as of June 1, 1999, between FPL Group Capital and The Bank of New York Mellon (formerly known as The Bank of New York), as indenture trustee, and referred to in this prospectus supplement as the Indenture Trustee. An officer s certificate will supplement the Indenture and establish the specific terms of the Debentures. Under the Indenture, FPL Group Capital may issue an unlimited amount of additional debt securities. The Indenture does not limit the aggregate amount of indebtedness FPL Group Capital and its subsidiaries may issue, guarantee or incur. The Guarantee Agreement referred to below under Mandatory Redemption does not limit the aggregate amount of indebtedness NextEra Energy and its subsidiaries may guarantee, issue or incur.

FPL Group Capital s corporate parent, NextEra Energy, has agreed to absolutely, irrevocably and unconditionally guarantee the payment of principal, interest and premium, if any, on the Debentures. The Debentures and the guarantee are unsecured and unsubordinated and rank equally with other unsecured and unsubordinated indebtedness from time to time outstanding of FPL Group Capital and NextEra Energy, respectively. See Description of FPL Group Guarantee of FPL Group Capital Senior Debt Securities in the accompanying prospectus.

The Indenture Trustee will initially be the security registrar and the paying agent for the Debentures. All transactions with respect to the Debentures, including registration, transfer and exchange of the Debentures, will be handled by the security registrar at an office in The City of New York designated by FPL Group Capital. FPL Group Capital has initially designated the Corporate Trust Office of the Indenture Trustee as that office. In addition, holders of the Debentures should address any notices to FPL Group Capital regarding the Debentures to that office. FPL Group Capital will notify holders of the Debentures of any change in the location of that office.

Interest and Payment. FPL Group Capital will pay interest semi-annually in cash on the Debentures at the rate of 2.60% per year. The Debentures will mature on September 1, 2015. FPL Group Capital will pay interest on the Debentures on March 1 and September 1 of each year, each an interest payment date. The first interest payment date will be March 1, 2011. The record date for interest payable on the Debentures on any interest payment date shall be the close of business (1) on the business day immediately preceding such interest payment date so long as all of the Debentures remain in book-entry only form, or (2) on the 15th calendar day immediately preceding each interest payment date if any of the Debentures do not remain in book-entry only form. See Book-Entry Only Issuance The Depository Trust Company. Interest on the Debentures will accrue from and including the date of original issuance to but excluding the first interest payment date. Starting on the first interest payment date, interest on each Debenture will accrue from and including the last interest payment date to which FPL Group Capital has paid, or duly provided for the payment of, interest on that Debenture to but excluding the next succeeding interest payment date. No interest will accrue on a Debenture for the day that the Debenture matures. The amount of interest payable for any period will be computed on the basis of a 360-day year consisting of twelve 30-day months. The amount of interest payable for any period shorter than a full semi-annual period for which interest is computed will be computed on the basis of the number of days in the period using 30-day calendar months. If any date on which interest, principal or premium is payable on the Debentures falls on a day that is not a business day, then payment of the interest, principal or premium payable on that date will be made on the next succeeding day which is a business day, and no interest or payment will be paid in respect of the delay. A business day is any day that is not a Saturday, a Sunday, or a day on which banking institutions or trust companies in New York City are generally authorized or required by law or executive order to remain closed.

Optional Redemption. FPL Group Capital may redeem any of the Debentures, at its option, at any time or from time to time, on any date prior to their maturity (each a Redemption Date). FPL Group Capital will give notice of its intent to redeem any or all of the Debentures at least 30 but no more than 60 days prior to a Redemption Date. If FPL Group Capital redeems any or all of the Debentures, it will pay a redemption price (Redemption Price) equal to the sum of: (1) 100% of the principal amount of the Debentures being redeemed plus (2) accrued and unpaid interest thereon, if any, to the Redemption Date plus (3) any applicable make-whole premium. The Redemption Price for the Debentures will never be less than 100% of the principal amount of those Debentures plus accrued and unpaid interest on those Debentures to the Redemption Date.

The amount of the make-whole premium with respect to any Debentures to be redeemed in accordance with the foregoing paragraph will be equal to the excess, if any, of:

(1) the sum of the present values, calculated as of the Redemption Date, of:

(a) each interest payment that, but for such redemption, would have been payable on the Debentures being redeemed on each interest payment date occurring after the Redemption Date (excluding any accrued interest for the period prior to the Redemption Date); and

(b) the principal amount that, but for such redemption, would have been payable at the final maturity of the Debentures being redeemed; over

(2) the principal amount of the Debentures being redeemed.

The present values of interest and principal payments referred to in clause (1) above will be determined in accordance with generally accepted principles of financial analysis. Such present values will be calculated by discounting the amount of each payment of interest or principal from the date that each such payment would have been payable, but for the redemption, to the Redemption Date at a discount rate equal to the Treasury Yield (as defined below) plus 20 basis points.

FPL Group Capital will appoint an independent investment banking institution of national standing to calculate the make-whole premium; provided that Barclays Capital Inc., BNP Paribas Securities Corp., Morgan Stanley & Co. Incorporated or RBS Securities Inc. will make such calculation if (1) FPL Group Capital fails to make such appointment at least 30 days prior to the Redemption Date, or (2) the institution so appointed is unwilling or unable to make such calculation. If Barclays Capital Inc., BNP Paribas Securities Corp., Morgan Stanley & Co. Incorporated or RBS Securities Inc. is to make such calculation but is unwilling or unable to do so, then the Indenture Trustee, in consultation with FPL Group Capital, will appoint an independent investment banking institution of national standing to make such calculation. In any case, the institution making such calculation is referred to in this prospectus supplement as an Independent Investment Banker.

For purposes of determining the make-whole premium, Treasury Yield means a rate of interest per year equal to the weekly average yield to maturity of United States Treasury Notes that have a constant maturity that corresponds to the remaining term to maturity of the Debentures to be redeemed, calculated to the nearest 1/12th of a year (the Remaining Term). The Independent Investment Banker will determine the Treasury Yield as of the third business day immediately preceding the applicable Redemption Date.

The Independent Investment Banker will determine the weekly average yields of United States Treasury Notes by reference to the most recent statistical release published by the Federal Reserve Bank of New York and designated H.15(519) Selected Interest Rates or any successor release (the H.15 Statistical Release). If the H.15 Statistical Release sets forth a weekly average yield for United States Treasury Notes having a constant maturity that is the same as the Remaining Term, then the Treasury Yield will be equal to such weekly average yield. In all other cases, the Independent Investment Banker will calculate the Treasury Yield by interpolation, on a straight-line basis, between the weekly average yields on the United States Treasury Notes that have a constant maturity closest to and greater than the Remaining Term and the United States Treasury Notes that have a constant maturity closest to and less than the Remaining Term (in each case as set forth in the H.15 Statistical Release). The Independent Investment Banker will round any weekly average yields so calculated to the nearest 1/100th of 1%, and will round upward for any figure of 1/200th of 1% or above. If weekly average yields for United States Treasury Notes are not available in the H.15 Statistical Release or otherwise, then the Independent Investment Banker will select comparable rates and calculate the Treasury Yield by reference to those rates.

If FPL Group Capital at any time elects to redeem some but not all of the Debentures, the security registrar will select the particular Debentures to be redeemed using any method that it deems fair and appropriate. However, if the Debentures are solely registered in the name of Cede & Co. and traded through The Depository Trust Company, or DTC, then DTC will select the Debentures to be redeemed in accordance with its practices as described below in Book Entry-Only Issuance The Depository Trust Company.

If at the time notice of redemption is given, the redemption moneys are not on deposit with the Indenture Trustee, then the redemption shall be subject to their receipt on or before the Redemption Date and such notice shall be of no effect unless such moneys are received.

Mandatory Redemption. The following constitute Guarantor Events with respect to the Debentures:

(1) the Guarantee Agreement, dated as of June 1, 1999, between NextEra Energy, as Guarantor, and The Bank of New York Mellon, as Guarantee Trustee, ceases to be in full force and effect;

(2) a court issues a decree ordering or acknowledging the bankruptcy or insolvency of the Guarantor, or appointing a custodian, receiver or other similar official for the Guarantor, or ordering the winding up or liquidation of its affairs, and the decree remains in effect for 90 days; or

(3) the Guarantor seeks or consents to relief under federal or state bankruptcy or insolvency laws, or to the appointment of a custodian, receiver or other similar official for the Guarantor, or makes an assignment for the benefit of its creditors, or admits in writing that it is bankrupt or insolvent.

FPL Group Capital shall, if a Guarantor Event occurs and is continuing, redeem all of the outstanding Debentures within 60 days after the occurrence of the Guarantor Event at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption unless, within 30 days after the occurrence of the Guarantor Event, Standard & Poor s Ratings Services (a Division of The McGraw Hill Companies, Inc.) and Moody s Investors Service, Inc. (if the outstanding Debentures are then rated by those rating agencies, or, if the outstanding Debentures are then rated by only one of those rating agencies, then such rating agency, or, if the outstanding Debentures are not then rated by either one of those rating agencies but are then rated by one or more other nationally recognized rating agencies, then at least one of those other nationally recognized rating agencies) shall have reaffirmed in writing that, after giving effect to such Guarantor Event, the credit rating on the outstanding Debentures is investment grade (i.e. in one of the four highest categories, without regard to subcategories within such rating categories, of such rating agency).

If a Guarantor Event occurs and FPL Group Capital is not required to redeem the outstanding Debentures as described above, FPL Group Capital will provide to the Indenture Trustee and the holders of the outstanding Debentures annual and quarterly reports containing the information that FPL Group Capital would be required to file with the Securities and Exchange Commission under Section 13 or Section 15(d) of the Securities Exchange Act of 1934 if it were subject to the reporting requirements of those Sections. If FPL Group Capital is, at that time, subject to the reporting requirements of those Sections, the filing of annual and quarterly reports with the Securities and Exchange Commission pursuant to those Sections will satisfy this requirement.

Events of Default. In addition to the events of default relating to any series of debt securities issued under the Indenture, as set forth under the Description of FPL Group Capital Senior Debt Securities Events of Default section on page 31 of the accompanying prospectus, each of the following events will be an event of default under the Indenture with respect to the Debentures:

(1) the Guarantor consolidates with or merges into any other entity or conveys, transfers or leases substantially all of its properties and assets to any entity, unless

(a) the entity formed by such consolidation or into which the Guarantor is merged, or the entity to which the Guarantor conveys, transfers or leases substantially all of its properties and assets is an entity organized and existing under the laws of the United States of America, any State thereof or the District of Columbia, and expressly assumes the obligations of the Guarantor under the Guarantee Agreement; and

(b) immediately after giving effect to such transaction, no event of default under the Indenture and no event that, after notice or lapse of time or both, would become an event of default under the Indenture, shall have occurred and be continuing; or

(2) FPL Group Capital fails to redeem any of the Debentures that it is required to redeem as described under Certain Terms of the Debentures Mandatory Redemption above.

Book-Entry Only Issuance The Depository Trust Company. The Debentures will trade through The Depository Trust Company, or DTC. The Debentures will be represented by one or more global certificates and registered in the name of Cede & Co., DTC s nominee. Upon issuance of the global securities, DTC or its nominee will credit, on its book-entry registration and transfer system, the principal amount of the Debentures represented by such global securities to the accounts of institutions that have an account with DTC or its participants. The accounts to be credited shall be designated by the underwriters. Ownership of beneficial interests in the global securities will be limited to participants or persons that may hold interests through participants. The global certificates will be deposited with the Indenture Trustee as custodian for DTC.

DTC is a New York clearing corporation and a clearing agency registered under Section 17A of the Securities Exchange Act of 1934. DTC holds securities for its participants. DTC also facilitates the post-trade settlement of securities transactions among its participants through electronic computerized book-entry transfers and pledges in the participants accounts. This eliminates the need for physical movement of securities certificates. The participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (DTCC). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries.

Others who maintain a custodial relationship with a participant can use the DTC system. The rules that apply to DTC and those using its systems are on file with the Securities and Exchange Commission.

Purchases of the Debentures within the DTC system must be made through participants, who will receive a credit for the Debentures on DTC s records. The beneficial ownership interest of each purchaser will be recorded on the appropriate participant s records. Beneficial owners will not receive written confirmation from DTC of their purchases, but beneficial owners should receive written confirmations of the transactions, as well as periodic statements of their holdings, from the participants through whom they purchased Debentures. Transfers of ownership in the Debentures are to be accomplished by entries made on the books of the participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates for their Debentures, except if use of the book-entry system for the Debentures is discontinued.

To facilitate subsequent transfers, all Debentures deposited by participants with DTC are registered in the name of DTC s nominee, Cede & Co. The deposit of the Debentures with DTC and their registration in the name of Cede & Co. effects no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the Debentures. DTC s records reflect only the identity of the participants to whose accounts such Debentures are credited. These participants may or may not be the beneficial owners. Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to participants, and by participants to beneficial owners, will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial owners of Debentures may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Debentures, such as redemptions, tenders, defaults and proposed amendments to the Indenture or the Guarantee Agreement. Beneficial owners of the Debentures may wish to ascertain that the nominee holding the Debentures has agreed to obtain and transmit notices to the beneficial owners.

Redemption notices will be sent to Cede & Co., as registered holder of the Debentures. If less than all of the Debentures are being redeemed, DTC s practice is to determine by lot the amount of Debentures of each participant to be redeemed.

Neither DTC nor Cede & Co. will itself consent or vote with respect to Debentures, unless authorized by a participant in accordance with DTC s procedures. Under its usual procedures, DTC would mail an omnibus proxy to FPL Group Capital as soon as possible after the record date. The omnibus proxy assigns the consenting or voting rights of Cede & Co. to those participants to whose accounts the Debentures are credited on the record date. FPL Group Capital and NextEra Energy believe that these arrangements will enable the beneficial owners to exercise rights equivalent in substance to the rights that can be directly exercised by a registered holder of the Debentures.

Payments of redemption proceeds, principal of, and interest on the Debentures will be made to Cede & Co., or such other nominee as may be requested by DTC. DTC s practice is to credit participants accounts upon DTC s receipt of funds and corresponding detail information from FPL Group Capital or its agent, on the payable date in accordance with their respective holdings shown on DTC s records. Payments by participants to beneficial owners will be governed by standing instructions and customary practices. Payments will be the responsibility of participants and not of DTC, the Indenture Trustee, FPL Group Capital or NextEra Energy, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest to Cede & Co. (or such other nominee as may be requested by DTC) is the responsibility of FPL Group Capital. Disbursement of payments to participants is the responsibility of DTC, and disbursement of payments to the beneficial owners is the responsibility of participants.

Except as provided in this prospectus supplement, a beneficial owner will not be entitled to receive physical delivery of the Debentures. Accordingly, each beneficial owner must rely on the procedures of DTC to exercise any rights under the Debentures.

DTC may discontinue providing its services as securities depositary with respect to the Debentures at any time by giving reasonable notice to FPL Group Capital. In the event no successor securities depositary is obtained, certificates for the Debentures will be printed and delivered. FPL Group Capital and NextEra Energy may decide to replace DTC or any successor depositary. Additionally, subject to the procedures of DTC, FPL Group Capital and NextEra Energy may decide to discontinue use of the system of book-entry transfers through DTC (or a successor depositary) with respect to some or all of the Debentures. In that event, certificates for such Debentures will be printed and delivered. If certificates for Debentures are printed and delivered,

- the Debentures will be issued in fully registered form without coupons;

- a holder of certificated Debentures would be able to exchange those Debentures, without charge, for an equal aggregate principal amount of Debentures of the same series, having the same issue date and with identical terms and provisions; and

- a holder of certificated Debentures would be able to transfer those Debentures without cost to another holder, other than for applicable stamp taxes or other governmental charges.

The information in this section concerning DTC and DTC s book-entry system has been obtained from sources that FPL Group Capital and NextEra Energy believe to be reliable. None of FPL Group Capital, NextEra Energy or the underwriters take any responsibility for the accuracy of this information.

UNDERWRITING

The information in this section adds to the information in the Plan of Distribution section beginning on page 74 of the accompanying prospectus. Please read these two sections together.

FPL Group Capital is selling the Debentures to the underwriters named in the table below pursuant to an underwriting agreement among FPL Group Capital, NextEra Energy and the underwriters named below. Subject to certain conditions, FPL Group Capital has agreed to sell to each of the underwriters, and each of the underwriters has severally agreed to purchase, the principal amount of Debentures set forth opposite that underwriter s name in the table below:

Underwriter	**Principal Amount of Debentures**
Barclays Capital Inc.	$80,000,000
BNP Paribas Securities Corp.	80,000,000
Morgan Stanley & Co. Incorporated	80,000,000
RBS Securities Inc.	80,000,000
Commerz Markets LLC	16,000,000
Daiwa Capital Markets America Inc.	16,000,000
Mitsubishi UFJ Securities (USA), Inc.	16,000,000
Mizuho Securities USA Inc.	16,000,000
Scotia Capital (USA) Inc.	16,000,000
Total	$400,000,000

Under the terms and conditions of the underwriting agreement, the underwriters must buy all of the Debentures if they buy any of them. The underwriting agreement provides that the obligations of the underwriters pursuant thereto are subject to certain conditions. In the event of a default by an underwriter, the underwriting agreement provides that, in certain circumstances, the purchase commitment of the non-defaulting underwriters may be increased or the underwriting agreement may be terminated. The underwriters will sell the Debentures to the public if the underwriters buy the Debentures from FPL Group Capital.

FPL Group Capital will compensate the underwriters by selling the Debentures to them at a price that is less than the price to the public by the amount of the Underwriting Discount set forth in the table below. The underwriters will sell the Debentures to the public at the price to the public set forth on the cover page of this prospectus supplement and may sell the Debentures to certain dealers at a price that is less than the price to the public by no more than the amount of the Initial Dealers Concession set forth in the table below. The underwriters and such dealers may sell the Debentures to certain other dealers at a price that is less than the price to the public by no more than the amounts of the Initial Dealers Concession and the Reallowed Dealers Concession set forth in the table below.

	(expressed as a percentage of principal amount)
Underwriting Discount	0.600%
Initial Dealers Concession	0.350%
Reallowed Dealers Concession	0.225%

An underwriter may reject offers for the Debentures. After the initial public offering of the Debentures, the underwriters may change the offering price and other selling terms of the Debentures.

The Debentures are a new issue of securities with no established trading market. The underwriters have advised FPL Group Capital that they intend to make a market in the Debentures but are not obligated to do so and may discontinue such market-making activities at any time without notice. FPL Group Capital cannot give any assurance as to the maintenance of the trading market for, or the liquidity of, the Debentures.

In connection with the offering, the underwriters may purchase and sell the Debentures in the open market. These transactions may include over-allotment, syndicate covering transactions and stabilizing transactions. Over-allotment includes syndicate sales of Debentures in excess of the principal amount of Debentures to be purchased by the underwriters in the offering, which creates a syndicate short position. Syndicate covering transactions involve purchases of the Debentures in the open market after the distribution has been completed in order to cover syndicate short positions. Stabilizing transactions consist of certain bids or purchases of Debentures made for the purpose of preventing or retarding a decline in the market price of the Debentures while the offering is in progress.

The underwriters may also impose a penalty bid. Penalty bids permit the underwriters to reclaim an initial dealers concession from a syndicate member when, in covering syndicate short positions or making stabilizing purchases, an underwriter repurchases the Debentures originally sold by that syndicate member.

Any of these activities may cause the price of the Debentures to be higher than the price that otherwise would exist in the open market in the absence of such transactions. These transactions may be effected in the over-the-counter market or otherwise and, if commenced, may be discontinued at any time.

Daiwa Capital Markets America Inc. (DCMA) has entered into an agreement with SMBC Securities, Inc. (SMBCSI) pursuant to which SMBCSI provides certain advisory and/or other services to DCMA, including services with respect to this offering. In return for the provision of such services by SMBCSI to DCMA, DCMA will pay to SMBCSI a mutually agreed-upon fee.

FPL Group Capital estimates that its expenses in connection with the sale of the Debentures, other than underwriting discounts, will be $400,000. This estimate includes expenses relating to printing, rating agency fees, trustee s fees and legal fees, among other expenses.

FPL Group Capital and NextEra Energy have agreed to indemnify the underwriters against, or to contribute to payments the underwriters may be required to make in respect of, certain liabilities, including liabilities under the Securities Act of 1933.

Conflicts of Interest. The underwriters and their affiliates engage in transactions with, and perform services for, NextEra Energy, its subsidiaries (including FPL Group Capital) and its affiliates in the ordinary course of business and have engaged, and may engage in the future, in commercial banking and investment banking transactions with NextEra Energy, its subsidiaries and its affiliates.

Affiliates of two of the underwriters are lenders to FPL Group Capital under two separate term loan agreements. As described in Use of Proceeds, FPL Group Capital will add the net proceeds of this offering of Debentures to its general funds, and expects to use its general funds, among other things, to repay all or a portion of the total indebtedness outstanding under those term loan agreements. Since affiliates of those two underwriters may each receive more than 5% of the net proceeds from the sale of the Debentures, they may be deemed to have a conflict of interest under NASD Rule 2720 of the Financial Industry Regulatory Authority, Inc. Accordingly, this offering will be made by those underwriters in compliance with the applicable provisions of NASD Rule 2720 and such underwriters will not sell any of the Debentures to discretionary accounts without the specific written approval of the account holder.

EXPERTS

The information in this section replaces the information in the Experts section on page 76 of the accompanying prospectus.

The consolidated financial statements incorporated in this prospectus supplement by reference from NextEra Energy s Annual Report on Form 10-K for the year ended December 31, 2009, and the effectiveness of NextEra Energy s internal control over financial reporting have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports, which are incorporated herein by reference. Such financial statements have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

PROSPECTUS

FPL GROUP, INC.

Common Stock, Preferred Stock, Stock Purchase Contracts, Stock Purchase Units, Warrants, Senior Debt Securities, Subordinated Debt Securities and Junior Subordinated Debentures

FPL GROUP CAPITAL INC

Preferred Stock, Senior Debt Securities, Subordinated Debt Securities and Junior Subordinated Debentures

Guaranteed as described in this prospectus by

FPL GROUP, INC.

FPL GROUP CAPITAL TRUST II

FPL GROUP CAPITAL TRUST III

FPL GROUP TRUST I

FPL GROUP TRUST II

Preferred Trust Securities

Guaranteed as described in this prospectus by

FPL GROUP, INC.

One or more of FPL Group, Inc., FPL Group Capital Inc, FPL Group Capital Trust II, FPL Group Capital Trust III, FPL Group Trust I and FPL Group Trust II may offer any combination of the securities described in this prospectus in one or more offerings from time to time in amounts authorized from time to time. This prospectus may also be used by a selling securityholder of the securities described herein.

One or more of FPL Group, FPL Group Capital, FPL Group Capital Trust II, FPL Group Capital Trust III, FPL Group Trust I and FPL Group Trust II will provide specific terms of the securities, including the offering prices, in supplements to this prospectus. The supplements may also add, update or change information contained in this prospectus. You should read this prospectus and any supplements carefully before you invest.

FPL Group's common stock is listed on the New York Stock Exchange and trades under the symbol "FPL."

FPL Group, FPL Group Capital, FPL Group Capital Trust II, FPL Group Capital Trust III, FPL Group Trust I and FPL Group Trust II may offer these securities directly or through underwriters, agents or dealers. The supplements to this prospectus will describe the terms of any particular plan of distribution, including any underwriting arrangements. The "Plan of Distribution" section beginning on page 74 of this prospectus also provides more information on this topic.

See "Risk Factors" beginning on page 2 of this prospectus to read about certain factors you should consider before purchasing any of the securities being offered.

FPL Group's, FPL Group Capital's, FPL Group Capital Trust II's, FPL Group Capital Trust III's, FPL Group Trust I's and FPL Group Trust II's principal executive offices are located at 700 Universe Boulevard, Juno Beach, Florida 33408-0420, telephone number (561) 694-4000, and their mailing address is P.O. Box 14000, Juno Beach, Florida 33408-0420.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

August 3, 2009

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that FPL Group, FPL Group Capital, FPL Group Capital Trust II, FPL Group Capital Trust III, FPL Group Trust I and FPL Group Trust II, and certain of their affiliates, have filed with the Securities and Exchange Commission ("SEC") using a "shelf" registration process. FPL Group Capital Trust II and FPL Group Capital Trust III each are referred to in this prospectus as "FPL Group Capital Trust" and FPL Group Trust I and FPL Group Trust II each are referred to in this prospectus as "FPL Group Trust." In addition, FPL Group Capital Trust and FPL Group Trust each are referred to in this prospectus as the "Trust."

Under this shelf registration process, FPL Group, FPL Group Capital and/or the Trust may issue and sell any combination of the securities described in this prospectus in one or more offerings from time to time in amounts authorized by the board of directors of FPL Group or FPL Group Capital, as the case may be. FPL Group may offer any of the following securities: common stock, preferred stock, stock purchase contracts, stock purchase units, warrants to purchase common stock or preferred stock, senior debt securities, subordinated debt securities and junior subordinated debentures, each of which debt securities may be convertible or exchangeable into FPL Group common stock, and guarantees related to the preferred trust securities which the Trust may offer and guarantees related to the preferred stock, senior debt securities, subordinated debt securities and junior subordinated debentures FPL Group Capital may offer. FPL Group Capital may offer any of the following securities: preferred stock, senior debt securities, subordinated debt securities and junior subordinated debentures. Unless otherwise stated in a prospectus supplement, the Trust may offer preferred trust securities.

This prospectus provides you with a general description of the securities that FPL Group, FPL Group Capital and/or the Trust may offer. Each time FPL Group, FPL Group Capital and/or the Trust sells securities, FPL Group, FPL Group Capital and/or the Trust will provide a prospectus supplement that will contain specific information about the terms of that offering. Material United States federal income tax considerations applicable to the offered securities will be discussed in the applicable prospectus supplement if necessary. The applicable prospectus supplement may also add, update or change information contained in this prospectus. You should read both this prospectus and any applicable prospectus supplement together with additional information described under the headings "Where You Can Find More Information" and "Incorporation by Reference."

For more detailed information about the securities, you can read the exhibits to the registration statement. Those exhibits have been either filed with the registration statement or incorporated by reference to earlier SEC filings listed in the registration statement.

RISK FACTORS

Before purchasing the securities, investors should carefully consider the following risk factors together with the risk factors and other information incorporated by reference or provided in this prospectus or in a prospectus supplement in order to evaluate an investment in the securities.

FPL Group and FPL Group Capital are subject to complex laws and regulations and to changes in laws and regulations as well as changing governmental policies and regulatory actions. Florida Power & Light Company holds franchise agreements with local municipalities and counties, and must renegotiate expiring agreements. These factors may have a negative impact on the business and results of operations of FPL Group and FPL Group Capital.

FPL Group and FPL Group Capital are subject to complex laws and regulations, and to changes in laws or regulations, with respect to, among other things, allowed rates of return, industry and rate structure, operation of nuclear power facilities, construction and operation of generation facilities, construction and operation of transmission and distribution facilities, acquisition, disposal, depreciation and amortization of assets and facilities, recovery of fuel and purchased power costs, decommissioning costs, return on common equity and equity ratio limits, transmission reliability and present or prospective wholesale and retail competition. This substantial and complex framework exposes FPL Group and FPL Group Capital to increased compliance costs and potentially significant monetary penalties for non-compliance. The Florida Public Service Commission has the authority to disallow recovery by Florida Power & Light Company of any and all costs that it considers excessive or imprudently incurred. The regulatory process generally restricts Florida Power & Light Company's ability to grow earnings and does not provide any assurance as to achievement of earnings levels.

FPL Group and FPL Group Capital also are subject to extensive federal, state and local environmental statutes, rules and regulations, as well as the effect of changes in or additions to applicable statutes, rules and regulations that relate to, or in the future may relate to, for example, air quality, water quality, climate change, greenhouse gas emissions, carbon dioxide emissions, waste management, marine and wildlife mortality, natural resources, health, safety and renewable portfolio standards that could, among other things, restrict or limit the output of certain facilities or the use of certain fuels required for the production of electricity and/or require additional pollution control equipment and otherwise increase costs. There are significant capital, operating and other costs associated with compliance with these environmental statutes, rules and regulations, and those costs could be even more significant in the future.

FPL Group and FPL Group Capital operate in a changing market environment influenced by various legislative and regulatory initiatives regarding regulation, deregulation or restructuring of the energy industry, including, for example, deregulation or restructuring of the production and sale of electricity, as well as increased focus on renewable and clean energy sources and reduction of carbon emissions. FPL Group and its subsidiaries will need to adapt to these changes and may face increasing costs and competitive pressure in doing so.

FPL Group's results of operations could be affected by Florida Power & Light Company's ability to negotiate or renegotiate franchise agreements with municipalities and counties in Florida.

The operation and maintenance of power generation, transmission and distribution facilities involve significant risks that could adversely affect the results of operations and financial condition of FPL Group and FPL Group Capital.

The operation and maintenance of power generation, transmission and distribution facilities involve many risks, including, for example, start up risks, breakdown or failure of equipment, transmission and distribution lines or pipelines, the inability to properly manage or mitigate known equipment defects throughout FPL Group's and FPL Group Capital's generation fleets and transmission and distribution systems, use of new or unproven technology, the dependence on a specific fuel source, failures in the supply or transportation of fuel, the impact of unusual or adverse weather conditions (including natural disasters such as hurricanes, floods and droughts), and performance below expected or contracted levels of output or efficiency. This could result in lost revenues and/or increased expenses, including, for example, lost revenues due to prolonged outages and increased expenses due to monetary penalties or fines, replacement equipment costs or an obligation to purchase or generate replacement power at potentially higher prices to meet contractual obligations. Insurance, warranties or performance guarantees may not cover any or all of the lost revenues or increased expenses. Breakdown or failure of an operating facility of NextEra Energy Resources, LLC ("NextEra Energy Resources") may, for example, prevent the facility from performing under applicable power sales agreements which, in certain situations, could result in termination of the agreement or subject NextEra Energy Resources to incurring a liability for liquidated damages.

The operation and maintenance of nuclear facilities involves inherent risks, including environmental, health, regulatory, terrorism and financial risks, that could result in fines or the closure of nuclear units owned by Florida Power & Light Company or NextEra Energy Resources, and which may present potential exposures in excess of insurance coverage.

Florida Power & Light Company and NextEra Energy Resources own, or hold undivided interests in, nuclear generation facilities in four states. These nuclear facilities are subject to environmental, health and financial risks such as on-site storage of spent nuclear fuel, the ability to dispose of spent nuclear fuel, the ability to maintain adequate reserves for decommissioning, potential liabilities arising out of the operation of these facilities, and the threat of a possible terrorist attack. Although Florida Power & Light Company and NextEra Energy Resources maintain decommissioning trusts and external insurance coverage to minimize the financial exposure to these risks, it is possible that the cost of decommissioning the facilities could exceed the amount available in the decommissioning trusts, and that liability and property damages could exceed the amount of insurance coverage.

The Nuclear Regulatory Commission has broad authority to impose licensing and safety-related requirements for the construction and operation and maintenance of nuclear generation facilities. In the event of non-compliance, the Nuclear Regulatory Commission has the authority to impose fines or shut down a unit, or both, depending upon its assessment of the severity of the situation, until compliance is achieved. Nuclear Regulatory Commission orders or new regulations related to increased security measures and any future safety requirements promulgated by the Nuclear Regulatory Commission could require Florida Power & Light Company and NextEra Energy Resources to incur substantial operating and capital expenditures at their nuclear plants. In addition, if a serious nuclear incident were to occur at a Florida Power & Light Company or NextEra Energy Resources plant, it could result in substantial costs. A major incident at a nuclear facility anywhere in the world could cause the Nuclear Regulatory Commission to limit or prohibit the operation or licensing of any domestic nuclear unit.

In addition, potential terrorist threats and increased public scrutiny of utilities could result in increased nuclear licensing or compliance costs which are difficult or impossible to predict.

The construction of, and capital improvements to, power generation and transmission facilities involve substantial risks. Should construction or capital improvement efforts be unsuccessful or delayed, the results of operations and financial condition of FPL Group and FPL Group Capital could be adversely affected.

The ability of FPL Group and FPL Group Capital to complete construction of, and capital improvement projects for, their power generation and transmission facilities on schedule and within budget are contingent upon many variables that could delay completion, increase costs or otherwise adversely affect operational and financial results, including, for example, limitations related to transmission interconnection issues, escalating costs for materials and labor and environmental compliance, delays with respect to permits and other approvals, and disputes involving third parties, and are subject to substantial risks. Should any such efforts be unsuccessful or delayed, FPL Group and FPL Group Capital could be subject to additional costs, termination payments under committed contracts, loss of tax credits and/or the write-off of their investment in the project or improvement.

The use of derivative contracts by FPL Group and FPL Group Capital in the normal course of business could result in financial losses or the payment of margin cash collateral that adversely impact the results of operations or cash flows of FPL Group and FPL Group Capital.

FPL Group and FPL Group Capital use derivative instruments, such as swaps, options, futures and forwards, some of which are traded in the over-the-counter markets or on exchanges, to manage their commodity and financial market risks, and for FPL Group and FPL Group Capital to engage in trading and marketing activities. FPL Group and FPL Group Capital could recognize financial losses as a result of volatility in the market values of these derivative instruments, or if a counterparty fails to perform or make payments under these derivative instruments, and could suffer a reduction in operating cash flows as a result of the requirement to post margin cash collateral. In the absence of actively quoted market prices and pricing information from external sources, the valuation of these derivative instruments involves management's judgment or use of estimates. As a result, changes in the underlying assumptions or use of alternative valuation methods could affect the reported fair value of these derivative instruments. In addition, Florida Power & Light Company's use of such instruments could be subject to prudence challenges and, if found imprudent, cost recovery could be disallowed by the Florida Public Service Commission.

FPL Group and FPL Group Capital provide full energy and capacity requirement services, which include load-following services and various ancillary services, primarily to distribution utilities to satisfy all or a portion of such utilities' power supply obligations to their customers. The supply costs for these transactions may be affected by a number of factors, such as weather conditions, fluctuating prices for energy and ancillary services, and the ability of the distribution utilities' customers to elect to receive service from competing suppliers, which could negatively affect FPL Group's and FPL Group Capital's results of operations from these transactions.

FPL Group's and FPL Group Capital's competitive energy business is subject to risks, many of which are beyond the control of FPL Group and FPL Group Capital, including, but not limited to, the efficient development and operation of generating assets, the successful and timely completion of project restructuring activities, the price and supply of fuel and equipment, transmission constraints, competition from other generators, including those using new sources of generation, excess generation capacity and demand for power, that may reduce the revenues and adversely impact the results of operations and financial condition of FPL Group and FPL Group Capital.

There are various risks associated with FPL Group's and FPL Group Capital's competitive energy business. In addition to risks discussed elsewhere, risk factors specifically affecting NextEra Energy Resources' success in competitive wholesale markets include, for example, the ability to efficiently develop and operate generating assets, the successful and timely completion of project restructuring activities, maintenance of the qualifying facility status of certain projects, the price and supply of fuel (including transportation) and equipment, transmission constraints, the ability to utilize production tax credits, competition from other and new sources of generation, excess generation capacity and shifting demand for power. There can be significant volatility in market prices for fuel, electricity and renewable and other energy commodities, and there are other financial, counterparty and market risks that are beyond the control of NextEra Energy Resources. NextEra Energy Resources' inability or failure to effectively hedge its assets or positions against changes in commodity prices, interest rates, counterparty credit risk or other risk measures could significantly impair FPL Group's and FPL Group

Capital's future financial results. In keeping with industry trends, a portion of NextEra Energy Resources' power generation facilities operate wholly or partially without long-term power purchase agreements. As a result, power from these facilities is sold on the spot market or on a short-term contractual basis, which may increase the volatility of FPL Group's and FPL Group Capital's financial results. In addition, NextEra Energy Resources' business depends upon power transmission and natural gas transportation facilities owned and operated by others; if transmission or transportation is disrupted or capacity is inadequate or unavailable, NextEra Energy Resources' ability to sell and deliver its wholesale power or natural gas may be limited.

FPL Group's and FPL Group Capital's ability to successfully identify, complete and integrate acquisitions is subject to significant risks, including, but not limited to, the effect of increased competition for acquisitions resulting from the consolidation of the power industry.

FPL Group and FPL Group Capital are likely to encounter significant competition for acquisition opportunities that may become available as a result of the consolidation of the power industry in general. In addition, FPL Group and FPL Group Capital may be unable to identify attractive acquisition opportunities at favorable prices and to complete and integrate them successfully and in a timely manner.

FPL Group and FPL Group Capital participate in markets that are often subject to uncertain economic conditions, which make it difficult to estimate growth, future income and expenditures.

FPL Group and FPL Group Capital participate in markets that are susceptible to uncertain economic conditions, which complicate estimates of revenue growth. Because components of budgeting and forecasting are dependent upon estimates of revenue growth in the markets FPL Group and FPL Group Capital serve, the uncertainty makes estimates of future income and expenditures more difficult. As a result, FPL Group and FPL Group Capital may make significant investments and expenditures but never realize the anticipated benefits, which could adversely affect results of operations. The future direction of the overall economy also may have a significant effect on the overall performance and financial condition of FPL Group and FPL Group Capital.

Customer growth and customer usage in Florida Power & Light Company's service area affect FPL Group's results of operations.

FPL Group's results of operations are affected by the growth in customer accounts in Florida Power & Light Company's service area and by customer usage. Customer growth can be affected by population growth. Customer growth and customer usage can be affected by economic factors in Florida and elsewhere, including, for example, job and income growth, housing starts and new home prices. Customer growth and customer usage directly influence the demand for electricity and the need for additional power generation and power delivery facilities at Florida Power & Light Company.

Weather affects FPL Group's and FPL Group Capital's results of operations, as can the impact of severe weather. Weather conditions directly influence the demand for electricity and natural gas, affect the price of energy commodities, and can affect the production of electricity at power generating facilities.

FPL Group's and FPL Group Capital's results of operations are affected by changes in the weather. Weather conditions directly influence the demand for electricity and natural gas, affect the price of energy commodities, and can affect the production of electricity at power generating facilities, including, but not limited to, wind, solar and hydro-powered facilities. FPL Group's and FPL Group Capital's results of operations can be affected by the impact of severe weather which can be destructive, causing outages and/or property damage, may affect fuel supply, and could require additional costs to be incurred. At Florida Power & Light Company, recovery of these costs is subject to Florida Public Service Commission approval.

Adverse capital and credit market conditions may adversely affect FPL Group's and FPL Group Capital's ability to meet liquidity needs, access capital and operate and grow their businesses, and increase the cost of capital. Disruptions, uncertainty or volatility in the financial markets can also adversely impact the results of operations and financial condition of FPL Group and FPL Group Capital, as well as exert downward pressure on the market price of FPL Group's common stock.

Having access to the credit and capital markets, at a reasonable cost, is necessary for FPL Group, FPL Group Capital and Florida Power & Light Company to fund their operations, including their capital requirements. Those markets have provided FPL Group, FPL Group Capital and Florida Power & Light Company with the liquidity to operate and grow their businesses that is not otherwise provided from operating cash flows. Disruptions, uncertainty or volatility in those markets can increase FPL Group's, FPL Group Capital's and Florida Power & Light Company's cost of capital. If FPL Group, FPL Group Capital and Florida Power & Light Company are unable to access the credit and capital markets on terms that are reasonable, they may have to delay raising capital, issue shorter-term securities and/or bear an unfavorable cost of capital, which, in turn, could adversely impact their ability to grow their businesses, decrease earnings, significantly reduce financial flexibility and/or limit FPL Group's ability to sustain its current common stock dividend level.

The market price and trading volume of FPL Group's common stock could be subject to significant fluctuations due to, among other things, general stock market conditions and changes in market sentiment regarding FPL Group and its subsidiaries' operations, business, growth prospects and financing strategies.

FPL Group's, FPL Group Capital's and Florida Power & Light Company's inability to maintain their current credit ratings may adversely affect FPL Group's and FPL Group Capital's liquidity, limit the ability of FPL Group, FPL Group Capital and Florida Power & Light Company to grow their businesses, and would likely increase interest costs.

FPL Group, FPL Group Capital and Florida Power & Light Company rely on access to capital and credit markets as significant sources of liquidity for capital requirements not satisfied by operating cash flows. The inability of FPL Group, FPL Group Capital and Florida Power & Light Company to maintain their current credit ratings could affect their ability to raise capital or obtain credit on favorable terms, which, in turn, could impact FPL Group's, FPL Group Capital's and Florida Power & Light Company's ability to grow their businesses and would likely increase their interest costs.

FPL Group and FPL Group Capital are subject to credit and performance risk from third parties under supply and service contracts.

FPL Group, FPL Group Capital and Florida Power & Light Company rely on contracts with vendors for the supply of equipment, materials, fuel and other goods and services required for the construction and operation of, and for capital improvements to, their facilities, as well as for business operations. If vendors fail to fulfill their contractual obligations, FPL Group, FPL Group Capital and Florida Power & Light Company may need to make arrangements with other suppliers, which could result in higher costs, untimely completion of power generation facilities and other projects, and/or a disruption to their operations.

FPL Group and FPL Group Capital are subject to costs and other potentially adverse effects of legal and regulatory proceedings, as well as regulatory compliance and changes in or additions to applicable tax laws, rates or policies, rates of inflation, accounting standards, securities laws, corporate governance requirements and labor and employment laws.

FPL Group, FPL Group Capital and Florida Power & Light Company are subject to costs and other potentially adverse effects of legal and regulatory proceedings, settlements, investigations and claims, as well as regulatory compliance and the effect of new, or changes in, tax laws, rates or policies, rates of inflation, accounting standards, securities laws, corporate governance requirements and labor and employment laws.

Florida Power & Light Company and NextEra Energy Resources, as owners and operators of bulk power transmission systems and/or critical assets within various regions throughout the United States, are subject to mandatory reliability standards promulgated by the North American Electric Reliability Corporation and enforced by the Federal Energy Regulatory Commission. These standards, which previously were being applied on a voluntary basis, became mandatory in June 2007. Noncompliance with these mandatory reliability standards could result in sanctions, including substantial monetary penalties, which likely would not be recoverable from customers.

Threats of terrorism and catastrophic events that could result from terrorism, cyber attacks, or individuals and/or groups attempting to disrupt FPL Group's and FPL Group Capital's business may impact the operations of FPL Group and FPL Group Capital in unpredictable ways.

FPL Group and FPL Group Capital are subject to direct and indirect effects of terrorist threats and activities as well as cyber attacks and disruptive activities of individuals and/or groups. Infrastructure facilities and systems, including, for example, generation, transmission and distribution facilities, physical assets and information systems, in general, have been identified as potential targets. The effects of these threats and activities include, but are not limited to, the inability to generate, purchase or transmit power, the delay in development and construction of new generating facilities, the risk of a significant slowdown in growth or a decline in the U.S. economy, delay in economic recovery in the United States, and the increased cost and adequacy of security and insurance.

The ability of FPL Group and FPL Group Capital to obtain insurance and the terms of any available insurance coverage could be adversely affected by international, national, state or local events and company-specific events.

FPL Group's, FPL Group Capital's and Florida Power & Light Company's ability to obtain insurance, and the cost of and coverage provided by such insurance, could be adversely affected by international, national, state or local events as well as company-specific events.

FPL Group and FPL Group Capital are subject to employee workforce factors that could adversely affect the businesses and financial condition of FPL Group and FPL Group Capital.

FPL Group, FPL Group Capital and Florida Power & Light Company are subject to employee workforce factors, including, for example, loss or retirement of key executives, availability of qualified personnel, inflationary pressures on payroll and benefits costs and collective bargaining agreements with union employees and work stoppage that could adversely affect the businesses and financial condition of FPL Group and FPL Group Capital.

FPL GROUP

FPL Group is a holding company incorporated in 1984 as a Florida corporation. FPL Group has two principal operating subsidiaries, Florida Power & Light Company and, indirectly through FPL Group Capital, NextEra Energy Resources. Florida Power & Light Company is a rate-regulated utility engaged primarily in the generation, transmission, distribution and sale of electric energy. NextEra Energy Resources is FPL Group's competitive energy subsidiary which produces the majority of its electricity from clean and renewable fuels.

FPL GROUP CAPITAL

FPL Group Capital was incorporated in 1985 as a Florida corporation and is a wholly-owned subsidiary of FPL Group. Other than with respect to Florida Power & Light Company, FPL Group Capital holds the capital stock of or has equity interests in, and provides funding for, all of FPL Group's principal operating subsidiaries (including NextEra Energy Resources).

FPL GROUP CAPITAL TRUST II, FPL GROUP CAPITAL TRUST III, FPL GROUP TRUST I AND FPL GROUP TRUST II

FPL Group Capital Trust II, FPL Group Capital Trust III, FPL Group Trust I and FPL Group Trust II are Delaware statutory trusts created pursuant to separate trust agreements among FPL Group as depositor of the Trust, The Bank of New York Mellon as the Property Trustee, BNY Mellon Trust of Delaware as the Delaware Trustee and one or more Administrative Trustees appointed by FPL Group. At the time of the issuance of securities by the Trust, the applicable trust agreement will be amended and restated substantially in the form filed as an exhibit to the registration statement. Each trust agreement, as so amended and restated, is referred to in this prospectus as the "Trust Agreement." Unless otherwise stated in a prospectus supplement,

- FPL Group Capital Trust exists only to issue its preferred trust securities and common trust securities and to hold the junior subordinated debentures of FPL Group Capital as trust assets,
- FPL Group Trust exists only to issue its preferred trust securities and common trust securities and to hold the junior subordinated debentures of FPL Group as trust assets,
- all of the common trust securities will be owned by FPL Group, and
- the common trust securities will represent at least 3% of the total capital of the applicable Trust.

Payments on any distribution payment date or redemption date will be made on the common trust securities pro rata with the preferred trust securities, except that the common trust securities' right to payment will be subordinated to the rights of the preferred trust securities if there is a default under the Trust Agreement. The Trust will have a term as stated in the applicable prospectus supplement, but may dissolve earlier as provided in the Trust Agreement.

The Trust's business and affairs will be conducted by its Administrative Trustees.

USE OF PROCEEDS

Unless otherwise stated in a prospectus supplement, FPL Group and FPL Group Capital will each add the net proceeds from the sale of its securities to its respective general funds. FPL Group uses its general funds for corporate purposes, including to provide funds for its subsidiaries, to repurchase common stock and to purchase securities issued by its subsidiaries. FPL Group Capital uses its general funds for corporate purposes, including to repay short-term borrowings and to repay, redeem or repurchase outstanding long-term debt obligations. FPL Group and FPL Group Capital will each temporarily invest any proceeds that it does not need to use immediately in short-term instruments.

Unless otherwise stated in a prospectus supplement, FPL Group Capital Trust will use the proceeds from the sale of preferred trust securities and common trust securities to invest in junior subordinated debentures issued by FPL Group Capital. FPL Group Capital will add the net proceeds from the sale of such junior subordinated debentures to its general funds, which will be used as described above.

Unless otherwise stated in a prospectus supplement, FPL Group Trust will use the proceeds from the sale of preferred trust securities and common trust securities to invest in junior subordinated debentures issued by FPL Group. FPL Group will add the net proceeds from the sale of such junior subordinated debentures to its general funds, which will be used as described above.

CONSOLIDATED RATIO OF EARNINGS TO FIXED CHARGES AND RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

The following table shows FPL Group's consolidated ratio of earnings to fixed charges and consolidated ratio of earnings to combined fixed charges and preferred stock dividends for each of its last five fiscal years:

Years Ended December 31,				
2008	**2007**	**2006**	**2005**	**2004**
3.28	3.10	3.13	2.82	3.00

FPL Group's consolidated ratio of earnings to fixed charges and consolidated ratio of earnings to combined fixed charges and preferred stock dividends for the six months ended June 30, 2009 was 2.67.

WHERE YOU CAN FIND MORE INFORMATION

FPL Group files annual, quarterly and other reports and other information with the SEC. You can read and copy any information filed by FPL Group with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You can obtain additional information about the Public Reference Room by calling the SEC at 1-800-SEC-0330.

In addition, the SEC maintains an Internet site (*www.sec.gov*) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including FPL Group. FPL Group also maintains an Internet site (*www.fplgroup.com*). Information on FPL Group's Internet site or any of its subsidiaries' Internet sites is not a part of this prospectus.

FPL Group Capital does not file and does not intend to file reports or other information with the SEC under Sections 13 or 15(d) of the Securities Exchange Act of 1934. FPL Group includes summarized financial information relating to FPL Group Capital in some of its reports filed with the SEC.

FPL Group and the Trust do not expect the Trust to file reports or other information with the SEC under Sections 13 or 15(d) of the Securities Exchange Act of 1934.

INCORPORATION BY REFERENCE

The SEC allows FPL Group, FPL Group Capital and the Trust to "incorporate by reference" the information that FPL Group files with the SEC, which means that FPL Group, FPL Group Capital and the Trust may, in this prospectus, disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus. Information that FPL Group files in the future with the SEC will automatically update and supersede this information. FPL Group, FPL Group Capital and the Trust are incorporating by reference the documents listed below and any future filings FPL Group makes with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this prospectus (other than any documents, or portions of documents, not deemed to be filed) until FPL Group, FPL Group Capital and/or the Trust sell all of the securities covered by the registration statement:

(1) FPL Group's Annual Report on Form 10-K for the year ended December 31, 2008;

(2) FPL Group's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2009 and June 30, 2009;

(3) FPL Group's Current Reports on Form 8-K filed with the SEC on January 5, 2009, January 7, 2009, January 23, 2009, January 26, 2009, January 27, 2009 (with January 22, 2009 earliest report date), February 13, 2009, March 9, 2009, March 18, 2009, March 19, 2009, May 18, 2009, May 29, 2009, June 19, 2009 and July 22, 2009 (other than any documents, or portions of documents, not deemed to be filed); and

(4) the description of the FPL Group common stock contained in FPL Group's Current Report on Form 8-K filed with the SEC on January 26, 2009, and any amendments or reports filed for the purpose of updating such description.

You may request a copy of these documents, at no cost to you, by writing or calling Robert J. Reger, Jr., Esq., Morgan, Lewis & Bockius LLP, 101 Park Avenue, New York, New York 10178, (212) 309-6000. FPL Group will provide to each person, including any beneficial owner, to whom this prospectus is delivered, a copy of any or all of the information that has been incorporated by reference in this prospectus but not delivered with this prospectus.

FORWARD-LOOKING STATEMENTS

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, FPL Group, FPL Group Capital and the Trust are herein filing cautionary statements identifying important factors that could cause FPL Group's and FPL Group Capital's actual results to differ materially from those projected in forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) made by or on behalf of FPL Group, FPL Group Capital and the Trust in this prospectus or any supplement to this prospectus, in presentations, in response to questions or otherwise. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions, future events or performance, climate change strategy or growth strategies (often, but not always, through the use of words or phrases such as "will," "will likely result," "are expected to," "will continue," "aim," "is anticipated," "believe," "could," "should," "would," "estimated," "may," "plan," "potential," "projection," "target," "outlook," "predict," and "intend" or words of similar meaning) are not statements of historical facts and may be forward-looking. Forward-looking statements involve estimates, assumptions and uncertainties. Accordingly, any such statements are qualified in their entirety by reference to, and are accompanied by, the specific factors discussed in "Risk Factors" herein and in FPL Group's reports that are incorporated herein by reference (in addition to any assumptions and other factors referred to specifically in connection with such forward-looking statements) that could have a significant impact on FPL Group's and FPL Group Capital's operations and financial results, and could cause FPL Group's or FPL Group Capital's actual results to differ materially from those contained or implied in forward-looking statements made by or on behalf of FPL Group, FPL Group Capital or the Trust.

Any forward-looking statement speaks only as of the date on which that statement is made, and neither FPL Group, FPL Group Capital nor the Trust undertakes any obligation to update any forward-looking statement to reflect events or circumstances, including unanticipated events, after the date on which that statement is made, unless otherwise required by law. New factors emerge from time to time and it is not possible for management to predict all of those factors, nor can it assess the impact of each of those factors on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

The issues and associated risks and uncertainties discussed in "Risk Factors" herein and in the reports that are incorporated herein by reference are not the only ones FPL Group or FPL Group Capital may face. Additional issues may arise or become material as the energy industry evolves. The risks and uncertainties associated with those additional issues could impair FPL Group's and FPL Group Capital's businesses in the future.

DESCRIPTION OF FPL GROUP COMMON STOCK

The following summary description of the terms of the common stock of FPL Group is not intended to be complete. The description is qualified in its entirety by reference to the provisions of FPL Group's Restated Articles of Incorporation, as amended ("FPL Group's Charter"), and Amended and Restated Bylaws, as currently in effect, the other documents described below, and applicable laws. Each of FPL Group's Charter and bylaws, as currently in effect, and the other documents described below has previously been filed with the SEC and they are exhibits to the registration statement of which this prospectus is a part and may be obtained as described under "Incorporation by Reference" on page 11 of this prospectus.

Authorized and Outstanding Capital Stock

FPL Group's Charter authorizes it to issue 900,000,000 shares of capital stock, each with a par value of $.01, consisting of:

- 800,000,000 shares of common stock; and
- 100,000,000 shares of preferred stock.

As of June 30, 2009, there were 411,461,266 shares of common stock and no shares of preferred stock issued and outstanding. As of the same date, FPL Group's board of directors had not authorized for issuance any series of preferred stock.

Common Stock Terms

Voting Rights. In general, each holder of common stock is entitled to one vote for each share held by such holder on all matters submitted to a vote of holders of the common stock, including the election of directors. Each holder of common stock is entitled to attend all special and annual meetings of FPL Group's shareholders. The holders of common stock do not have cumulative voting rights. Unless otherwise provided by FPL Group's Charter or bylaws or applicable law, the affirmative vote of the holders of a majority of the total number of shares represented at a meeting and entitled to vote on a matter (including the election of directors) is required for shareholder action on that matter.

Dividend Rights. The holders of common stock are entitled to participate on an equal per-share basis in any dividends declared on the common stock by FPL Group's board of directors out of funds legally available for dividend payments.

The declaration and payment of dividends on the common stock is within the sole discretion of FPL Group's board of directors. FPL Group's Charter does not limit the dividends that may be paid on the common stock.

The ability of FPL Group to pay dividends on the common stock is currently subject to, and in the future may be limited by:

- various risks which affect the businesses of Florida Power & Light Company and FPL Group's other subsidiaries that may in certain instances limit the ability of such subsidiaries to pay dividends to FPL Group; and
- various contractual restrictions applicable to FPL Group and some of its subsidiaries, including those described below.

Florida Power & Light Company is subject to the terms of its Mortgage and Deed of Trust dated as of January 1, 1944, with Deutsche Bank Trust Company Americas (formerly known as Bankers Trust Company), as Trustee, as amended and supplemented from time to time (the "Mortgage"), that secures its obligations under outstanding first mortgage bonds issued by it from time to time. In specified circumstances, the terms of the Mortgage could restrict the ability of Florida Power & Light Company to pay dividends and make other distributions to FPL Group. As of the date of this prospectus, Florida Power & Light Company's ability to pay dividends to FPL Group was not restricted by the terms of the Mortgage.

Other contractual restrictions on the dividend-paying ability of FPL Group or its subsidiaries are contained in outstanding financing arrangements, and may be included in future financing arrangements. FPL Group has issued equity units. In accordance with the terms of the equity units, FPL Group has the right, from time to time, to defer the payment of contract adjustment payments on the purchase contracts that form a part of the equity units to a date no later than the purchase contract settlement date. In the event that FPL Group exercises its right to defer the payment of contract adjustment payments, then, until the deferred contract adjustment payments have been paid, FPL Group would not be able, with limited exceptions, to pay dividends on the common stock. FPL Group Capital has issued junior subordinated debentures that are guaranteed by FPL Group. FPL Group Capital has the right, from time to time, to defer the payment of interest on its outstanding junior subordinated debentures for a deferral period of up to 20 consecutive quarters, in the case of one series of such securities, and on one or more occasions for up to ten consecutive years, in the case of other series of such securities. FPL Group, Florida Power & Light Company or FPL Group Capital may issue, from time to time, additional equity units, junior subordinated debentures or other securities that (i) provide them with rights to defer the payment of interest or other payments and (ii) contain dividend restrictions in the event of the exercise of such rights. In the event that FPL Group or FPL Group Capital were to exercise any right to defer interest or other payments on currently outstanding or future series of equity units, junior subordinated debentures or other securities, or if there were to occur certain payment defaults on those securities, FPL Group would not be able, with limited exceptions, to pay dividends on the common stock during the periods in which such payments were deferred or such payment defaults continued. In the event that Florida Power & Light Company were to exercise any such right to defer the payment of interest or other payments, it would not be able, with limited exceptions, to pay dividends to FPL Group or any other holder of its common stock or preferred stock during the periods in which such payments were deferred. In addition, FPL Group, FPL Group Capital and Florida Power & Light Company might issue other securities in the future containing similar or other restrictions on FPL Group's ability to pay dividends on the common stock and on Florida Power & Light Company's ability to pay dividends to any holder of its common stock or preferred stock, including FPL Group.

In addition, the right of the holders of FPL Group's common stock to receive dividends might become subject to the preferential dividend, redemption, sinking fund or other rights of the holders of any series of FPL Group preferred stock that may be issued in the future, and the right of the holders of Florida Power & Light Company common stock or preferred stock, including FPL Group, to receive dividends might become subject to the preferential dividend, redemption, sinking fund or other rights of the holders of any series of Florida Power & Light Company preferred stock that may be issued in the future.

Liquidation Rights. If there is a liquidation, dissolution or winding up of FPL Group, the holders of common stock are entitled to share equally and ratably in any assets remaining after FPL Group has paid, or provided for the payment of, all of its debts and other liabilities, and after FPL Group has paid, or provided for the payment of, any preferential amounts payable to the holders of any outstanding preferred stock.

Other Rights. The holders of common stock do not have any preemptive, subscription, conversion or sinking fund rights. The common stock is not subject to redemption.

Anti-Takeover Effects of Provisions in FPL Group's Charter and Bylaws

FPL Group's Charter and bylaws contain provisions that may make it difficult and expensive for a third party to pursue a takeover attempt that FPL Group's board of directors and management oppose even if a change in control of FPL Group might be beneficial to the interests of holders of common stock.

FPL Group's Charter Provisions. Among FPL Group's Charter provisions that could have an anti-takeover effect are those that:

- permit the shareholders to remove a director only for cause and only by the affirmative vote of holders of at least 75% of the voting power of the outstanding shares of voting stock (which FPL Group's Charter defines to include the common stock and any other capital stock entitled to vote generally in the election of directors), voting together as a single class;

- provide that a vacancy on the board of directors may be filled only by a majority vote of the remaining directors;

- prohibit the shareholders from taking action by written consent in lieu of a meeting of shareholders;

- limit the persons who may call a special meeting of shareholders to the chairman of the FPL Group board of directors, the president or secretary, a majority of the board of directors or the holders of a majority of the outstanding shares of stock entitled to vote on the matter or matters to be presented at the meeting;

- require the affirmative vote of holders of at least 75% of the voting power of the outstanding shares of voting stock, voting together as a single class, to approve certain "business combinations" with an "interested shareholder," as those terms are defined in FPL Group's Charter, or the interested shareholder's affiliate, unless such transactions are approved by a majority of the "continuing directors," as defined in FPL Group's Charter or, in some cases, unless specified minimum price and procedural requirements are met;

- require any action by shareholders to amend or repeal the FPL Group bylaws, or to adopt new bylaws, to receive the affirmative vote of holders of at least 75% of the voting power of the outstanding shares of voting stock, voting together as a single class; and

- require the affirmative vote of holders of at least 75% of the voting power of the outstanding shares of voting stock, voting together as a single class, to alter, amend or repeal specified provisions of FPL Group's Charter, including the foregoing provisions.

FPL Group's Charter defines the term "interested shareholder" to include a security holder who is the direct or indirect beneficial owner of 10% or more of the voting power of the outstanding shares of voting stock, and the term "continuing director" to include any director who is not an affiliate of an interested shareholder. The foregoing provisions may discriminate against a security holder who becomes an interested shareholder by reason of its beneficial ownership of the specified amount of common or other voting stock.

The term "business combination" is defined in FPL Group's Charter to include the following transactions:

- any merger or consolidation of FPL Group or any direct or indirect majority-owned subsidiary with (i) any interested shareholder or (ii) any other corporation (whether or not itself an interested shareholder) which is, or after such merger or consolidation would be, an affiliate of an interested shareholder;

any sale, lease, exchange, mortgage, pledge, transfer or other disposition in one transaction or a series of transactions to or with any interested shareholder or any affiliate of any interested shareholder of assets of FPL Group or any direct or indirect majority-owned subsidiary having an aggregate fair market value of $10 million or more;

the issuance or transfer by FPL Group or any direct or indirect majority-owned subsidiary in one transaction or a series of transactions of any securities of FPL Group or any such subsidiary to any interested shareholder or any affiliate of any interested shareholder in exchange for cash, securities or other property, or a combination thereof, having an aggregate fair market value of $10 million or more;

the adoption of any plan or proposal for the liquidation or dissolution of FPL Group proposed by or on behalf of an interested shareholder or an affiliate of an interested shareholder; or

any reclassification of securities (including any reverse stock split) or recapitalization of FPL Group, or any merger or consolidation of FPL Group with any of its direct or indirect majority-owned subsidiaries or any other transaction which has the direct or indirect effect of increasing the proportionate share of the outstanding shares of any class of equity or convertible securities of FPL Group or any direct or indirect majority-owned subsidiary which is directly or indirectly owned by any interested shareholder or any affiliate of any interested shareholder.

For purposes of the foregoing "business combination" provisions, FPL Group's Charter defines the term "subsidiary" as any corporation of which FPL Group owns, directly or indirectly, a majority of any class of equity securities.

The foregoing shareholder approval requirements are in addition to those required by law, including the provisions of the Florida Business Corporation Act described below.

Bylaw Provisions. The FPL Group bylaws contain some of the foregoing provisions contained in FPL Group's Charter. The bylaws also contain a provision limiting to 16 directors the maximum number of authorized directors of FPL Group. In addition, the bylaws contain provisions that establish advance notice requirements for shareholders to nominate candidates for election as directors at any annual or special meeting of shareholders or to present any other business for consideration at any annual meeting of shareholders. These provisions generally require a shareholder to submit in writing to FPL Group's secretary any nomination of a candidate for election to the board of directors or any other proposal for consideration at any annual meeting not earlier than 120 days or later than 90 days before the first anniversary of the preceding year's annual meeting. The bylaws also require a shareholder to submit in writing to FPL Group's secretary any nomination of a candidate for election to the board of directors for consideration at any special meeting not earlier than 120 days before such special meeting and not after the later of 90 days before such special meeting or the tenth day following the day of the first public announcement of the date of the special meeting and of the fact that directors are to be elected at the meeting. For the shareholder's notice to be in proper form, it must include all of the information specified in the bylaws.

Restrictions on Affiliated and Control Share Transactions Under Florida Act

Affiliated Transactions. As a Florida corporation, FPL Group is subject to the Florida Business Corporation Act, or "Florida Act," which provides that an "affiliated transaction" of a Florida corporation with an "interested shareholder," as those terms are defined in the statute, generally must be approved by the affirmative vote of the holders of two-thirds of the outstanding voting shares, other than the shares beneficially owned by the interested shareholder. The Florida Act defines an "interested shareholder" as any person who is the beneficial owner of more than 10% of the outstanding voting shares of the corporation. The affiliated transactions covered by the Florida Act include, with specified exceptions:

- mergers and consolidations to which the corporation and the interested shareholder are parties;
- sales or other dispositions of assets representing 5% or more of the aggregate fair market value of the corporation's assets, outstanding shares, earning power or net income to the interested shareholder;
- issuances by the corporation of 5% or more of the aggregate fair market value of its outstanding shares to the interested shareholder;
- the adoption of any plan for the liquidation or dissolution of the corporation proposed by or pursuant to an arrangement with the interested shareholder;
- any reclassification of the corporation's securities, recapitalization of the corporation, merger or consolidation, or other transaction which has the effect of increasing by more than 5% the percentage of the outstanding voting shares of the corporation beneficially owned by the interested shareholder; and
- the receipt by the interested shareholder of certain loans or other financial assistance from the corporation.

The foregoing transactions generally also include transactions involving any affiliate of the interested shareholder and involving or affecting any direct or indirect majority-owned subsidiary of the corporation.

The two-thirds approval requirement does not apply if, among other things, subject to specified qualifications:

- the transaction has been approved by a majority of the corporation's disinterested directors;
- the interested shareholder has been the beneficial owner of at least 80% of the corporation's outstanding voting shares for at least five years preceding the transaction;
- the interested shareholder is the beneficial owner of at least 90% of the outstanding voting shares; or
- specified fair price and procedural requirements are satisfied.

The foregoing restrictions do not apply if the corporation's original articles of incorporation or an amendment to its articles of incorporation or bylaws approved by the affirmative vote of the holders of a majority of the outstanding shares of voting stock of the corporation (other than shares held by the interested shareholder) contain a provision expressly electing for the corporation not to be governed by the restrictions. FPL Group's Charter and bylaws do not contain such a provision.

Control-Share Acquisitions. The Florida Act also contains a control-share acquisition statute which provides that a person who acquires shares in an "issuing public corporation," as defined in the statute, in excess of certain specified thresholds generally will not have any voting rights with respect to such shares unless such voting rights are approved by the holders of a majority of the votes of each class of securities entitled to vote separately, excluding shares held or controlled by the acquiring person. The thresholds specified in the Florida Act are the acquisition of a number of shares representing:

- one-fifth or more, but less than one-third, of all voting power of the corporation;

one-third or more, but less than a majority, of all voting power of the corporation; or

a majority or more of all voting power of the corporation.

The statute does not apply if, among other things, the acquisition:

- is approved by the corporation's board of directors; or
- is effected pursuant to a statutory merger or share exchange to which the corporation is a party.

The statute also does not apply to an acquisition of shares of a corporation in excess of a specified threshold if, before the acquisition, the corporation's articles of incorporation or bylaws provide that the corporation will not be governed by the statute. The statute also permits a corporation to adopt a provision in its articles of incorporation or bylaws providing for the redemption of the acquired shares by the corporation in specified circumstances. FPL Group's Charter and bylaws do not contain such provisions.

Preferred Stock

FPL Group's Charter authorizes FPL Group's board of directors from time to time and without shareholder action to provide for the issuance of up to 100,000,000 shares of preferred stock in one or more series, and to determine the designations, preferences, limitations and relative or other rights of any such series, including voting rights, dividend rights, liquidation preferences, sinking fund provisions, conversion privileges and redemption rights. FPL Group's board of directors has broad discretion with respect to the creation and issuance of any series of preferred stock without shareholder approval, subject to any applicable rights of holders of any shares of preferred stock outstanding at any time. The rights and privileges of holders of common stock may be adversely affected by the rights, privileges and preferences of holders of shares of any series of preferred stock which FPL Group's board of directors may authorize for issuance from time to time. Among other things, by authorizing the issuance of shares of preferred stock with particular voting, conversion or other rights, the board of directors could adversely affect the voting power of the holders of the common stock and could discourage any attempt to effect a change in control of FPL Group, even if such a transaction would be beneficial to the interests of holders of the common stock. See the description of FPL Group's Preferred Stock in "Description of FPL Group Preferred Stock" in this prospectus.

Indemnification

Florida law generally provides that a Florida corporation, such as FPL Group, may indemnify its directors, officers, employees and agents against liabilities and expenses they may incur. Florida law also limits the liability of directors to FPL Group and other persons. FPL Group's bylaws contain provisions requiring FPL Group to indemnify its directors, officers, employees and agents under specified conditions. In addition, FPL Group carries insurance permitted by the laws of Florida on behalf of its directors, officers, employees and agents.

Transfer Agent and Register

The transfer agent and registrar for the common stock is Computershare Investor Services, LLC.

Listing

The common stock is listed on the New York Stock Exchange and trades under the symbol "FPL."

DESCRIPTION OF FPL GROUP PREFERRED STOCK

General. The following statements describing FPL Group's preferred stock are not intended to be a complete description. For additional information, please see FPL Group's Charter and its bylaws. You should read this summary together with the articles of amendment to FPL Group's Charter, which will describe the terms of any preferred stock to be offered hereby, for a complete understanding of all the provisions. Please also see the Mortgage, which contains restrictions which may in certain instances limit the ability of Florida Power & Light Company to pay dividends to FPL Group. Each of these documents has previously been filed, or will be filed, with the SEC and each is an exhibit to the registration statement filed with the SEC of which this prospectus is a part. Reference is also made to the laws of the State of Florida.

FPL Group Preferred Stock. FPL Group may issue one or more series of its preferred stock, $.01 par value, without the approval of its shareholders. No shares of preferred stock are presently outstanding.

Some terms of a series of preferred stock may differ from those of another series. A prospectus supplement will describe the terms of any preferred stock being offered. These terms will also be described in articles of amendment to FPL Group's Charter, which will establish the terms of the preferred stock being offered. These terms will include any of the following that apply to that series:

(1) the title of that series of preferred stock,

(2) the number of shares in the series,

(3) the dividend rate, or how such rate will be determined, and the dividend payment dates for the series,

(4) whether the series will be listed on a securities exchange,

(5) the date or dates on which the series of preferred stock may be redeemed at the option of FPL Group and any restrictions on such redemptions,

(6) any sinking fund or other provisions that would obligate FPL Group to repurchase, redeem or retire the series of preferred stock,

(7) the amount payable on the series of preferred stock in case of the liquidation, dissolution or winding up of FPL Group and any additional amount, or method of determining such amount, payable in case any such event is voluntary,

(8) any rights to convert the shares of the series of preferred stock into shares of another series or into shares of any other class of capital stock,

(9) the voting rights, if any, and

(10) any other terms that are not inconsistent with the provisions of FPL Group's Charter.

In some cases, the issuance of preferred stock could make it difficult for another company to acquire FPL Group and make it harder to remove current management. See also "Description of FPL Group Common Stock."

There are contractual restrictions on the dividend-paying ability of FPL Group or its subsidiaries contained in outstanding financing arrangements, and may be included in future financing arrangements. FPL Group has issued equity units. In accordance with the terms of the equity units, FPL Group has the right, from time to time, to defer the payment of contract adjustment payments on the purchase contracts that form a part of the equity units to a date no later than the purchase contract settlement date. In the event that FPL Group exercises its right to defer the payment of contract adjustment payments, then, until the deferred contract adjustment payments have been paid, FPL

Group would not be able, with limited exceptions, to pay dividends on the preferred stock. FPL Group Capital has issued junior subordinated debentures that are guaranteed by FPL Group. FPL Group Capital has the right, from time to time, to defer the payment of interest on its outstanding junior subordinated debentures for a deferral period of up to 20 consecutive quarters, in the case of one series of such securities, and on one or more occasions for up to ten consecutive years, in the case of other series of such securities. FPL Group, Florida Power & Light Company or FPL Group Capital may issue, from time to time, additional equity units, junior subordinated debentures or other securities that (i) provide them with rights to defer the payment of interest or other payments and (ii) contain dividend restrictions in the event of the exercise of such rights. In the event that FPL Group or FPL Group Capital were to exercise any right to defer interest or other payments on currently outstanding or future series of equity units, junior subordinated debentures or other securities, or if there were to occur certain payment defaults on those securities, FPL Group would not be able, with limited exceptions, to pay dividends on the preferred stock during the periods in which such payments were deferred or such payment defaults continued. In the event that Florida Power & Light Company were to exercise any such right to defer the payment of interest or other payments, it would not be able, with limited exceptions, to pay dividends to FPL Group or any other holder of its common stock or preferred stock during the periods in which such payments were deferred. In addition, FPL Group, FPL Group Capital and Florida Power & Light Company might issue other securities in the future containing similar or other restrictions on FPL Group's ability to pay dividends on the preferred stock, on FPL Group Capital's ability to pay dividends to any holder of its common stock or preferred stock, including FPL Group, and on Florida Power & Light Company's ability to pay dividends to any holder of its common stock or preferred stock, including FPL Group.

Shares of preferred stock offered hereby by FPL Group will, when issued, be fully paid and non-assessable.

DESCRIPTION OF STOCK PURCHASE CONTRACTS AND STOCK PURCHASE UNITS

FPL Group may issue stock purchase contracts, including contracts that obligate holders to purchase from FPL Group, and FPL Group to sell to these holders, a specified number of shares of common stock or preferred stock at a future date or dates. The consideration per share of common stock or preferred stock may be fixed at the time the stock purchase contracts are issued or may be determined by reference to a specific formula set forth in the stock purchase contracts. The stock purchase contracts may be issued separately or as a part of stock purchase units consisting of a stock purchase contract and either debt securities of FPL Group Capital, debt securities of FPL Group, preferred trust securities of one or more FPL Group subsidiary trusts or other subsidiary entities (including, but not limited to, Preferred Trust Securities (as defined herein)), or debt securities of third parties including, but not limited to, U.S. Treasury securities, that would secure the holders' obligations to purchase the common stock or preferred stock under the stock purchase contracts. The stock purchase contracts may require FPL Group to make periodic payments to the holders of some or all of the stock purchase units or vice versa, and such payments may be unsecured or prefunded on some basis. The stock purchase contracts may require holders to secure their obligations under these stock purchase contracts in a specified manner.

A prospectus supplement will describe the terms of any stock purchase contracts or stock purchase units being offered. The description in the prospectus supplement will not necessarily be complete, and reference will be made to the stock purchase contracts.

DESCRIPTION OF FPL GROUP WARRANTS

FPL Group may issue warrants to purchase common stock or preferred stock. A prospectus supplement will describe the terms of any such warrants being offered and any related warrant agreement between FPL Group and a warrant agent.

DESCRIPTION OF FPL GROUP SENIOR DEBT SECURITIES

FPL Group may issue its senior debt securities, in one or more series, under one or more Indentures between FPL Group and The Bank of New York Mellon, as trustee. The terms of any offered senior debt securities will be described in a supplement to this prospectus.

DESCRIPTION OF FPL GROUP SUBORDINATED DEBT SECURITIES

FPL Group may issue its subordinated debt securities (other than the FPL Group Junior Subordinated Debentures (as defined below under "Description of FPL Group and FPL Group Capital Junior Subordinated Debentures and FPL Group Subordinated Guarantee")), in one or more series, under one or more Indentures between FPL Group and The Bank of New York Mellon, as trustee. The terms of any offered subordinated debt securities will be described in a supplement to this prospectus.

DESCRIPTION OF FPL GROUP CAPITAL PREFERRED STOCK

The following statements describing FPL Group Capital's preferred stock are not intended to be a complete description. For additional information, please see FPL Group Capital's Articles of Incorporation, as amended ("FPL Group Capital's Charter"), and its bylaws. You should read this summary together with the articles of amendment to FPL Group Capital's Charter, which will describe the terms of any preferred stock to be offered hereby, for a complete understanding of all the provisions. Each of these documents has previously been filed, or will be filed, with the SEC and each is an exhibit to the registration statement filed with the SEC of which this prospectus is a part. Reference is also made to the laws of the State of Florida.

FPL Group Capital may issue one or more series of preferred stock, $.01 par value, without the approval of its shareholders. The FPL Group Capital Preferred Stock will be guaranteed by FPL Group as described under "Description of FPL Group Guarantee of FPL Group Capital Preferred Stock." No shares of preferred stock are presently outstanding.

Some terms of a series of preferred stock may differ from those of another series. A prospectus supplement will describe the terms of any preferred stock being offered. These terms will also be described in articles of amendment to FPL Group Capital's Charter, which will establish the terms of the preferred stock being offered. These terms will include any of the following that apply to that series:

(1) the title of that series of preferred stock,

(2) the number of shares in the series,

(3) the dividend rate, or how such rate will be determined, and the dividend payment dates for the series,

(4) whether the series will be listed on a securities exchange,

(5) the date or dates on which the series of preferred stock may be redeemed at the option of FPL Group Capital and any restrictions on such redemptions,

(6) any sinking fund or other provisions that would obligate FPL Group Capital to repurchase, redeem or retire the series of preferred stock,

(7) the amount payable on the series of preferred stock in case of the liquidation, dissolution or winding up of FPL Group Capital and any additional amount, or method of determining such amount, payable in case any such event is voluntary,

(8) any rights to convert the shares of the series of preferred stock into shares of another series or into shares of any other class of capital stock,

(9) the voting rights, if any, and

(10) any other terms that are not inconsistent with the provisions of FPL Group Capital's Charter.

There are contractual restrictions on the dividend-paying ability of FPL Group Capital contained in outstanding financing arrangements, and may be included in future financing arrangements. FPL Group Capital has issued junior subordinated debentures that are guaranteed by FPL Group. FPL Group Capital has the right, from time to time, to defer the payment of interest on its outstanding junior subordinated debentures for a deferral period of up to 20 consecutive quarters, in the case of one series of such securities, and on one or more occasions for up to ten consecutive years, in the case of other series of such securities. FPL Group Capital may issue, from time to time, additional junior subordinated debentures or other securities that (i) provide it with rights to defer the payment of interest or other payments and (ii) contain dividend restrictions in the event of the exercise of such rights. In the event that FPL Group Capital were to exercise any right to defer interest or other payments on currently outstanding or future series of junior subordinated debentures or other securities, or if there were to occur certain payment defaults on those securities, FPL Group Capital would not be able, with limited exceptions, to pay dividends on the preferred stock during the periods in which such payments were deferred or such payment defaults continued.

Any shares of preferred stock offered hereunder by FPL Group Capital will, when issued, be fully paid and non-assessable.

DESCRIPTION OF FPL GROUP GUARANTEE OF FPL GROUP CAPITAL PREFERRED STOCK

The following statements describing FPL Group's guarantee of FPL Group Capital's preferred stock are not intended to be a complete description. For additional information, please see FPL Group's guarantee agreement relating to FPL Group Capital's preferred stock. You should read this summary together with the guarantee agreement for a complete understanding of all the provisions. Please also see the Mortgage, which contains restrictions which may in certain instances limit the ability of Florida Power & Light Company to pay dividends to FPL Group. Each of these documents has previously been filed with the SEC and each is an exhibit to the registration statement filed with the SEC of which this prospectus is a part.

FPL Group will fully, unconditionally and irrevocably guarantee the payment of accumulated and unpaid dividends, and payments due on liquidation or redemption, as and when due, regardless of any defense, right of set-off or counterclaim that FPL Group Capital may have or assert. FPL Group's guarantee of FPL Group Capital's preferred stock will be an unsecured obligation of FPL Group and will rank (1) subordinate and junior in right of payment to all other liabilities of FPL Group (except those made pari passu or subordinate by their terms), (2) equal in right of payment with the most senior preferred or preference stock that may be issued by FPL Group and with any other guarantee that may be entered into by FPL Group in respect of any preferred or preference stock of any affiliate of FPL Group, and (3) senior to FPL Group's common stock. A prospectus supplement will describe the terms of FPL Group's guarantee of FPL Group Capital's preferred stock. The description will not necessarily be complete, and reference will be made to the preferred stock guarantee agreement.

While FPL Group is a holding company that derives substantially all of its income from its operating subsidiaries, FPL Group's subsidiaries are separate and distinct legal entities and have no obligation to make any payments under the FPL Group guarantee of FPL Group Capital preferred stock or to make any funds available for such payment. Therefore, the FPL Group guarantee of FPL Group Capital preferred stock will effectively be subordinated to all indebtedness and other liabilities, including trade payables, debt and preferred stock, incurred or issued by FPL Group's subsidiaries. In addition to trade liabilities, many of FPL Group's operating subsidiaries incur debt in order to finance their business activities. All of this indebtedness will effectively be senior to the FPL Group guarantee of FPL Group Capital preferred stock. FPL Group's guarantee of FPL Group Capital preferred stock does not place any limit on the amount of liabilities, including debt or preferred stock, that FPL Group's subsidiaries may issue, guarantee or otherwise incur. See "Description of FPL Group Common Stock Common Stock Terms Dividend Rights" for a description of contractual restrictions on the dividend-paying ability of some of FPL Group's subsidiaries.

DESCRIPTION OF FPL GROUP CAPITAL SENIOR DEBT SECURITIES

General. FPL Group Capital may issue its debt securities (other than the FPL Group Capital Junior Subordinated Debentures (as defined below under "Description of FPL Group and FPL Group Capital Junior Subordinated Debentures and FPL Group Subordinated Guarantee")), in one or more series, under an Indenture, dated as of June 1, 1999, between FPL Group Capital and The Bank of New York Mellon, as trustee. This Indenture, as it may be amended and supplemented from time to time, is referred to in this prospectus as the "Indenture." The Bank of New York Mellon, as trustee under the Indenture, is referred to in this prospectus as the "Indenture Trustee." These debt securities are referred to in this prospectus as the "Offered Senior Debt Securities."

The Indenture provides for the issuance from time to time of debentures, notes or other senior debt by FPL Group Capital in an unlimited amount. The Offered Senior Debt Securities and all other debentures, notes or other debt of FPL Group Capital issued under the Indenture are collectively referred to in this prospectus as the "Senior Debt Securities."

This section briefly summarizes some of the terms of the Offered Senior Debt Securities and some of the provisions of the Indenture. This summary does not contain a complete description of the Offered Senior Debt Securities or the Indenture. You should read this summary together with the Indenture and the officer's certificates or other documents creating the Offered Senior Debt Securities for a complete understanding of all the provisions and for the definitions of some terms used in this summary. The Indenture, the form of officer's certificate that may be used to create a series of Offered Senior Debt Securities and a form of Offered Senior Debt Securities have previously been filed with the SEC, and are exhibits to the registration statement filed with the SEC of which this prospectus is a part. In addition, the Indenture is qualified under the Trust Indenture Act of 1939 and is therefore subject to the provisions of the Trust Indenture Act of 1939. You should read the Trust Indenture Act of 1939 for a complete understanding of its provisions.

All Offered Senior Debt Securities of one series need not be issued at the same time, and a series may be re-opened for issuances of additional Offered Senior Debt Securities of such series. This means that FPL Group Capital may from time to time, without notice to, or the consent of the existing holders of the Offered Senior Debt Securities of a particular series, create and issue additional Offered Senior Debt Securities of such series. Such additional Offered Senior Debt Securities will have the same terms as the previously-issued Offered Senior Debt Securities of such series in all respects (except for the payment of interest accruing prior to the issue date of the additional Offered Senior Debt Securities or except for the first payments of interest following the issue date of the additional Offered Senior Debt Securities) so that the additional Offered Senior Debt Securities may be consolidated and form a single series with the previously-issued Offered Senior Debt Securities of such series.

Each series of Offered Senior Debt Securities may have different terms. FPL Group Capital will include some or all of the following information about a specific series of Offered Senior Debt Securities in the particular prospectus supplement relating to that specific series of Offered Senior Debt Securities:

(1) the title of those Offered Senior Debt Securities,

(2) any limit upon the aggregate principal amount of those Offered Senior Debt Securities,

(3) the date(s) on which FPL Group Capital will pay the principal of those Offered Senior Debt Securities,

(4) the rate(s) of interest on those Offered Senior Debt Securities, or how the rate(s) of interest will be determined, the date(s) from which interest will accrue, the dates on which FPL Group Capital will pay interest and the record date for any interest payable on any interest payment date,

(5) the person to whom FPL Group Capital will pay interest on those Offered Senior Debt Securities on any interest payment date, if other than the person in whose name those Offered Senior Debt Securities are registered at the close of business on the record date for that interest payment,

(6) the place(s) at which or methods by which FPL Group Capital will make payments on those Offered Senior Debt Securities and the place(s) at which or methods by which the registered owners of those Offered Senior Debt Securities may transfer or exchange those Offered Senior Debt Securities and serve notices and demands to or upon FPL Group Capital,

(7) the security registrar and any paying agent or agents for those Offered Senior Debt Securities,

(8) any date(s) on which, the price(s) at which and the terms and conditions upon which FPL Group Capital may, at its option, redeem those Offered Senior Debt Securities, in whole or in part, and any restrictions on those redemptions,

(9) any sinking fund or other provisions, including any options held by the registered owners of those Offered Senior Debt Securities, that would obligate FPL Group Capital to repurchase or redeem those Offered Senior Debt Securities,

(10) the denominations in which FPL Group Capital may issue those Offered Senior Debt Securities, if other than denominations of $1,000 and any integral multiple of $1,000,

(11) the currency or currencies in which FPL Group Capital may pay the principal of or premium, if any, or interest on those Offered Senior Debt Securities (if other than in U.S. dollars),

(12) if FPL Group Capital or a registered owner may elect to pay, or receive, principal of or premium, if any, or interest on those Offered Senior Debt Securities in a currency other than that in which those Offered Senior Debt Securities are stated to be payable, the terms and conditions upon which that election may be made,

(13) if FPL Group Capital will, or may, pay the principal of or premium, if any, or interest on those Offered Senior Debt Securities in securities or other property, the type and amount of those securities or other property and the terms and conditions upon which FPL Group Capital or a registered owner may elect to pay or receive those payments,

(14) if the amount payable in respect of principal of or premium, if any, or interest on those Offered Senior Debt Securities may be determined by reference to an index or other fact or event ascertainable outside of the Indenture, the manner in which those amounts will be determined,

(15) the portion of the principal amount of those Offered Senior Debt Securities that FPL Group Capital will pay upon declaration of acceleration of the maturity of those Offered Senior Debt Securities, if other than the entire principal amount of those Offered Senior Debt Securities,

(16) events of default, if any, with respect to those Offered Senior Debt Securities and covenants of FPL Group Capital, if any, for the benefit of the registered owners of those Offered Senior Debt Securities, other than those specified in the Indenture,

(17) the terms, if any, pursuant to which those Offered Senior Debt Securities may be converted into or exchanged for shares of capital stock or other securities of any other entity,

(18) a definition of "Eligible Obligations" under the Indenture with respect to those Offered Senior Debt Securities denominated in a currency other than U.S. dollars,

(19)

any provisions for the reinstatement of FPL Group Capital's indebtedness in respect of those Offered Senior Debt Securities after their satisfaction and discharge,

(20) if FPL Group Capital will issue those Offered Senior Debt Securities in global form, necessary information relating to the issuance of those Offered Senior Debt Securities in global form,

(21) if FPL Group Capital will issue those Offered Senior Debt Securities as bearer securities, necessary information relating to the issuance of those Offered Senior Debt Securities as bearer securities,

(22) any limits on the rights of the registered owners of those Offered Senior Debt Securities to transfer or exchange those Offered Senior Debt Securities or to register their transfer, and any related service charges,

(23) any exceptions to the provisions governing payments due on legal holidays or any variations in the definition of business day with respect to those Offered Senior Debt Securities,

(24) other than the Guarantee described under "Description of FPL Group Guarantee of FPL Group Capital Senior Debt Securities" below, any collateral security, assurance, or guarantee for those Offered Senior Debt Securities, and

(25) any other terms of those Offered Senior Debt Securities that are not inconsistent with the provisions of the Indenture. (Indenture, Section 301).

FPL Group Capital may sell Offered Senior Debt Securities at a discount below their principal amount. Some of the important United States federal income tax considerations applicable to Offered Senior Debt Securities sold at a discount below their principal amount may be discussed in the related prospectus supplement. In addition, some of the important United States federal income tax or other considerations applicable to any Offered Senior Debt Securities that are denominated in a currency other than U.S. dollars may be discussed in the related prospectus supplement.

Except as otherwise stated in the related prospectus supplement, the covenants in the Indenture would not give registered owners of Offered Senior Debt Securities protection in the event of a highly-leveraged transaction involving FPL Group Capital or FPL Group.

Security and Ranking. The Offered Senior Debt Securities will be unsecured obligations of FPL Group Capital. The Indenture does not limit FPL Group Capital's ability to provide security with respect to other Senior Debt Securities. All Senior Debt Securities issued under the Indenture will rank equally and ratably with all other Senior Debt Securities issued under the Indenture, except to the extent that FPL Group Capital elects to provide security with respect to any Senior Debt Security (other than the Offered Senior Debt Securities) without providing that security to all outstanding Senior Debt Securities in accordance with the Indenture. The Offered Senior Debt Securities will rank senior to FPL Group Capital's Junior Subordinated Debentures. The Indenture does not limit FPL Group Capital's ability to issue other unsecured debt.

While FPL Group Capital is a holding company that derives substantially all of its income from its operating subsidiaries, FPL Group Capital's subsidiaries are separate and distinct legal entities and have no obligation to make any payments on the Senior Debt Securities or to make any funds available for such payment. Therefore, the Senior Debt Securities will effectively be subordinated to all indebtedness and other liabilities, including trade payables, debt and preferred stock, incurred or issued by FPL Group Capital's subsidiaries. In addition to trade liabilities, many of FPL Group Capital's operating subsidiaries incur debt in order to finance their business activities. All of this indebtedness will effectively be senior to the Senior Debt Securities. The Indenture does not place any limit on the amounts of liabilities, including debt or preferred stock, that FPL Group Capital's subsidiaries may issue, guarantee or otherwise incur.

Payment and Paying Agents. Except as stated in the related prospectus supplement, on each interest payment date FPL Group Capital will pay interest on each Offered Senior Debt Security to the person in whose name that Offered Senior Debt Security is registered as of the close of business on the record date relating to that interest payment date. However, on the date that the Offered Senior Debt Securities mature, FPL Group Capital will pay the interest to the person to whom it pays the principal. Also, if FPL Group Capital has defaulted in the payment of interest on any Offered Senior Debt Security, it may pay that defaulted interest to the registered owner of that Offered Senior Debt Security:

(1) as of the close of business on a date that the Indenture Trustee selects, which may not be more than 15 days or less than 10 days before the date that FPL Group Capital proposes to pay the defaulted interest, or

(2) in any other lawful manner that does not violate the requirements of any securities exchange on which that Offered Senior Debt Security is listed and that the Indenture Trustee believes is acceptable. (Indenture, Section 307).

Unless otherwise stated in the related prospectus supplement, the principal, premium, if any, and interest on the Offered Senior Debt Securities at maturity will be payable when such Offered Senior Debt Securities are presented at the main corporate trust office of The Bank of New York Mellon, as paying agent, in The City of New York. FPL Group Capital may change the place of payment on the Offered Senior Debt Securities, appoint one or more additional paying agents, including itself, and remove any paying agent. (Indenture, Section 602).

Transfer and Exchange. Unless otherwise stated in the related prospectus supplement, Offered Senior Debt Securities may be transferred or exchanged at the main corporate trust office of The Bank of New York Mellon, as security registrar, in The City of New York. FPL Group Capital may change the place for transfer and exchange of the Offered Senior Debt Securities and may designate one or more additional places for that transfer and exchange.

Except as otherwise stated in the related prospectus supplement, there will be no service charge for any transfer or exchange of the Offered Senior Debt Securities. However, FPL Group Capital may require payment of any tax or other governmental charge in connection with any transfer or exchange of the Offered Senior Debt Securities.

FPL Group Capital will not be required to transfer or exchange any Offered Senior Debt Security selected for redemption. Also, FPL Group Capital will not be required to transfer or exchange any Offered Senior Debt Security during a period of 15 days before selection of Offered Senior Debt Securities to be redeemed. (Indenture, Section 305).

Defeasance. FPL Group Capital may, at any time, elect to have all of its obligations discharged with respect to all or a portion of any Senior Debt Securities. To do so, FPL Group Capital must irrevocably deposit with the Indenture Trustee or any paying agent, in trust:

(1) money in an amount that will be sufficient to pay all or that portion of the principal, premium, if any, and interest due and to become due on those Senior Debt Securities, on or prior to their maturity, or

(2) in the case of a deposit made prior to the maturity of that series of Senior Debt Securities,

  (a) direct obligations of, or obligations unconditionally guaranteed by, the United States and entitled to the benefit of its full faith and credit that do not contain provisions permitting their redemption or other prepayment at the option of their issuer, and

  (b) certificates, depositary receipts or other instruments that evidence a direct ownership interest in those obligations or in any specific interest or principal payments due in respect of those obligations that do not contain provisions permitting their redemption or other prepayment at the option of their issuer, the principal of and the interest on which, when due, without any regard to reinvestment of that principal or interest, will provide money that, together with any money deposited with or held by the Indenture Trustee, will be sufficient to pay all or that portion of the principal, premium, if any, and interest due and to become due on those Senior Debt Securities, on or prior to their maturity, or

(3) a combination of (1) and (2) that will be sufficient to pay all or that portion of the principal, premium, if any, and interest due and to become due on those Senior Debt Securities, on or prior to their maturity. (Indenture, Section 701).

Limitation on Liens. So long as any Senior Debt Securities remain outstanding, FPL Group Capital will not secure any indebtedness with a lien on any shares of the capital stock of any of its majority-owned subsidiaries, which shares of capital stock FPL Group Capital now or hereafter directly owns, unless FPL Group Capital equally secures all Senior Debt Securities. However, this restriction does not apply to or prevent:

(1) any lien on capital stock created at the time FPL Group Capital acquires that capital stock, or within 270 days after that time, to secure all or a portion of the purchase price for that capital stock,

(2) any lien on capital stock existing at the time FPL Group Capital acquires that capital stock (whether or not FPL Group Capital assumes the obligations secured by the lien and whether or not the lien was created in contemplation of the acquisition),

(3) any extensions, renewals or replacements of the liens described in (1) and (2) above, or of any indebtedness secured by those liens; provided, that,

(a) the principal amount of indebtedness secured by those liens immediately after the extension, renewal or replacement may not exceed the principal amount of indebtedness secured by those liens immediately before the extension, renewal or replacement, and

(b) the extension, renewal or replacement lien is limited to no more than the same proportion of all shares of capital stock as were covered by the lien that was extended, renewed or replaced, or

(4) any lien arising in connection with court proceedings; provided, that, either

(a) the execution or enforcement of that lien is effectively stayed within 30 days after entry of the corresponding judgment (or the corresponding judgment has been discharged within that 30 day period) and the claims secured by that lien are being contested in good faith by appropriate proceedings,

(b) the payment of that lien is covered in full by insurance and the insurance company has not denied or contested coverage, or

(c) so long as that lien is adequately bonded, any appropriate legal proceedings that have been duly initiated for the review of the corresponding judgment, decree or order have not been fully terminated or the periods within which those proceedings may be initiated have not expired.

Liens on any shares of the capital stock of any of FPL Group Capital's majority-owned subsidiaries, which shares of capital stock FPL Group Capital now or hereafter directly owns, other than liens described in (1) through (4) above, are referred to in this prospectus as "Restricted Liens." The foregoing limitation does not apply to the extent that FPL Group Capital creates any Restricted Liens to secure indebtedness that, together with all other indebtedness of FPL Group Capital secured by Restricted Liens, does not at the time exceed 5% of FPL Group Capital's Consolidated Capitalization. (Indenture, Section 608).

For this purpose, "Consolidated Capitalization" means the sum of:

(1) Consolidated Shareholders' Equity;

(2) Consolidated Indebtedness for borrowed money (exclusive of any amounts which are due and payable within one year); and, without duplication

(3) any preference or preferred stock of FPL Group Capital or any Consolidated Subsidiary which is subject to mandatory redemption or sinking fund provisions.

The term "Consolidated Shareholders' Equity" as used above means the total assets of FPL Group Capital and its Consolidated Subsidiaries less all liabilities of FPL Group Capital and its Consolidated Subsidiaries. As used in this definition, the term "liabilities" means all obligations which would, in accordance with generally accepted accounting principles, be classified on a balance sheet as liabilities, including without limitation:

(1) indebtedness secured by property of FPL Group Capital or any of its Consolidated Subsidiaries whether or not FPL Group Capital or such Consolidated Subsidiary is liable for the payment thereof unless, in the case that FPL Group Capital or such Consolidated Subsidiary is not so liable, such property has not been included among the assets of FPL Group Capital or such Consolidated Subsidiary on such balance sheet,

(2) deferred liabilities, and

(3) indebtedness of FPL Group Capital or any of its Consolidated Subsidiaries that is expressly subordinated in right and priority of payment to other liabilities of FPL Group Capital or such Consolidated Subsidiary.

As used in this definition, "liabilities" includes preference or preferred stock of FPL Group Capital or any Consolidated Subsidiary only to the extent of any such preference or preferred stock that is subject to mandatory redemption or sinking fund provisions.

The term "Consolidated Indebtedness" means total indebtedness as shown on the consolidated balance sheet of FPL Group Capital and its Consolidated Subsidiaries.

The term "Consolidated Subsidiary," means at any date any direct or indirect majority-owned subsidiary whose financial statements would be consolidated with those of FPL Group Capital in FPL Group Capital's consolidated financial statements as of such date in accordance with generally accepted accounting principles. (Indenture, Section 608).

The foregoing limitation does not limit in any manner the ability of:

(1) FPL Group Capital to place liens on any of its assets other than the capital stock of directly held, majority-owned subsidiaries,

(2) FPL Group Capital or FPL Group to cause the transfer of its assets or those of its subsidiaries, including the capital stock covered by the foregoing restrictions,

(3) FPL Group to place liens on any of its assets, or

(4) any of the direct or indirect subsidiaries of FPL Group Capital or FPL Group (other than FPL Group Capital) to place liens on any of their assets.

Consolidation, Merger, and Sale of Assets. Under the Indenture, FPL Group Capital may not consolidate with or merge into any other entity or convey, transfer or lease its properties and assets substantially as an entirety to any entity, unless:

(1) the entity formed by that consolidation, or the entity into which FPL Group Capital is merged, or the entity that acquires or leases FPL Group Capital's property and assets, is an entity organized and existing under the laws of the United States, any state or the District of Columbia and that entity expressly assumes FPL Group Capital's obligations on all Senior Debt Securities and under the Indenture,

(2) immediately after giving effect to the transaction, no event of default under the Indenture and no event that, after notice or lapse of time or both, would become an event of default under the Indenture exists, and

(3) FPL Group Capital delivers an officer's certificate and an opinion of counsel to the Indenture Trustee, as provided in the Indenture. (Indenture, Section 1101).

The Indenture does not restrict FPL Group Capital in a merger in which FPL Group Capital is the surviving entity.

Events of Default. Each of the following is an event of default under the Indenture with respect to the Senior Debt Securities of any series:

(1) failure to pay interest on the Senior Debt Securities of that series within 30 days after it is due,

(2) failure to pay principal or premium, if any, on the Senior Debt Securities of that series when it is due,

(3) failure to comply with any other covenant in the Indenture, other than a covenant that does not relate to that series of Senior Debt Securities, that continues for 90 days after (i) FPL Group Capital receives written notice of such failure to comply from the Indenture Trustee, or (ii) FPL Group Capital and the Indenture Trustee receive written notice of such failure to comply from the registered owners of at least 33% in principal amount of the Senior Debt Securities of that series,

(4) certain events of bankruptcy, insolvency or reorganization of FPL Group Capital, or

(5) any other event of default specified with respect to the Senior Debt Securities of that series. (Indenture, Section 801).

In the case of the third event of default listed above, the Indenture Trustee may extend the grace period. In addition, if registered owners of a particular series have given a notice of default, then registered owners of at least the same percentage of Senior Debt Securities of that series, together with the Indenture Trustee, may also extend the grace period. The grace period will be automatically extended if FPL Group Capital has initiated and is diligently pursuing corrective action. (Indenture, Section 801). An event of default with respect to the Senior Debt Securities of a particular series will not necessarily constitute an event of default with respect to Senior Debt Securities of any other series issued under the Indenture.

Remedies. If an event of default applicable to the Senior Debt Securities of one or more series, but not applicable to all outstanding Senior Debt Securities, exists, then either (i) the Indenture Trustee or (ii) the registered owners of at least 33% in aggregate principal amount of the Senior Debt Securities of each of the affected series may declare the principal of and accrued but unpaid interest on all the Senior Debt Securities of that series to be due and payable immediately. However, under the Indenture, some Senior Debt Securities may provide for a specified amount less than their entire principal amount to be due and payable upon that declaration. These Senior Debt Securities are defined as "Discount Securities" in the Indenture.

If the event of default is applicable to all outstanding Senior Debt Securities, then only the Indenture Trustee or the registered owners of at least 33% in aggregate principal amount of all outstanding Senior Debt Securities of all series, voting as one class, and not the registered owners of any one series, may make a declaration of acceleration. However, the event of default giving rise to the declaration relating to any series of Senior Debt Securities will be automatically waived, and that declaration and its consequences will be automatically rescinded and annulled, if, at any time after that declaration and before a judgment or decree for payment of the money due has been obtained:

(1) FPL Group Capital deposits with the Indenture Trustee a sum sufficient to pay:

(a) all overdue interest on all Senior Debt Securities of that series,

(b) the principal of and any premium on any Senior Debt Securities of that series that have become due for reasons other than that declaration, and interest that is then due,

(c) interest on overdue interest for that series, and

(d) all amounts then due to the Indenture Trustee under the Indenture, and

(2) any other event of default with respect to the Senior Debt Securities of that series has been cured or waived as provided in the Indenture. (Indenture, Section 802).

Other than its obligations and duties in case of an event of default under the Indenture, the Indenture Trustee is not obligated to exercise any of its rights or powers under the Indenture at the request or direction of any of the registered owners, unless those registered owners offer reasonable indemnity to the Indenture Trustee. (Indenture, Section 903). If they provide this reasonable indemnity, the registered owners of a majority in principal amount of any series of Senior Debt Securities will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Indenture Trustee, or exercising any trust or power conferred on the Indenture Trustee, with respect to the Senior Debt Securities of that series. However, if an event of default under the Indenture relates to more than one series of Senior Debt Securities, only the registered owners of a majority in aggregate principal amount of all affected series of Senior Debt Securities, considered as one class, will have the right to make that direction. Also, the direction must not violate any law or the Indenture, and may not expose the Indenture Trustee to personal liability in circumstances where its indemnity would not, in the Indenture Trustee's sole discretion, be adequate. (Indenture, Section 812).

A registered owner of a Senior Debt Security has the right to institute a suit for the enforcement of payment of the principal of or premium, if any, or interest on that Senior Debt Security on or after the applicable due date specified in that Senior Debt Security. (Indenture, Section 808). No registered owner of Senior Debt Securities of any series will have any other right to institute any proceeding under the Indenture, or any other remedy under the Indenture, unless:

(1) that registered owner has previously given to the Indenture Trustee written notice of a continuing event of default with respect to the Senior Debt Securities of that series,

(2) the registered owners of a majority in aggregate principal amount of the outstanding Senior Debt Securities of all series in respect of which an event of default under the Indenture exists, considered as one class, have made written request to the Indenture Trustee, and have offered reasonable indemnity to the Indenture Trustee to institute that proceeding in its own name as trustee, and

(3) the Indenture Trustee has failed to institute any proceeding, and has not received from the registered owners of a majority in aggregate principal amount of the outstanding Senior Debt Securities of all series in respect of which an event of default under the Indenture exists, considered as one class, a direction inconsistent with that request, within 60 days after that notice, request and offer. (Indenture, Section 807).

FPL Group Capital is required to deliver to the Indenture Trustee an annual statement as to its compliance with all conditions and covenants under the Indenture. (Indenture, Section 606).

Modification and Waiver. Without the consent of any registered owner of Senior Debt Securities, FPL Group Capital and the Indenture Trustee may amend or supplement the Indenture for any of the following purposes:

(1) to provide for the assumption by any permitted successor to FPL Group Capital of FPL Group Capital's obligations under the Indenture and the Senior Debt Securities in the case of a merger or consolidation or a conveyance, transfer or lease of its assets substantially as an entirety,

(2) to add covenants of FPL Group Capital or to surrender any right or power conferred upon FPL Group Capital by the Indenture,

(3) to add any additional events of default,

(4) to change, eliminate or add any provision of the Indenture, provided that if that change, elimination or addition will materially adversely affect the interests of the registered owners of Senior Debt Securities of any series or tranche, that change, elimination or addition will become effective with respect to that particular series or tranche only

(a) when the required consent of the registered owners of Senior Debt Securities of that particular series or tranche has been obtained, or

(b) when no Senior Debt Securities of that particular series or tranche remain outstanding under the Indenture,

(5) to provide collateral security for all but not a part of the Senior Debt Securities,

(6) to create the form or terms of Senior Debt Securities of any other series or tranche,

(7) to provide for the authentication and delivery of bearer securities and the related coupons and for other matters relating to those bearer securities,

(8) to accept the appointment of a successor Indenture Trustee with respect to the Senior Debt Securities of one or more series and to change any of the provisions of the Indenture as necessary to provide for the administration of the trusts under the Indenture by more than one trustee,

(9) to add procedures to permit the use of a non-certificated system of registration for all, or any series or tranche of, the Senior Debt Securities,

(10) to change any place where

(a) the principal of and premium, if any, and interest on all, or any series or tranche of, Senior Debt Securities are payable,

(b) all, or any series or tranche of, Senior Debt Securities may be transferred or exchanged, and

(c) notices and demands to or upon FPL Group Capital in respect of Senior Debt Securities and the Indenture may be served, or

(11) to cure any ambiguity or inconsistency or to add or change any other provisions with respect to matters and questions arising under the Indenture, provided those changes or additions may not materially adversely affect the interests of the registered owners of Senior Debt Securities of any series or tranche. (Indenture, Section 1201).

The registered owners of a majority in aggregate principal amount of the Senior Debt Securities of all series then outstanding may waive compliance by FPL Group Capital with certain restrictive provisions of the Indenture. (Indenture, Section 607). The registered owners of a majority in principal amount of the outstanding Senior Debt Securities of any series may waive any past default under the Indenture with respect to that series, except a default in the payment of principal, premium, if any, or interest and a default with respect to certain restrictive covenants or provisions of the Indenture that cannot be modified or amended without the consent of the registered owner of each outstanding Senior Debt Security of that series affected. (Indenture, Section 813).

In addition to any amendments described above, if the Trust Indenture Act of 1939 is amended after the date of the Indenture in a way that requires changes to the Indenture or in a way that permits changes to, or the elimination of, provisions that were previously required by the Trust Indenture Act of 1939, the Indenture will be deemed to be amended to conform to that amendment of the Trust Indenture Act of 1939 or to make those changes, additions or eliminations. FPL Group Capital and the Indenture Trustee may, without the consent of any registered owners, enter into supplemental indentures to make that amendment. (Indenture, Section 1201).

Except for any amendments described above, the consent of the registered owners of a majority in aggregate principal amount of the Senior Debt Securities of all series then outstanding, considered as one class, is required for all other modifications to the Indenture. However, if less than all of the series of Senior Debt Securities outstanding are directly affected by a proposed supplemental indenture, then the consent only of the registered owners of a majority in aggregate principal amount of outstanding Senior Debt Securities of all directly affected series, considered as one class, is required. But, if FPL Group Capital issues any series of Senior Debt Securities in more than one tranche and if the proposed supplemental indenture directly affects the rights of the registered owners of Senior Debt Securities of less than all of those tranches, then the consent only of the registered owners of a majority in aggregate principal amount of the outstanding Senior Debt Securities of all directly affected tranches, considered as one class, will be required. However, none of those amendments or modifications may:

(1) change the dates on which the principal of or interest on a Senior Debt Security is due without the consent of the registered owner of that Senior Debt Security,

(2) reduce any Senior Debt Security's principal amount or rate of interest (or the amount of any installment of that interest) or change the method of calculating that rate without the consent of the registered owner of that Senior Debt Security,

(3) reduce any premium payable upon the redemption of a Senior Debt Security without the consent of the registered owner of that Senior Debt Security,

(4) change the currency (or other property) in which a Senior Debt Security is payable without the consent of the registered owner of that Senior Debt Security,

(5) impair the right to sue to enforce payments on any Senior Debt Security on or after the date that it states that the payment is due (or, in the case of redemption, on or after the redemption date) without the consent of the registered owner of that Senior Debt Security,

(6) reduce the percentage in principal amount of the outstanding Senior Debt Security of any series or tranche whose owners must consent to an amendment, supplement or waiver without the consent of the registered owner of each outstanding Senior Debt Security of that particular series or tranche,

(7) reduce the requirements for quorum or voting of any series or tranche without the consent of the registered owner of each outstanding Senior Debt Security of that particular series or tranche, or

(8) modify certain of the provisions of the Indenture relating to supplemental indentures, waivers of certain covenants and waivers of past defaults with respect to the Senior Debt Securities of any series or tranche, without the consent of the registered owner of each outstanding Senior Debt Security affected by the modification.

A supplemental indenture that changes or eliminates any provision of the Indenture that has expressly been included only for the benefit of one or more particular series or tranches of Senior Debt Securities, or that modifies the rights of the registered owners of Senior Debt Securities of that particular series or tranche with respect to that provision, will not affect the rights under the Indenture of the registered owners of the Senior Debt Securities of any other series or tranche. (Indenture, Section 1202).

The Indenture provides that, in order to determine whether the registered owners of the required principal amount of the outstanding Senior Debt Securities have given any request, demand, authorization, direction, notice, consent or waiver under the Indenture, or whether a quorum is present at the meeting of the registered owners of Senior Debt Securities, Senior Debt Securities owned by FPL Group Capital or any other obligor upon the Senior Debt Securities or any affiliate of FPL Group Capital or of that other obligor (unless FPL Group Capital, that affiliate or that obligor owns all Senior Debt Securities outstanding under the Indenture, determined without regard to this provision) will be disregarded and deemed not to be outstanding. (Indenture, Section 101).

If FPL Group Capital solicits any action under the Indenture from registered owners of Senior Debt Securities, FPL Group Capital may, at its option, by signing a written request to the Indenture Trustee, fix in advance a record date for determining the registered owners of Senior Debt Securities entitled to take that action. However, FPL Group Capital will not be obligated to do this. If FPL Group Capital fixes such a record date, that action may be taken before or after that record date, but only the registered owners of record at the close of business on that record date will be deemed to be registered owners of Senior Debt Securities for the purposes of determining whether registered owners of the required proportion of the outstanding Senior Debt Securities have authorized that action. For these purposes, the outstanding Senior Debt Securities will be computed as of the record date. Any action of a registered owner of any Senior Debt Security under the Indenture will bind every future registered owner of that Senior Debt Security, or any Senior Debt Security replacing that Senior Debt Security, with respect to anything that the Indenture Trustee or FPL Group Capital do, fail to do, or allow to be done in reliance on that action, whether or not that action is noted upon that Senior Debt Security. (Indenture, Section 104).

Resignation and Removal of Indenture Trustee. The Indenture Trustee may resign at any time with respect to any series of Senior Debt Securities by giving written notice of its resignation to FPL Group Capital. Also, the registered owners of a majority in principal amount of the outstanding Senior Debt Securities of one or more series of Senior Debt Securities may remove the Indenture Trustee at any time with respect to the Senior Debt Securities of that series, by delivering an instrument evidencing this action to the Indenture Trustee and FPL Group Capital. The resignation or removal of the Indenture Trustee and the appointment of a successor trustee will not become effective until a successor trustee accepts its appointment.

Except with respect to an Indenture Trustee appointed by the registered owners of Senior Debt Securities, the Indenture Trustee will be deemed to have resigned and the successor will be deemed to have been appointed as trustee in accordance with the Indenture if:

(1) no event of default under the Indenture or event that, after notice or lapse of time, or both, would become an event of default under the Indenture exists, and

(2) FPL Group Capital has delivered to the Indenture Trustee a resolution of its Board of Directors appointing a successor trustee and that successor trustee has accepted that appointment in accordance with the terms of the Indenture. (Indenture, Section 910).

Notices. Notices to registered owners of Senior Debt Securities will be sent by mail to the addresses of those registered owners as they appear in the security register for those Senior Debt Securities. (Indenture, Section 106).

Title. FPL Group Capital, the Indenture Trustee, and any agent of FPL Group Capital or the Indenture Trustee, may treat the person in whose name a Senior Debt Security is registered as the absolute owner of that Senior Debt Security, whether or not that Senior Debt Security is overdue, for the purpose of making payments and for all other purposes, regardless of any notice to the contrary. (Indenture, Section 308).

Governing Law. The Indenture and the Senior Debt Securities will be governed by, and construed in accordance with, the laws of the State of New York, without regard to conflict of laws principles thereunder, except to the extent that the law of any other jurisdiction is mandatorily applicable. (Indenture, Section 112).

DESCRIPTION OF FPL GROUP GUARANTEE OF FPL GROUP CAPITAL SENIOR DEBT SECURITIES

General. This section briefly summarizes some of the provisions of the Guarantee Agreement, dated as of June 1, 1999, between FPL Group and The Bank of New York Mellon, as Guarantee Trustee. The Guarantee Agreement was executed for the benefit of the Indenture Trustee, which holds the Guarantee Agreement for the benefit of registered owners of the Senior Debt Securities covered by the Guarantee Agreement. This summary does not contain a complete description of the Guarantee Agreement. You should read this summary together with the Guarantee Agreement for a complete understanding of all the provisions. The Guarantee Agreement has previously been filed with the SEC and is an exhibit to the registration statement filed with the SEC of which this prospectus is a part. In addition, the Guarantee Agreement is qualified as an indenture under the Trust Indenture Act of 1939 and is therefore subject to the provisions of the Trust Indenture Act of 1939. You should read the Trust Indenture Act of 1939 for a complete understanding of its provisions.

Under the Guarantee Agreement, FPL Group absolutely, irrevocably and unconditionally guarantees the prompt and full payment, when due and payable (including upon acceleration or redemption), of the principal, interest and premium, if any, on the Senior Debt Securities that are covered by the Guarantee Agreement to the registered owners of those Senior Debt Securities, according to the terms of those Senior Debt Securities and the Indenture. Pursuant to the Guarantee Agreement, all of the Senior Debt Securities are covered by the Guarantee Agreement except Senior Debt Securities that by their terms are expressly not entitled to the benefit of the Guarantee Agreement. All of the Offered Senior Debt Securities will be covered by the Guarantee Agreement. This guarantee is referred to in this prospectus as the "Guarantee." FPL Group is only required to make these payments if FPL Group Capital fails to pay or provide for punctual payment of any of those amounts on or before the expiration of any applicable grace periods. (Guarantee Agreement, Section 5.01). In the Guarantee Agreement, FPL Group has waived its right to require the Guarantee Trustee, the Indenture Trustee or the registered owners of Senior Debt Securities covered by the Guarantee Agreement to exhaust their remedies against FPL Group Capital prior to bringing suit against FPL Group. (Guarantee Agreement, Section 5.06).

The Guarantee is a guarantee of payment when due (i.e., the guaranteed party may institute a legal proceeding directly against FPL Group to enforce its rights under the Guarantee Agreement without first instituting a legal proceeding against any other person or entity). The Guarantee is not a guarantee of collection. (Guarantee Agreement, Section 5.01).

Except as otherwise stated in the related prospectus supplement, the covenants in the Guarantee Agreement would not give registered owners of the Senior Debt Securities covered by the Guarantee Agreement protection in the event of a highly-leveraged transaction involving FPL Group.

Security and Ranking. The Guarantee is an unsecured obligation of FPL Group and will rank equally and ratably with all other unsecured and unsubordinated indebtedness of FPL Group. The Guarantee will rank senior to the Preferred Trust Securities Guarantee, the Subordinated Guarantee and the FPL Group Junior Subordinated Debentures (each as defined below) and FPL Group's guarantee of FPL Group Capital's preferred stock. There is no limit on the amount of other indebtedness, including guarantees, that FPL Group may incur or issue.

While FPL Group is a holding company that derives substantially all of its income from its operating subsidiaries, FPL Group's subsidiaries are separate and distinct legal entities and have no obligation to make any payments under the Guarantee Agreement or to make any funds available for such payment. Therefore, the Guarantee effectively is subordinated to all indebtedness and other liabilities, including trade payables, debt and preferred stock, incurred or issued by FPL Group's subsidiaries. In addition to trade liabilities, many of FPL Group's operating subsidiaries incur debt in order to finance their business activities. All of this indebtedness will effectively be senior to the

Guarantee. Neither the Indenture nor the Guarantee Agreement places any limit on the amount of liabilities, including debt or preferred stock, that FPL Group's subsidiaries may issue, guarantee or otherwise incur.

Events of Default. An event of default under the Guarantee Agreement will occur upon the failure of FPL Group to perform any of its payment obligations under the Guarantee Agreement. (Guarantee Agreement, Section 1.01). The registered owners of a majority of the aggregate principal amount of the outstanding Senior Debt Securities covered by the Guarantee Agreement have the right to:

(1) direct the time, method and place of conducting any proceeding for any remedy available to the Guarantee Trustee under the Guarantee Agreement, or

(2) direct the exercise of any trust or power conferred upon the Guarantee Trustee under the Guarantee Agreement. (Guarantee Agreement, Section 3.01).

The Guarantee Trustee must give notice of any event of default under the Guarantee Agreement known to the Guarantee Trustee to the registered owners of Senior Debt Securities covered by the Guarantee Agreement within 90 days after the occurrence of that event of default, in the manner and to the extent provided in subsection (c) of Section 313 of the Trust Indenture Act of 1939, unless such event of default has been cured or waived prior to the giving of such notice. (Guarantee Agreement, Section 2.07). The registered owners of all outstanding Senior Debt Securities may waive any past event of default and its consequences. (Guarantee Agreement, Section 2.06).

The Guarantee Trustee, the Indenture Trustee and the registered owners of Senior Debt Securities covered by the Guarantee Agreement have all of the rights and remedies available under applicable law and may sue to enforce the terms of the Guarantee Agreement and to recover damages for the breach of the Guarantee Agreement. The remedies of each of the Guarantee Trustee, the Indenture Trustee and the registered owners of Senior Debt Securities covered by the Guarantee Agreement, to the extent permitted by law, are cumulative and in addition to any other remedy now or hereafter existing at law or in equity. At the option of any of the Guarantee Trustee, the Indenture Trustee or the registered owners of Senior Debt Securities covered by the Guarantee Agreement, that person or entity may join FPL Group in any lawsuit commenced by that person or entity against FPL Group Capital with respect to any obligations under the Guarantee Agreement. Also, that person or entity may recover against FPL Group in that lawsuit, or in any independent lawsuit against FPL Group, without first asserting, prosecuting or exhausting any remedy or claim against FPL Group Capital. (Guarantee Agreement, Section 5.06).

FPL Group is required to deliver to the Guarantee Trustee an annual statement as to its compliance with all conditions under the Guarantee Agreement. (Guarantee Agreement, Section 2.04).

Modification. FPL Group and the Guarantee Trustee may, without the consent of any registered owner of Senior Debt Securities covered by the Guarantee Agreement, agree to any changes to the Guarantee Agreement that do not materially adversely affect the rights of registered owners. The Guarantee Agreement also may be amended with the prior approval of the registered owners of a majority in aggregate principal amount of all outstanding Senior Debt Securities covered by the Guarantee Agreement. However, the right of any registered owner of Senior Debt Securities covered by the Guarantee Agreement to receive payment under the Guarantee Agreement on the due date of the Senior Debt Securities held by that registered owner, or to institute suit for the enforcement of that payment on or after that due date, may not be impaired or affected without the consent of that registered owner. (Guarantee Agreement, Section 6.01).

Termination of the Guarantee Agreement. The Guarantee Agreement will terminate and be of no further force and effect upon full payment of all Senior Debt Securities covered by the Guarantee Agreement. (Guarantee Agreement, Section 5.05).

Governing Law. The Guarantee Agreement will be governed by and construed in accordance with the laws of the State of New York, without regard to conflict of laws principles thereunder, except to the extent that the law of any other jurisdiction is mandatorily applicable. (Guarantee Agreement, Section 5.07).

DESCRIPTION OF FPL GROUP CAPITAL SUBORDINATED DEBT SECURITIES AND FPL GROUP SUBORDINATED GUARANTEE

FPL Group Capital may issue its subordinated debt securities (other than the FPL Group Capital Junior Subordinated Debentures (as defined below under "Description of FPL Group and FPL Group Capital Junior Subordinated Debentures and FPL Group Subordinated Guarantee")), in one or more series, under one or more Indentures, between FPL Group Capital and The Bank of New York Mellon, as trustee. The terms of any offered subordinated debt securities, including FPL Group's guarantee of FPL Group Capital's payment obligations under such subordinated debt securities, will be described in a supplement to this prospectus.

DESCRIPTION OF PREFERRED TRUST SECURITIES

General. The Trust may issue preferred trust securities and common trust securities under the Trust Agreement. The Trust Agreement pursuant to which the preferred trust securities of FPL Group Capital Trust will be issued is herein referred to as the "FPL Group Capital Trust Agreement," and the Trust Agreement pursuant to which preferred trust securities of FPL Group Trust will be issued is herein referred to as the "FPL Group Trust Agreement;" each of these agreements is referred to in this prospectus as the "Trust Agreement." The terms of the FPL Group Capital Trust Agreement and the FPL Group Trust Agreement are substantially the same. The preferred trust securities and common trust securities issued by the Trust are referred to in this prospectus as "Preferred Trust Securities" and "Common Trust Securities," respectively, and collectively as "Trust Securities." These Trust Securities will represent undivided beneficial interests in the assets of the Trust. Unless otherwise specified in a prospectus supplement in connection with the issuance of Trust Securities by FPL Group Capital Trust, the related FPL Group Capital Junior Subordinated Debentures (as defined below under "Description of FPL Group and FPL Group Capital Junior Subordinated Debentures and FPL Group Subordinated Guarantee") will be held by FPL Group Capital Trust, and in connection with the issuance of Trust Securities by FPL Group Trust, the related FPL Group Junior Subordinated Debentures (as defined below under "Description of FPL Group and FPL Group Capital Junior Subordinated Debentures and FPL Group Subordinated Guarantee") will be held by FPL Group Trust. This section briefly summarizes some of the provisions of the Trust Agreement. This summary does not contain a complete description of the Trust Agreement. You should read this summary together with the Trust Agreement for a complete understanding of all the provisions. The form of the Trust Agreement has previously been filed with the SEC and is an exhibit to the registration statement filed with the SEC of which this prospectus is a part. In addition, each Trust Agreement will be qualified as an indenture under the Trust Indenture Act of 1939 and is therefore subject to the provisions of the Trust Indenture Act of 1939. You should read the Trust Indenture Act of 1939 for a complete understanding of its provisions.

In this section, any discussion of FPL Group Capital Trust, FPL Group Trust, Preferred Trust Securities and Common Trust Securities relate only to the applicable Trust. Holders of Preferred Trust Securities of FPL Group Capital Trust II, FPL Group Capital Trust III, FPL Group Trust I and FPL Group Trust II will be entitled to any of the benefits and protections contained in the Trust Agreement applicable to the particular Trust which issued the relevant Trust Securities and not with respect to any other Trust.

The Preferred Trust Securities and Common Trust Securities issued by the Trust will be substantially the same except that, if there is an event of default under the Trust Agreement, as described below, that results from an event of default under the Subordinated Indenture (as such term is defined below under "Description of FPL Group and FPL Group Capital Junior Subordinated Debentures and FPL Group Subordinated Guarantee General"), the right of FPL Group, as holder of the Common Trust Securities, to payment of distributions and upon liquidation or redemption will be subordinated to the rights of the holders of the Preferred Trust Securities. (Trust Agreement, Section 4.03). All of the Common Trust Securities will be owned by FPL Group. (Trust Agreement, Section 5.10).

The following obligations and rights, in combination, have the effect of providing a full and unconditional guarantee of payments due on the Preferred Trust Securities issued by the Trust:

(1) with respect to the Preferred Trust Securities issued by FPL Group Capital Trust only, FPL Group's guarantee of FPL Group Capital's payment obligations under the FPL Group Capital Junior Subordinated Debentures (referred to in this prospectus as the "Subordinated Guarantee");

(2) with respect to the Preferred Trust Securities issued by FPL Group Trust only, FPL Group's obligations under the FPL Group Junior Subordinated Debentures;

(3) the rights of holders of Preferred Trust Securities to enforce those obligations in (1) and (2) above, as applicable;

(4) FPL Group's agreement to pay the expenses of the Trust; and

(5) FPL Group's guarantee (the "Preferred Trust Securities Guarantee") of payments due on the Preferred Trust Securities to the extent of the Trust's legally available assets.

No single one of the rights and obligations listed above standing alone or operating in conjunction with fewer than all of the other applicable rights and obligations constitutes a full and unconditional guarantee by FPL Group of the Preferred Trust Securities. It is only the combined operation of these rights and obligations that has the effect of providing a full and unconditional, but subordinated, guarantee as to payment by FPL Group of the Preferred Trust Securities.

FPL Group Capital Trust will use the proceeds from its sale of the Trust Securities to purchase FPL Group Capital Junior Subordinated Debentures, and FPL Group Trust will use the proceeds from its sale of the Trust Securities to purchase FPL Group Junior Subordinated Debentures. (Trust Agreement, Section 2.05). The FPL Group Capital Junior Subordinated Debentures will be guaranteed by FPL Group pursuant to the Subordinated Guarantee described below and issued under an Indenture, dated as of March 1, 2004, among FPL Group Capital, FPL Group and The Bank of New York Mellon, as trustee, or another subordinated indenture among FPL Group Capital, FPL Group and The Bank of New York Mellon as specified in the related prospectus supplement. The FPL Group Junior Subordinated Debentures will be issued under a subordinated indenture between FPL Group and The Bank of New York Mellon, as trustee. In connection with the issuance of Trust Securities, the Junior Subordinated Debentures (as defined below under "Description of FPL Group and FPL Group Capital Junior Subordinated Debentures and FPL Group Subordinated Guarantee") will be held in trust for the benefit of holders of the applicable Preferred Trust Securities and Common Trust Securities. (Trust Agreement, Section 2.09).

A prospectus supplement relating to the Preferred Trust Securities will include specific terms of those securities and of the Junior Subordinated Debentures issued in connection therewith. For a description of some specific terms that will affect both the Preferred Trust Securities and the Junior Subordinated Debentures, and holders' rights under each, see "Description of FPL Group and FPL Group Capital Junior Subordinated Debentures and FPL Group Subordinated Guarantee" below.

Distributions. The only income of the Trust available for distribution to the holders of Preferred Trust Securities will be payments on the applicable Junior Subordinated Debentures. (Trust Agreement, Section 8.01). If neither FPL Group Capital nor FPL Group makes interest payments on the FPL Group Capital Junior Subordinated Debentures, or if FPL Group does not make interest payments on the FPL Group Junior Subordinated Debentures, as the case may be, the Trust will not have funds available to pay distributions on Preferred Trust Securities. The payment of distributions, if and to the extent the Trust has sufficient funds available for the payment of such distributions, is guaranteed on a limited basis by FPL Group as described under "Description of Preferred Trust Securities Guarantee."

If so specified in the related prospectus supplement, the issuer of the Junior Subordinated Debentures will have the option to defer the payment of interest from time to time on the Junior Subordinated Debentures for one or more periods, in which case, if the Junior Subordinated Debentures were issued in connection with Preferred Trust Securities, distributions on the Preferred Trust Securities would be deferred during any such period. Unless otherwise provided in the related prospectus supplement, distributions would, however, continue to accumulate. (Trust Agreement, Section 4.01). Unless otherwise provided in the related prospectus supplement, during any optional deferral period, or for so long as an "Event of Default" under the Subordinated Indenture resulting from a payment default or a payment default under the Preferred Trust Securities Guarantee has occurred and is continuing, neither FPL Group nor FPL Group Capital, with respect to deferral of the payment of interest on the FPL Group Capital Junior Subordinated Debentures, nor FPL Group, with respect to the deferral of the payment of interest on the FPL Group Junior Subordinated Debentures, may:

(1) declare or pay any dividend or distribution on its capital stock;

(2) redeem, purchase, acquire or make a liquidation payment with respect to any of its capital stock;

(3) pay any principal, interest or premium on, or repay, repurchase or redeem any debt securities that are equal or junior in right of payment with the Junior Subordinated Debentures or the Subordinated Guarantee (as the case may be); or

(4) make any payments with respect to any guarantee of debt securities if such guarantee is equal or junior in right of payment to the Junior Subordinated Debentures or the Subordinated Guarantee (as the case may be),
other than

(a) purchases, redemptions or other acquisitions of its capital stock in connection with any employment contract, benefit plan or other similar arrangement with or for the benefit of employees, officers, directors or agents or a stock purchase or dividend reinvestment plan, or the satisfaction of its obligations pursuant to any contract or security outstanding on the date that the payment of interest is deferred requiring it to purchase, redeem or acquire its capital stock;

(b) any payment, repayment, redemption, purchase, acquisition or declaration of dividend listed as restricted payments in clauses (1) and (2) above as a result of a reclassification of its capital stock or the exchange or conversion of all or a portion of one class or series of its capital stock for another class or series of its capital stock;

(c) the purchase of fractional interests in shares of its capital stock pursuant to the conversion or exchange provisions of its capital stock or the security being converted or exchanged, or in connection with the settlement of stock purchase contracts;

(d) dividends or distributions paid or made in its capital stock (or rights to acquire its capital stock), or repurchases, redemptions or acquisitions of capital stock in connection with the issuance or exchange of capital stock (or of securities convertible into or exchangeable for shares of its capital stock) and distributions in connection with the settlement of stock purchase contracts;

(e) redemptions, exchanges or repurchases of, or with respect to, any rights outstanding under a shareholder rights plan or the declaration or payment thereunder of a dividend or distribution of or with respect to rights in the future;

(f) payments under any preferred trust securities guarantee or guarantee of subordinated debentures executed and delivered by FPL Group concurrently with the issuance by a Trust of any preferred trust securities, so long as the amount of payments made with respect to any preferred trust securities or subordinated debentures (as the case may be) is paid on all preferred trust securities or subordinated debentures (as the case may be) then outstanding on a pro rata basis in proportion to the full distributions to which each series of preferred trust securities or subordinated debentures (as the case may be) is then entitled if paid in full;

(g) payments under any guarantee of junior subordinated debentures executed and delivered by FPL Group (including a FPL Group Subordinated Guarantee), so long as the amount of payments made on any junior subordinated debentures is paid on all junior

subordinated debentures then outstanding on a pro rata basis in proportion to the full payment to which each series of junior subordinated debentures is then entitled if paid in full;

(h) dividends or distributions by FPL Group Capital on its capital stock to the extent owned by FPL Group; or

(i) redemptions, purchases, acquisitions or liquidation payments by FPL Group Capital with respect to its capital stock to the extent owned by FPL Group.

The exceptions in clauses (h) and (i) above are not applicable to an optional deferral period on the FPL Group Junior Subordinated Debentures.

Unless otherwise provided in the related prospectus supplement, (i) before an optional deferral period ends, FPL Group Capital or FPL Group, as the case may be, may further defer the payment of interest and (ii) after any optional deferral period and the payment of all amounts then due, FPL Group Capital or FPL Group, as the case may be, may select a new optional deferral period. No interest period may be deferred beyond the maturity of the Junior Subordinated Debentures.

Redemption. Whenever Junior Subordinated Debentures are repaid, whether at maturity or earlier redemption, the Property Trustee will apply the proceeds to redeem a like amount of Preferred Trust Securities and Common Trust Securities. (Trust Agreement, Section 4.02(a)).

Preferred Trust Securities will be redeemed at the redemption price plus accrued and unpaid distributions with the proceeds from the contemporaneous redemption or repayment of Junior Subordinated Debentures. Redemptions of the Preferred Trust Securities will be made on a redemption date only if the Trust has funds available for the payment of the redemption price plus accrued and unpaid distributions. (Trust Agreement, Section 4.02(c)).

Holders of Preferred Trust Securities will be given not less than 30 nor more than 60 days' notice of any redemption. (Trust Agreement, Section 4.02(b)). On or before the redemption date, the Trust will irrevocably deposit with the paying agent for Preferred Trust Securities sufficient funds and will give the paying agent irrevocable instructions and authority to pay the redemption price plus accrued and unpaid distributions to the holders upon surrender of their Preferred Trust Securities. Distributions payable on or before a redemption date will be payable to the holders on the record date for the distribution payment. If notice is given and funds are deposited as required, then on the redemption date all rights of holders of the Preferred Trust Securities called for redemption will cease, except the right of the holders to receive the redemption price plus accrued and unpaid distributions, and the Preferred Trust Securities will cease to be outstanding. No interest will accrue on amounts payable on the redemption date. In the event that any date fixed for redemption of Preferred Trust Securities is not a business day, then payment will be made on the next business day, except that, if such business day falls in the next calendar year, then payment will be made on the immediately preceding business day. No interest will be payable because of any such delay. If payment of Preferred Trust Securities called for redemption is improperly withheld or refused and not paid either by the Trust or by FPL Group pursuant to the Preferred Trust Securities Guarantee, distributions on such Preferred Trust Securities will continue to accrue to the date of payment. In that event, the actual payment date will be considered the date fixed for redemption for purposes of calculating the redemption price plus accrued and unpaid distributions. (Trust Agreement, Section 4.02(d)).

Subject to applicable law, including United States federal securities laws, FPL Group or its affiliates may at any time and from time to time purchase outstanding Preferred Trust Securities by tender, in the open market or by private agreement.

If Preferred Trust Securities are partially redeemed on a redemption date, a corresponding percentage of the Common Trust Securities will be redeemed. The particular Preferred Trust Securities to be redeemed will be selected not more than 60 days prior to the redemption date by the Property Trustee by such method as the Property Trustee shall deem fair, taking into account the denominations in which they were issued. The Property Trustee will promptly notify the Preferred Trust Security registrar in writing of the Preferred Trust Securities selected for redemption and, where applicable, the partial amount to be redeemed. (Trust Agreement, Section 4.02(f)).

Subordination of Common Trust Securities. Payment of distributions on, and the redemption price, plus accrued and unpaid distributions, of, the Preferred Trust Securities and Common Trust Securities shall be made pro rata based on the liquidation preference amount of such securities. However, if on any distribution payment date or redemption date an event of default under the Trust Agreement resulting from an event of default under the related Subordinated Indenture has occurred and is continuing, no payment on any Common Trust Security shall be made until all payments due on the Preferred Trust Securities have been made. In that case, funds available to the Property Trustee shall first be applied to the payment in full of all distributions on, or the redemption price plus accrued and unpaid distributions of, Preferred Trust Securities then due and payable. (Trust Agreement, Section 4.03(a)).

If an event of default under the Trust Agreement results from an event of default under the related Subordinated Indenture, the holder of Common Trust Securities cannot take action with respect to the Trust Agreement default until the effect of all defaults with respect to the Preferred Trust Securities has been cured, waived or otherwise eliminated. Until the event of default under the Trust Agreement with respect to Preferred Trust Securities has been cured, waived or otherwise eliminated, the Property Trustee shall, to the fullest extent permitted by law, act solely on behalf of the holders of Preferred Trust Securities and not the holder of the Common Trust Securities, and only the holders of Preferred Trust Securities will have the right to direct the Property Trustee to act on their behalf. (Trust Agreement, Section 4.03(b)).

Liquidation Distribution upon Dissolution. The Trust will be dissolved and liquidated by the Property Trustee on the first to occur of:

(1) the expiration of the term of the Trust;

(2) the bankruptcy, dissolution or liquidation of FPL Group;

(3) the redemption of all of the Preferred Trust Securities of the Trust;

(4) the entry of an order for dissolution of the Trust by a court of competent jurisdiction; or

(5) at any time, at the election of FPL Group. (Trust Agreement, Sections 9.01 and 9.02).

If a dissolution of the Trust occurs, the Trust will be liquidated by the Property Trustee as expeditiously as the Property Trustee determines to be appropriate. If a dissolution of the Trust occurs other than by redemption of all the Preferred Trust Securities, the Property Trustee will provide for the satisfaction of liabilities of creditors, if any, and distribute to each holder of the Preferred Trust Securities and Common Trust Securities a proportionate amount of Junior Subordinated Debentures. If a distribution of Junior Subordinated Debentures is determined by the Property Trustee not to be practical, holders of Preferred Trust Securities will be entitled to receive, out of the assets of the Trust after adequate provision for the satisfaction of liabilities of creditors, if any, an amount equal to the aggregate liquidation preference of the Preferred Trust Securities plus accrued and unpaid distributions thereon to the date of payment. If this liquidation distribution can be paid only in part because the Trust has insufficient assets available to pay in full the aggregate liquidation distribution, then the amounts payable by the Trust on the Preferred Trust Securities shall be paid on a pro rata basis. FPL Group, as holder of the Common Trust Securities, will be entitled to receive distributions upon any dissolution pro rata with the holders of the Preferred Trust Securities, except that if an event of default (or event that, with the lapse of time or giving of notice, would become such an event of default) has occurred and is continuing under the related Subordinated Indenture, the Preferred Trust Securities will have a preference over the Common Trust Securities. (Trust Agreement, Section 9.04).

Events of Default; Notice. Any one of the following events will be an event of default under the Trust Agreement whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body:

(1) the occurrence of an event of default as described in the related Subordinated Indenture;

(2) default by the Trust in the payment of any distribution when it becomes due and payable, and continuation of that default for a period of 30 days;

(3) default by the Trust in the payment of any redemption price, plus accrued and unpaid distributions, of any Preferred Trust Security or Common Trust Security when it becomes due and payable;

(4) default in the performance, or breach, in any material respect, of any covenant or warranty of the trustees in the Trust Agreement which is not dealt with above, and continuation of that default or breach for a period of 90 days after written notice to the Trust, the defaulting trustee under the Trust Agreement and FPL Group by the holders of Preferred Trust Securities having at least 33% of the total liquidation preference amount of the outstanding Preferred Trust Securities. However, the holders of Preferred Trust Securities will be deemed to have agreed to an extension of the 90 day period if corrective action is initiated by any of the trustees within such period and is diligently pursued in good faith; or

(5) the occurrence of certain events of bankruptcy or insolvency with respect to the Trust. (Trust Agreement, Section 1.01).

Within 90 days after the occurrence of any default known to the Property Trustee, the Property Trustee shall transmit to the holders of Preferred Trust Securities, FPL Group and the Administrative Trustees notice of any such default, unless that default shall have been cured or waived. (Trust Agreement, Section 8.02).

A holder of Preferred Trust Securities may directly institute a proceeding to enforce payment when due to the holder of the Preferred Trust Securities of the principal of or interest on Junior Subordinated Debentures having a principal amount equal to the aggregate liquidation preference amount of the holder's Preferred Trust Securities. The holders of Preferred Trust Securities have no other rights to exercise directly any other remedies available to the holder of the Junior Subordinated Debentures unless the trustees under the Trust Agreement fail to do so. (Trust Agreement, Section 6.01(a)).

Removal of Trustees. Unless an event of default under the related Subordinated Indenture has occurred and is continuing, the holder of the Common Trust Securities may remove any trustee under the Trust Agreement at any time. If an event of default under the Subordinated Indenture has occurred and is continuing, the holders of a majority of the total liquidation preference amount of the outstanding Preferred Trust Securities may remove the Property Trustee or the Delaware Trustee, or both of them. The holder of the Common Trust Securities may remove any Administrative Trustee at any time. Any resignation or removal of a trustee under the Trust Agreement will take effect only on the acceptance of appointment by the successor trustee. (Trust Agreement, Section 8.10).

Holders of Preferred Trust Securities will have no right to appoint or remove the Administrative Trustees of the Trust, who may be appointed, removed or replaced solely by FPL Group as the holder of the Common Trust Securities. (Trust Agreement, Section 8.10).

Voting Rights. Except as provided below and under "Description of Preferred Trust Securities Guarantee Modification and Assignment, " and as otherwise required by law or the Trust Agreement, the holders of Preferred Trust Securities will have no voting rights.

While Junior Subordinated Debentures are held by the Property Trustee, the Property Trustee shall not:

(1) direct the time, method and place to conduct any proceeding for any remedy available to the Subordinated Indenture Trustee (as such term is defined below under "Description of FPL Group and FPL Group Capital Junior Subordinated Debentures and FPL Group Subordinated Guarantee General"), or execute any trust or power conferred on the Subordinated Indenture Trustee with respect to the Junior Subordinated Debentures;

(2) waive any past default under the related Subordinated Indenture;

(3) exercise any right to rescind or annul a declaration that the principal of all the Junior Subordinated Debentures will be due and payable; or

(4) consent to any amendment, modification or termination of the related Subordinated Indenture or the Junior Subordinated Debentures, where that consent will be required,

without, in each case, obtaining the prior approval of the holders of Preferred Trust Securities having at least a majority of the aggregate liquidation preference amount of all outstanding Preferred Trust Securities of the Trust. Where a consent of each holder of Junior Subordinated Debentures affected is required, no consent shall be given by the Property Trustee without the prior consent of each holder of the Preferred Trust Securities affected. The Property Trustee shall not revoke any action previously authorized or approved by a vote of the holders of Preferred Trust Securities, except pursuant to the subsequent vote of the holders of Preferred Trust Securities. (Trust Agreement, Section 6.01(b)). If the Property Trustee fails to enforce its rights, as holder, under the Junior Subordinated Debentures or the Trust Agreement, a holder of the Preferred Trust Securities may institute a legal proceeding directly against FPL Group or FPL Group Capital, as the case may be, to enforce the Property Trustee's rights under the Junior Subordinated Debentures or the Trust Agreement without first instituting any legal proceeding against the Property Trustee or anyone else. (Trust Agreement, Section 6.01(a)). The Property Trustee shall notify all holders of Preferred Trust Securities of any notice of default received from the Subordinated Indenture Trustee. The Property Trustee shall not take any action approved by the consent of the holders of Preferred Trust Securities without an opinion of counsel experienced in those matters to the effect that the Trust will be classified as a grantor trust and not as an association taxable as a corporation for United States federal income tax purposes on account of that action. (Trust Agreement, Section 6.01(b)).

Holders of Preferred Trust Securities may give any required approval at a meeting convened for such purpose or by written consent without prior notice. (Trust Agreement, Section 6.06). The Administrative Trustees will give notice of any meeting at which holders of Preferred Trust Securities are entitled to vote. (Trust Agreement, Section 6.02).

No vote or consent of the holders of Preferred Trust Securities will be required for the Trust to redeem and cancel Preferred Trust Securities in accordance with the Trust Agreement.

Notwithstanding that holders of Preferred Trust Securities are entitled to vote or consent under any of the circumstances described above, any Preferred Trust Securities that are owned by FPL Group Capital, FPL Group, any Administrative Trustee or any affiliate of any of them, shall be treated as if they were not outstanding for purposes of such vote or consent. (Trust Agreement, Section 1.01).

Amendments. The Trust Agreement may be amended from time to time by a majority of its Administrative Trustees and FPL Group, without the consent of any holders of Preferred Trust Securities or the other trustees under the Trust Agreement in order to:

(1) cure any ambiguity; correct or supplement any provision that may be inconsistent with any other provision of the Trust Agreement or amendment to the Trust Agreement; or make any other provisions with respect to matters or questions arising under the Trust Agreement;

(2) change the name of the Trust; or

(3) modify, eliminate or add to any provisions of the Trust Agreement to the extent necessary to ensure that the Trust will not be classified for United States federal income tax purposes other than as a grantor trust (and not an association taxable as a corporation) at any time that any Preferred Trust Securities and Common Trust Securities are outstanding or to ensure the Trust's exemption from the status of an "investment company" under the Investment Company Act of 1940.

No amendment described above may materially adversely affect the interests of any holder of Preferred Trust Securities or Common Trust Securities without the applicable consents required pursuant to the following two paragraphs. Any of the amendments of the Trust Agreement described in paragraph (1) above shall become effective when notice of the amendment is given to the holders of Preferred Trust Securities and Common Trust Securities in accordance with the provisions of the Trust Agreement. (Trust Agreement, Section 10.03(a)).

Except as provided below, any provision of the Trust Agreement may be amended by the Administrative Trustees and FPL Group with:

(1) the consent of holders of Preferred Trust Securities and Common Trust Securities representing not less than a majority in aggregate liquidation preference amount of the Preferred Trust Securities and Common Trust Securities then outstanding; and

(2) receipt by the trustees of an opinion of counsel to the effect that such amendment or the exercise of any power granted to the trustees in accordance with the amendment will not affect the Trust's status as a grantor trust for federal income tax purposes (and not an association taxable as a corporation) or affect the Trust's exemption from the status of an "investment company" under the Investment Company Act of 1940. (Trust Agreement, Section 10.03(b)).

Each affected holder of Preferred Trust Securities must consent to any amendment to the Trust Agreement that:

(1) adversely changes the amount or timing of any distribution with respect to Preferred Trust Securities or otherwise adversely affects the amount of any distribution required to be made in respect of Preferred Trust Securities as of a specified date;

(2) restricts the right of a holder of Preferred Trust Securities to institute suit for the enforcement of any such payment on or after that date; or

(3) modify the provisions described in clauses (1) and (2) above. (Trust Agreement, Section 10.03(c)).

Form, Exchange and Transfer. Preferred Trust Securities may be exchanged for other Preferred Trust Securities in any authorized denomination and of like tenor and aggregate liquidation preference. (Trust Agreement, Section 5.04).

Subject to the terms of the Trust Agreement, Preferred Trust Securities may be presented for exchange as provided above or for registration of transfer, duly endorsed or accompanied by a duly executed instrument of transfer, at the office of the Preferred Trust Security registrar. The Administrative Trustees may designate FPL Group or FPL Group Capital or any affiliate of either of them, as the Preferred Trust Security registrar. The Property Trustee will initially act as the Preferred Trust Security registrar and transfer agent. (Trust Agreement, Section 5.08). No service charge will be made for any registration of transfer or exchange of Preferred Trust Securities, but the Preferred Trust Security registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with the transfer or exchange. A transfer or exchange will be made when the Preferred Trust Security registrar and Administrative Trustees are satisfied with the documents of title and identity of the person making the request. (Trust Agreement, Section 5.04). The Administrative Trustees may at any time designate another transfer agent and registrar or rescind the designation of any transfer agent and registrar or approve a change in the office through which any transfer agent and registrar acts, except that FPL Group will, or will cause the Preferred Trust Security registrar to, maintain an office or agency in The City of New York where Preferred Trust Securities may be transferred or exchanged. (Trust Agreement, Sections 2.07(a) and 5.08).

The Trust will not be required to:

(1) issue, register the transfer of, or exchange any Preferred Trust Securities during the period beginning at the opening of business 15 calendar days before the mailing of a notice of redemption of any Preferred Trust Securities called for redemption and ending at the close of business on the day the notice is mailed; or

(2) register the transfer of or exchange any Preferred Trust Securities so selected for redemption, in whole or in part, except the unredeemed portion of any Preferred Trust Securities being redeemed in part. (Trust Agreement, Section 5.04).

Payment on Preferred Trust Securities and Paying Agent. Unless otherwise stated in a prospectus supplement, payments in respect of the Preferred Trust Securities will be made on the applicable distribution dates by check mailed to the address of the holder entitled thereto as such address appears on the Preferred Trust Security register. (Trust Agreement, Section 4.04). The paying agent shall initially be the Property Trustee and any co-paying agent chosen by the Property Trustee that is acceptable to the Administrative Trustees, FPL Group and, in the case of Preferred Trust Securities issued by FPL Group Capital Trust, FPL Group Capital. The paying agent may resign upon 30 days' written notice to the Administrative Trustees, the Property Trustee, FPL Group and, in the case of Preferred Trust Securities issued by FPL Group Capital Trust, FPL Group Capital. In the event that the Property Trustee shall no longer be the paying agent, the Administrative Trustees shall appoint a successor, which shall be a bank, trust company or affiliate of FPL Group reasonably acceptable to the Property Trustee, FPL Group, and, in the case of Preferred Trust Securities issued by FPL Group Capital Trust, FPL Group Capital, to act as paying agent. (Trust Agreement, Section 5.09).

Duties of the Trustees. The Delaware Trustee will act as the resident trustee in the State of Delaware and will have no other significant duties. The Property Trustee will hold the Junior Subordinated Debentures on behalf of the Trust and will maintain a payment account with respect to the Preferred Trust Securities and Common Trust Securities, and will also act as trustee under the Trust Agreement for the purposes of the Trust Indenture Act of 1939. (Trust Agreement, Sections 2.06 and 2.07(b)).

The Administrative Trustees of the Trust are authorized and directed to conduct the affairs of the Trust and to operate the Trust so that

(1) the Trust will not be deemed to be an "investment company" required to be registered under the Investment Company Act of 1940,

(2) the Trust will not be taxed as a corporation, and

(3) in the case of FPL Group Capital Trust, the FPL Group Capital Junior Subordinated Debentures will be treated as indebtedness of FPL Group Capital for United States federal income tax purposes and, in the case of FPL Group Trust, the FPL Group Junior Subordinated Debentures will be treated as indebtedness of FPL Group for United States federal income tax purposes.

In this regard, FPL Group and the Administrative Trustees are authorized to take any action, not inconsistent with applicable law, the certificate of trust or the Trust Agreement, that FPL Group and the Administrative Trustees determine in their discretion to be necessary or desirable for those purposes, as long as the action does not materially adversely affect the interests of the holders of the Preferred Trust Securities. (Trust Agreement, Section 2.07(d)).

Miscellaneous. Holders of the Preferred Trust Securities have no preemptive or similar rights. (Trust Agreement, Section 5.13).

Notices. Notices to holders of Preferred Trust Securities will be sent by mail to the addresses of those holders as they appear in the security register for those Preferred Trust Securities. (Trust Agreement, Section 6.02).

Title. The Property Trustee, the Delaware Trustee, the Administrative Trustees, and the Preferred Trust Security registrar and transfer agent, and any agent of the Property Trustee, the Delaware Trustee, the Administrative Trustees, or the Preferred Trust Security registrar and transfer agent, may treat the person in whose name a Preferred Trust Security is registered as the absolute owner of that Preferred Trust Security for the purpose of receiving distributions and all other purposes, regardless of any notice to the contrary. (Trust Agreement, Section 5.06).

Governing Law. The Trust Agreement, the Preferred Trust Securities and the Common Trust Securities will be governed by and construed in accordance with the laws of the State of Delaware, without regard to conflict of laws principles thereunder, except to the extent that the law of any other jurisdiction is mandatorily applicable. (Trust Agreement, Section 10.05).

DESCRIPTION OF PREFERRED TRUST SECURITIES GUARANTEE

General. This section briefly summarizes some of the provisions of the Preferred Trust Securities Guarantee Agreement that FPL Group will execute and deliver for the benefit of the holders of the Preferred Trust Securities issued by FPL Group Capital Trust and FPL Group Trust. The terms of these agreements are substantially the same, and they are referred to in this prospectus as the "Preferred Trust Securities Guarantee Agreement." This summary does not contain a complete description of the Preferred Trust Securities Guarantee Agreement. You should read this summary together with the Preferred Trust Securities Guarantee Agreement for a complete understanding of all the provisions. The form of the Preferred Trust Securities Guarantee Agreement has previously been filed with the SEC and is an exhibit to the registration statement filed with the SEC of which this prospectus is a part. In addition, the Preferred Trust Securities Guarantee Agreement will be qualified as an indenture under the Trust Indenture Act of 1939 and is therefore subject to the provisions of the Trust Indenture Act of 1939. You should read the Trust Indenture Act of 1939 for a complete understanding of its provisions.

The Bank of New York Mellon will act as Preferred Trust Securities Guarantee Trustee under the Preferred Trust Securities Guarantee Agreement and will hold the Preferred Trust Securities Guarantee for the benefit of the holders of the Preferred Trust Securities.

General Terms of the Preferred Trust Securities Guarantee. FPL Group will absolutely, irrevocably and unconditionally agree to make the guarantee payments listed below in full to the holders of the Preferred Trust Securities if they are not made by the Trust, as and when due, regardless of any defense, right of set-off or counterclaim that the Trust may have or assert. (Preferred Trust Securities Guarantee Agreement, Section 5.01). The following payments will be subject to the Preferred Trust Securities Guarantee (without duplication):

(1) any accrued and unpaid distributions required to be paid on Preferred Trust Securities, to the extent the Trust has funds in the payment account maintained by the Property Trustee legally available for these payments at such time;

(2) the redemption price, plus all accrued and unpaid distributions to the redemption date, for any Preferred Trust Securities called for redemption by the Trust, to the extent the Trust has funds in the payment account maintained by the Property Trustee legally available for these payments at such time; and

(3) upon a voluntary or involuntary dissolution, winding-up or termination of the Trust (except in connection with the distribution of Junior Subordinated Debentures to the holders in exchange for Preferred Trust Securities as provided in the Trust Agreement or upon a redemption of all of the Preferred Trust Securities upon maturity or redemption of the Junior Subordinated Debentures as provided in the Trust Agreement), the lesser of:

   (a) the aggregate of the liquidation preference amount and all accrued and unpaid distributions on Preferred Trust Securities to the date of payment, to the extent the Trust has funds in the payment account maintained by the Property Trustee legally available for these payments at such time; and

   (b) the amount of assets of the Trust remaining available for distribution to holders of Preferred Trust Securities in liquidation of the Trust after satisfaction of liabilities to creditors of the Trust as required by applicable law.

(Preferred Trust Securities Guarantee Agreement, Section 1.01). FPL Group's obligation to make a guarantee payment may be satisfied by either making a direct payment of the required amounts by FPL Group to the holders of Preferred Trust Securities or causing the Trust to pay such amounts to those holders. (Preferred Trust Securities Guarantee Agreement, Section 5.01).

The Preferred Trust Securities Guarantee will be a guarantee, subject to certain subordination provisions, as to payment with respect to the Preferred Trust Securities, but will not apply to any payment of distributions if and to the extent that the Trust does not have funds legally available to make those payments. (Preferred Trust Securities Guarantee Agreement, Sections 1.01 and 5.05). If neither FPL Group Capital nor FPL Group makes interest payments on the FPL Group Capital Junior Subordinated Debentures held by a Trust and if FPL Group does not make interest payments on the FPL Group Junior Subordinated Debentures held by a Trust, in each case the applicable Trust will not have funds available to pay distributions on the Preferred Trust Securities.

The following obligations and rights, in combination, have the effect of providing a full and unconditional guarantee of payments due on the Preferred Trust Securities issued by the Trust:

(1) with respect to the Preferred Trust Securities issued by FPL Group Capital Trust only, the Subordinated Guarantee;

(2) with respect to the Preferred Trust Securities issued by FPL Group Trust only, FPL Group's obligations under the FPL Group Junior Subordinated Debentures;

(3) the rights of holders of Preferred Trust Securities to enforce those obligations in (1) and (2) above, as applicable;

(4) FPL Group's agreement to pay the expenses of the Trust; and

(5) the Preferred Trust Securities Guarantee.

No single one of the rights and obligations listed above standing alone or operating in conjunction with fewer than all of the other applicable rights and obligations constitutes a full and unconditional guarantee by FPL Group of the Preferred Trust Securities. It is only the combined operation of these rights and obligations that has the effect of providing a full and unconditional, but subordinated, guarantee as to payment by FPL Group of the Preferred Trust Securities.

Except as otherwise stated in the related prospectus supplement, the covenants in the Preferred Trust Securities Guarantee Agreement would not give holders of the Preferred Trust Securities protection in the event of a highly-leveraged transaction involving FPL Group.

Security and Ranking. The Preferred Trust Securities Guarantee will be an unsecured obligation of FPL Group and will rank:

(1) subordinate and junior in right of payment to all other liabilities of FPL Group, including the Subordinated Guarantee and the Senior Debt Securities Guarantee (except those made pari passu or subordinate by their terms);

(2) equal in right of payment with the most senior preferred or preference stock that may be issued by FPL Group and with any guarantee that may be entered into by FPL Group in respect of any preferred or preference stock of any affiliate of FPL Group; and

(3) senior to FPL Group common stock. (Preferred Trust Securities Guarantee Agreement, Section 6.01).

The Preferred Trust Securities Guarantee Agreement does not limit the amount of other indebtedness, including guarantees, that FPL Group may issue or incur or the amount of preferred or preference stock it may issue.

The Trust Agreement provides that by accepting Preferred Trust Securities, a holder agrees to the subordination provisions and other terms of the Preferred Trust Securities Guarantee. (Trust Agreement, Section 5.02).

The Preferred Trust Securities Guarantee will be a guarantee of payment and not of collection, that is, the guaranteed party may institute a legal proceeding directly against FPL Group to enforce its rights under the Preferred Trust Securities Guarantee without first instituting a legal proceeding against anyone else. (Preferred Trust Securities Guarantee Agreement, Sections 5.04 and 5.05).

While FPL Group is a holding company that derives substantially all of its income from its operating subsidiaries, FPL Group's subsidiaries are separate and distinct legal entities and have no obligation to make any payments under the Preferred Trust Securities Guarantee or to make any funds available for such payment. Therefore, the Preferred Trust Securities Guarantee will effectively be subordinated to all indebtedness and other liabilities, including trade payables, debt and preferred stock, incurred or issued by FPL Group's subsidiaries. In addition to trade liabilities, many of FPL Group's opt">

(1) Calculated by dividing actual crude steel output by the actual crude steel production capacity for the relevant period as determined by us.

(2) Crude steel production capacity increased by an additional 2.80 million tons per year on July 7, 2010. Capacity utilization rate in 2010 was calculated by applying increase in production capacity subsequent to such date.

The Environment

We believe we are in compliance with applicable environmental laws and regulations in all material respects. Our levels of pollution control are higher than those mandated by Government standards. We established an on-line environmental monitoring system with real-time feedback on pollutant levels and a forecast system of pollutant concentration in surrounding areas. We also undergo periodic environmental inspection by both internal and external inspectors in accordance with ISO 14001 standards to monitor execution and maintenance of our environmental management plan. We recently invested in comprehensive flue gas treatment facilities at some of our sinter plants, dust collector at steelmaking plants and coke wastewater treatment facilities. In addition, we recycle most of the by-products from the steelmaking process. We also have been developing environmentally friendly products such as chrome-free steel sheets in an effort to compete with products from the European Union, the United States and Japan and to meet strengthened environmental regulations. Anticipating the trend toward increasing regulation of chrome in various steel products, we introduced chrome-free steel products meeting international environmental standards in 2006 that are used to manufacture automotive oil tanks.

We plan to continue to invest in developing more environmentally friendly steel manufacturing processes. We commenced research and development for a new steel manufacturing technology called FINEX in 1992 jointly with the Research Institute of Industrial Science and Technology and VOEST Alpine, an Australian company, and we completed the construction of our first FINEX plant in May 2003 with an annual steel production capacity of 0.6 million tons and a second FINEX plant in May 2007 with an annual steel production capacity of 1.5 million tons. The total annual steel production capacity of our FINEX plants is 2.1 million tons. We are now preparing for the construction of our third FINEX plant, which we expect will commence operations in 2013.

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We will continue to refine FINEX, a low cost, environmentally friendly steel manufacturing process that we believe optimizes our production capacity by utilizing non-agglomerated iron ore fines and using non-coking coal as an energy source and a reducing agent. We believe that FINEX offers considerable environmental and economic advantages by eliminating major sources of pollution such as sinter and coke plants, as well as decreasing operating and raw material costs.

Our climate change response program seeks to minimize the risks from changes in climate as well as to maximize the opportunities available in such environment by enhancing the energy efficiency of our production process. We invested Won 80 billion in facilities and equipments for the program in 2010, and we spent Won 28 billion in our research and development activities in 2010 to reduce carbon dioxide emissions. Energy saving activities such as diagnosing energy consumption and holding education workshops resulted in a saving of Won 114 billion in energy expenditures in 2010. We are also involved in a forestation project in Uruguay, which was registered as the world s first Clean Development Mechanism project sponsored by a steel producer. Clean Development Mechanism is one of the Kyoto Protocol s project-based mechanisms designed to promote projects that reduce emissions. We have disclosed our carbon dioxide emission levels and efforts to deal with climate changes through various channels, including participating in the Carbon Disclosure Project in 2010. The Carbon Disclosure Project is an organization based in the United Kingdom that works with major corporations around the world to disclose their greenhouse gas emission levels.

POSCO spent Won 215 billion in 2008, Won 297 billion in 2009 and Won 636 billion in 2010 on anti-pollution facilities. In 2010, approximately 11% of our investments in facilities were dedicated to investing in low-emission, anti-pollution facilities.

Item 4A. ***Unresolved Staff Comments***

We do not have any unresolved comments from the Securities and Exchange Commission staff regarding our periodic reports under the Exchange Act of 1934.

Item 5. ***Operating and Financial Review and Prospects***

Item 5.A. ***Operating Results***

The following discussion and analysis is based on our consolidated financial statements, which have been prepared in accordance with Korean GAAP. Korean GAAP varies in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 32 of Notes to the Consolidated Financial Statements.

Overview

We are the largest fully integrated steel producer in Korea. We have four reportable operating segments a steel segment, an engineering and construction segment, a trading segment and a segment that contains operations of all other entities which fall below the reporting thresholds. The steel segment includes production of steel products and sale 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 that are both obtained from and supplied to POSCO, as well as between other suppliers and purchasers in Korea and overseas. The others segment includes power generation, LNG production, network and system integration, logistics and magnesium coil and sheet production. See Note 31 of Notes to Consolidated Financial Statements.

One of the major factors contributing to our historical performance has been the growth of the Korean economy, and our future performance will depend at least in part on Korea s general economic growth and prospects. For a description of recent developments that have had and may continue to have an adverse effect on our results of operations and financial condition, see Item 3. Key Information Item 3.D. Risk Factors Korea is our most important market, and our current business and future growth could be materially and adversely affected if economic conditions in Korea deteriorate. A number of other factors have had or are expected to have a material impact on our results of operations, financial condition and capital expenditures. These factors include:

- our sales volume, unit prices and product mix;
- costs and production efficiency;
- exchange rate fluctuations;
- acquisition of Daewoo International in September 2010; and
- transition to International Financial Reporting Standards starting in 2011.

As a result of these factors, our financial results in the past may not be indicative of future results or trends in those results.

Sales Volume, Prices and Product Mix

In recent years, our net sales have been affected by the following factors:

- the demand for our products in the Korean market and our capacity to meet that demand;
- our ability to compete for sales in the export market;
- price levels; and
- our ability to improve our product mix.

Domestic demand for our products is affected by the condition of major steel consuming industries, such as construction, shipbuilding, automotive, electrical appliances and downstream steel processors, and the Korean economy in general.

Our crude steel output decreased from 34.7 million in 2008 to 31.7 million tons in 2009 and sales volume decreased from 33.5 million tons in 2008 to 31.1 million tons in 2009. In response to sluggish demand from our customers in industries adversely impacted by deteriorating global economic conditions in the second half of 2008, such as automotive and construction industries, we reduced our crude steel production and sales prices in December 2008 and the first quarter of 2009. Signs that the pace of deterioration in market conditions had slowed began to appear in the second quarter of 2009, however, and demand from certain segments of our customer base, including the domestic automotive and construction industries, showed signs of recovery starting in the second quarter of 2009. In response, we began to incrementally increase our crude steel production starting in April 2009 and our production level normalized in the second half of 2009. As a result of production cuts in the first half of 2009, prices for our steel products remained depressed until the third quarter of 2009, during which time prices started to recover and continued to gradually increase up to the end of 2009. In 2010, we increased our crude steel output to 35.3 million tons and our sales volume increased to 38.7 million tons.

In 2009, unit sales price in Won for all of our principal product lines, other than silicon steel sheets, decreased, and the weighted average unit prices for our products decreased by 5.2% in 2009 compared to 2008 despite a depreciation in the average value of the Won against the Dollar in 2009 compared to 2008 that contributed to an increase in our export prices in Won terms. The average exchange rate of the Won against the Dollar depreciated from Won 1,102.6 to US$1.00 in 2008 to Won 1,276.4 to US$1.00 in 2009. Unit sales price of stainless steel products, which accounted for 7.3% of total sales volume, decreased by 23.5% in 2009. Unit sales price of hot rolled products, which accounted for 25.8% of total sales volume, decreased by 7.8% in 2009. Unit sales price of wire rods, which accounted for 7.8% of total sales volume, decreased by 2.8% in 2009. Unit sales price of cold rolled products, which accounted for 36.2% of total sales volume, decreased by 2.2% in 2009. Unit sales price of plates, which accounted for 14.7% of total sales volume, decreased by 1.9% in 2009. On the other hand, unit sales price of silicon steel sheets, which accounted for 2.9% of total sales volume, increased by 8.1% in 2009.

In 2010, unit sales price in Won for all of our principal product lines, other than silicon steel sheets, increased, and the weighted average unit prices for our products increased by 8.5% in 2010 compared to 2009 despite an appreciation in the average value of the Won against the Dollar in 2010 compared to 2009 that contributed to a decrease in our export prices in Won terms. The average exchange rate of the Won against the Dollar appreciated from Won 1,276.4 to US$1.00 in 2009 to Won 1,156.3 to US$1.00 in 2010. Unit sales price of hot rolled products, which accounted for 22.1% of total sales volume, increased by 16.3% in 2010. Unit sales price of wire rods, which accounted for 6.1% of total sales volume, increased by 5.8% in 2010. Unit sales price of stainless steel products, which accounted for 6.7% of total sales volume, increased by 3.6% in 2010. Unit sales price of cold rolled products, which accounted for 35.1% of total sales volume, increased by 3.6% in 2010. Unit sales price of plates, which accounted for 11.9% of total sales volume, increased by 2.7% in 2010. On the other hand, unit sales price of silicon steel sheets, which accounted for 2.8% of total sales volume, decreased by 0.7% in 2010.

Partly in response to the weakening demand resulting from the global economic downturn, our export prices in dollar terms decreased in the first half of 2009. Starting in the third quarter of 2009, our export prices in dollar terms gradually started to recover due to an increase in demand driven by improvement in business confidence and higher level of economic activities as well as a decrease in our inventory level. This trend continued in the first half of 2010, but we maintained similar pricing levels in the second half of 2010. We may decide to adjust our future export sales prices on an on-going basis subject to market demand for our products, the production outlook of the global steel industry and global economic conditions in general. See Item 4. Information on the Company Item 4.B. Business Overview Markets Exports.

The table below sets out the average unit sales prices for our semi-finished and finished steel products for the periods indicated.

Products	For the Year Ended December 31, 2008	2009	2010
	(In thousands of Won per ton)		
Hot rolled products	₩ 800.3	₩ 737.5	₩ 857.6
Plates	970.5	951.9	977.7
Wire rods	885.9	860.8	911.0
Cold rolled products	922.7	902.4	934.6
Silicon steel sheets	1,537.7	1,663.4	1,652.0
Stainless steel products	3,529.6	2,701.8	2,798.6
Others	807.5	804.5	1,151.8
Average [(1)]	₩ 1,069.0	₩ 1,013.3	₩ 1,099.6

(1) Average prices are based on the weighted average, by sales volume, of our sales for the listed products. See Item 4. Information on the Company Item 4.B. Business Overview Major Products.

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Costs and Production Efficiency

Our major costs and operating expenses are raw material purchases, depreciation, labor and other purchases. The table below sets out a breakdown of our total costs and operating expenses as a percentage of our net sales for the periods indicated.

	For the Year Ended December 31,		
	2008	**2009**	**2010**
	(Percentage of net sales)		
Cost of goods sold	78.0%	84.2%	85.0%
Selling and administrative expenses [(1)]	4.8	5.3	5.5
Total operating expenses	82.8	89.5	90.5
Gross margin	22.0	15.8	15.0
Operating margin	17.2	10.5	9.5

(1) See Note 25 of Notes to Consolidated Financial Statements.

In 2010, our gross margin decreased to 15.0% from 15.8% in 2009 as the increase in sales was outpaced by the increase in cost of goods sold in 2010. Our gross margin was negatively affected in 2010 due to the consolidation of Daewoo International s results in 2010 compared to no such consolidation in 2009. Daewoo International, as a global trading company that primarily engages in trading of steel and raw materials, typically recognizes revenues from its trading activities on a gross basis that results in lower margin levels. We are closely monitoring changes in market conditions and we implemented the following measures in recent years to address challenges posed by the global economic downturn:

pursuing cost reduction through enhancing product designs, improving productivity and reducing transportation costs;

focusing on marketing activities to increase our domestic market share and export sales; and

establishing a special sales committee to more effectively respond to changes in market trends and preparing responses to various scenarios of future sales.

Our production efficiency prior to the recent global economic downturn had benefited from operation near or in excess of stated capacity levels. Production capacity represents our maximum production capacity that can be achieved with an optimal level of operations of our facilities. In 2009, we reduced our crude steel production in the first quarter of the year but began to incrementally increase our crude steel production starting in April 2009, and our production level normalized in the second half of 2009. See Item 4. Information on the Company Item 4.D. Property, Plants and Equipment.

The table below sets out certain information regarding our efficiency in the production of steel products for the periods indicated.

	For the Year Ended December 31,		
	2008	**2009**	**2010**

Crude steel and stainless steel production capacity (million tons per year) [1]	34.6	34.6	37.6
Actual crude steel and stainless steel output (million tons)	34.7	31.7	35.3
Capacity utilization rate (%)	100.3	91.6	93.9
Steel product sales (million tons) [2]	33.5	31.1	38.7

(1) Includes production capacity of POSCO Specialty Steel Co., Ltd. and Zhangjiagang Pohang Stainless Steel Co., Ltd.

(2) Includes sales by our consolidated sales subsidiaries of steel products purchased by them from third parties, including trading companies to which we sell steel products. These sales amounted to approximately 0.9 million tons in 2008, 0.5 million tons in 2009 and 1.2 million tons in 2010.

Exchange Rate Fluctuations

The Won has fluctuated significantly against major currencies in recent years, which has affected our results of operations and liquidity. The market average exchange rate, as announced by the Seoul Money Brokerage Services, Ltd., depreciated from Won 938.2 to US$1.00 as of December 31, 2007 to Won 1,573.6 to US$1.00 as of March 3, 2009 but appreciated to Won 1,075.0 to US$1.00 on June 23, 2011. Depreciation of the Won may materially affect the results of our operations because, among other things, it causes:

- an increase in the amount of Won required for us to make interest and principal payments on our foreign currency-denominated debt, which accounted for approximately 53.5% of our total long-term debt (excluding discounts on debentures issued and including current portion) as of December 31, 2010;

- an increase in Won terms in the costs of raw materials and equipment that we purchase from overseas sources and a substantial portion of our freight costs, which are denominated in Dollars; and

- foreign exchange translation losses on liabilities, which lower our earnings for accounting purposes.

Appreciation of the Won, on the other hand, (i) causes our export products to be less competitive by raising our prices in Dollar terms and (ii) reduces net sales and accounts receivables in Won from export sales, which are primarily denominated in Dollars. However, because of the larger positive effects of the appreciation of the Won (i.e., the reverse of the negative effects caused by the depreciation of the Won, as discussed above), appreciation of the Won generally has a positive impact on our results of operations. See Item 3. Key Information Item 3.A. Selected Financial Data Exchange Rate Information.

We attempt to minimize our exposure to currency fluctuations by attempting to maintain export sales, which result in foreign currency receipts, at a level that covers foreign currency obligations to the extent feasible. As a result, a decrease in our export sales could increase our foreign exchange risks. From time to time we also enter into cross currency swap agreements in the management of our interest rate and currency risks and currency forward contracts with financial institutions to reduce the fluctuation risk of future cash flows. As of December 31, 2010, we had entered into swap contracts, currency forward contracts and currency future contracts. The net valuation loss of our derivatives contracts was Won 24 billion and the net transaction gain was Won 15 billion in 2010. We may incur further losses under our existing contracts or any swap or other derivative product transactions entered into in the future. See Note 24 of Notes to Consolidated Financial Statements.

Acquisition of Daewoo International in September 2010

On September 20, 2010, we acquired a 68.15% interest in Daewoo International for Won 3.37 trillion. On a consolidated basis under Korean GAAP, Daewoo International generated revenues of Won 16,112 billion and net income of Won 119 billion in 2010, compared to revenues of Won 11,544 billion and net income of Won 131 billion in 2009. On a consolidated basis under Korean GAAP, Daewoo International had total assets of Won 5,652 billion and total shareholders equity of Won 1,589 billion as of December 31, 2010 and total assets of Won 4,695 billion and total shareholders equity of Won 1,399 billion as of December 31, 2009.

In accordance with Korean GAAP, the results of operations of Daewoo International for the year ended December 31, 2010 are consolidated in their entirety in each line item of our consolidated statement of income in 2010 as if the acquisition had occurred on January 1, 2010 and the pre-acquisition net earnings of Daewoo International are deducted in determining our consolidated net income.

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Transition to International Financial Reporting Standards Starting in 2011

In March 2007, the Financial Services Commission and the Korea Accounting Institute announced a road map for the adoption of Korean IFRS, pursuant to which all listed companies in Korea, including us, will be required to prepare their annual financial statements beginning in 2011 that differ in certain respects from IFRS applied in other countries.

In preparation of such adoption, we began preparing our internal financial statements under both Korean GAAP and Korean IFRS starting in January 2010. Beginning in 2011, we have discontinued reporting under Korean GAAP with reconciliation to U.S. GAAP and instead have commenced reporting under Korean IFRS and we also plan to release annual financial statements prepared pursuant to IFRS as issued by the IASB. Although our accounting department is currently analyzing the effects of adopting IFRS on our annual financial statements, it is not possible to estimate with any degree of certainty the exact impact on our annual financial statements from such adoption because the IFRS accounting policies to be adopted by us for such financial statements have not been finalized. Accordingly, there can be no assurance that the adoption of IFRS will not adversely affect our reporting results of operations or financial condition.

Inflation

Inflation in Korea, which was 4.7% in 2008, 2.8% in 2009, and 2.9% in 2010, has not had a material impact on our results of operations in recent years.

Critical Accounting Estimates

Our financial statements are prepared in accordance with Korean GAAP and reconciled to U.S. GAAP. The preparation of these financial statements under Korean GAAP as well as the U.S. GAAP reconciliation requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. We have identified the following areas where we believe assumptions and estimates are particularly critical to our financial statements:

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for exposures in our receivable balances that represent our estimate of probable losses in our short-term and long-term receivable balances from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate and negatively impact their ability to make payments, additional allowances may be required. Determining the allowance for doubtful accounts requires significant management judgment and estimates including, among others, the credit worthiness of our customers, experience of historical collection patterns, potential events and circumstances affecting future collections and the ongoing risk assessment of our customers ability to pay.

Trade account receivables are analyzed on a regular basis and, upon our becoming aware of a customer s inability to meet its financial commitments to us, we reduce the value of the receivable is reduced through a charge to the allowance for doubtful accounts. In addition, we record a charge to the allowance for doubtful accounts upon receipt of customer claims in connection with sales that management estimates are unlikely to be collected in full. The percentage of allowance for doubtful accounts to gross account receivables was 3.72% as of December 31, 2010 and 4.52% as of December 31, 2009. The percentage of allowance for doubtful accounts to gross account receivables as of December 31, 2010 decreased compared to December 31, 2009 primarily due to a decrease in accounts receivables that were overdue.

Specifically, allowance for doubtful accounts are recorded when any of the following loss events occurs: (i) there is objective evidence as to uncollectibility of the account observed through bankruptcy, default or involuntary dissolution of the customer; (ii) we lose a lawsuit against the customer or our right of claim gets extinguished; (iii) our costs to collect the account exceed the payments to be received; or (iv) dispute with the customer over the collection of the account persists over three years.

The actual average annual uncollected percentage rate of accounts receivables resulting in write-offs for the three years in the period ended December 31, 2010 was 0.59%. These historical results, as well as current known conditions impacting the collectability of our accounts receivable balances, are significant factors for us when we estimate the amount of the necessary allowance for doubtful accounts. Historically, losses from uncollectible accounts receivables have been within expectations and in line with the allowances established. However, unforeseen circumstances such as adverse market conditions that deviate significantly from our estimates may require us to change the timing of, and make additional allowances to, our receivable balances. In this case, our results of operations, financial condition and net worth could be materially and adversely affected.

Valuation of Investment Securities and Derivatives

We invest in various financial instruments including debt and equity securities and derivatives. Depending on the accounting treatment specific to each type of financial instrument, an estimate of fair value is required to determine the instrument s effect on our consolidated financial statements.

If available, quoted market prices provide the best indication of fair value. We determine the fair value of our financial instruments using quoted market prices when available, including quotes from dealers trading those securities. If quoted market prices are not available, we determine the fair value based on pricing or valuation models, quoted prices of instruments with similar characteristics, or discounted cash flows. Determining the fair value of unlisted financial instruments involves a significant degree of management resources and judgment as no quoted prices exist and such securities are generally very thinly traded. The fair value of unlisted equity securities held for investment (excluding those of affiliates and subsidiaries) is based on the latest obtainable net asset value of the investees, which often reflects cost or other reference events. Derivatives for which quoted market prices are not available are valued using valuation models such as the discounted cash flow method. The key inputs used in the valuation of such derivatives depend upon the type of derivative and the nature of the underlying instrument and include interest rate yield curves, foreign exchange rates, the spot price of the underlying instrument, volatility and correlation. The fair values based on pricing and valuation models, discounted cash flow analysis, or net asset values are subject to various assumptions used that, if changed, could significantly affect the fair value of the investments.

When the fair value of a listed equity security or the net equity value of an unlisted equity security declines compared to acquisition cost and is not expected to recover (impaired investment security), the value of the equity security is adjusted to its fair value or net asset value, with the valuation loss charged to current operations. When the fair value of a held-to-maturity or an available-for-sale investment debt security declines compared to the acquisition cost and is not expected to recover (impaired investment security), the carrying value of the debt security is adjusted to its fair value with the resulting valuation loss charged to current operations.

As part of this impairment review, the investee s operating results, net asset value and future performance forecasts as well as general market conditions are taken into consideration. If we believe, based on this review, that the market value of an equity security or a debt security may realistically be expected to recover, the loss will continue to be classified as temporary. If economic or specific industry trends worsen beyond our estimates, valuation losses previously determined to be recoverable may need to be charged as a valuation loss in current operations.

Significant management judgment is involved in the evaluation of declines in value of individual investments. The estimates and assumptions used by our management to evaluate declines in value can be impacted by many factors, such as the financial condition, earnings capacity and near-term

prospects of the company in which we have invested, the length of time and the extent to which fair value has been less than cost, and our intent and ability to hold the related security for a period of time sufficient to allow for any recovery in market value. The evaluation of these investments is also subject to the overall condition of the economy and its impact on the capital markets. Any changes in these assumptions could significantly affect the valuation and timing of recognition of valuation losses classified as other than temporary.

We have estimated fair values of material non-marketable securities. We estimated these fair values based on pricing or valuation models, quoted prices of instruments with similar characteristics, or discounted cash flow models. The discounted cash flow model valuation technique is based on the estimated cash flow projections of the underlying investee. Key assumptions and estimates include market conditions, revenue growth rates, operating margin rates, income tax rates, depreciation and amortization rates, the level of capital expenditures, working capital amounts and the discount rates. These estimates are based on historical results of the investee and other market data. In these cash flows projections, the two most significant estimates are the discount rates and revenue growth rates. If the discount rates used in these valuations were increased by one percentage point, then the estimated fair values would have decreased by 18% in total. In addition, if the revenue growth rate assumptions were decreased by 1% in the cash flow models, then the estimated fair values would have decreased by 12% in total.

We recognized losses on impairment of investments of Won 121 billion in 2008, Won 286 billion in 2009 and Won 52 billion in 2010. Loss on impairment of investments increased in 2009 primarily due to an impairment loss of Won 209 billion resulting from a decrease in the fair value of our investment in LG Powercom. We recorded such impairment loss because the estimated recoverable amount of our investment in LG Powercom was less than its carrying value.

Historically, our estimates and assumptions used to evaluate impairment of investments have been within expectations. However, unforeseen circumstances such as adverse market conditions that deviate significantly from our estimates may require us to recognize additional losses on impairment of investments. We base our fair value estimates on assumptions we believe to be reasonable, but which are unpredictable and inherently uncertain. The use of alternative estimates and assumptions could increase or decrease the estimated fair values of our investments and potentially result in different impacts on our results of operations.

Long-lived Assets

The depreciable lives and salvage values of our long-lived assets are estimated and reviewed each year based on industry practices and prior experience to reflect economic lives of long-lived assets. Also, these assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. There were no significant changes in assumption to estimated useful lives or salvage value assumptions in 2008, 2009 and 2010. The recoverable amount is measured at the greater of net selling price or value in use. When the book value of long-lived asset exceeds the recoverable value of the asset due to obsolescence, physical damage or a decline in market value and such amount is material, the impairment of asset is recognized and the asset s carrying value is reduced to its recoverable value and the resulting impairment loss is charged to current operations. Such recoverable value is based on our estimates of the future use of assets that is subject to changes in market conditions.

Our estimates of the useful lives and recoverable values of long-lived assets are based on historical trends adjusted to reflect our best estimate of future market and operating conditions. Also, our estimates include the expected future period in which the future cash flows are expected to be generated from continuing use of the assets that we review for impairment and cash outflows to prepare the assets for use that can be directly attributed or allocated on a reasonable and consistent basis. If applicable, estimates also include net cash flows to be received or paid for the disposal of the assets at the end of their useful lives. As a result of the impairment review, when the sum of the

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discounted future cash flows expected to be generated by the assets is less than the book value of the assets, we recognize impairment losses based on the recoverable value of those assets. We make a number of significant assumptions and estimates in the application of the discounted cash flow model to forecast cash flows, including business prospects, market conditions, selling prices and sales volume of products, costs of production and funding sources. The estimated cash flow forecast amounts are derived from the most recent financial budgets for the next five years. For periods beyond the five year forecast period, we use a terminal value approach to estimate the cash flows for the remaining years based on an expected estimated growth rate. This estimated growth rate is based on actual historical results. As of December 31, 2010, we estimated an average discount rate of 10.35% and an average rate of revenue growth of 6.37%. However, given the current economic environment, it is likely that the estimates and assumptions will be more volatile than they have been in the past. Further impairment charges may be required if triggering events occur, such as adverse market conditions, that suggest deterioration in an asset s recoverability or fair value. Assessment of the timing of when such declines become other than temporary and the amount of such impairment is a matter of significant judgment. Results in actual transactions could differ from those estimates used to evaluate the impairment of such long-lived assets. If our future cash flow projections are not realized, either because of an extended recessionary period or other unforeseen events, impairment charges may be required in future periods.

If the estimated average discount rates used in these valuations were increased by one percentage point, then the estimated fair values would have decreased by 19% in total. If the estimated average rate of revenue growth rate were decreased by 1%, then the estimated fair values would have decreased by 18% in total.

Inventories

Inventories are stated at the lower of cost or net realizable value. Costs of inventories are determined using the moving-weighted average or weighted average method while materials-in-transit are determined using the specific identification method. Amounts of inventory are written down to net realizable value due to losses occurring in the normal course of business and the allowance is reported as a contra inventory account, while the related charge is recognized in cost of goods sold.

The net realizable value is determined based on the latest selling price available at the end of each quarter taking into account the directly attributable selling costs. The latest selling price is the base price which is the negotiated selling price based upon the recent transactions entered into with major customers. Considering that our inventory turnover is approximately two months and inventories at balance sheet date would be sold during the following two months, we perform valuation of inventories using the base price as of the balance sheet date and adjust for significant changes in selling price occurring subsequent to the balance sheet date. The selling price range used for determining the net realizable value of our inventories ranged from the inventory cost amount less 2.3% of gross profit margin to the inventory cost amount plus 22.3% of gross profit margin. For inventories in which expected selling prices are less than the cost amount, the necessary adjustment to write down the inventories to net realizable value is made.

Deferred Income Tax Assets

In assessing the realization of our deferred income tax assets, our management considers whether it is probable that a portion or all of the deferred income tax assets will not be realized. The ultimate realization of our deferred income tax assets is dependent on whether we are able to generate future taxable income in specific tax jurisdictions during the periods in which temporary differences become deductible.

Our management has scheduled the expected future reversals of the temporary differences and projected future taxable income in making this assessment. However, changes in our evaluation

of our deferred income tax assets from period to period could have a significant effect on our net results and financial condition.

Operating Results 2010 Compared to 2009

Sales

Our sales increased by 64.5% to Won 60,638 billion in 2010 from Won 36,855 billion in 2009. The increase in sales was due primarily to the consolidation of Daewoo International s revenues of Won 16,112 billion in 2010 as a result of the acquisition of Daewoo International in September 2010 compared to no consolidation of such revenues in 2009, as well as an increase in the sales volume and the weighted average unit sales price per ton of our steel products in 2010 compared to 2009. Including the steel trading activities of Daewoo International in 2010, our overall sales volume of steel products increased by 24.5% in 2010 compared to 2009, and the weighted average unit sales price per ton of our steel products increased by 8.6% in 2010 compared to 2009.

The sales volume of each of our principal product lines, other than wire rods which showed a slight decrease, increased in 2010 compared to 2009. Our sales volume of cold rolled products, which accounted for 35.1% of total sales volume in 2010, showed the greatest increase among our principal product lines with an increase of 20.7% primarily due to an increase in demand from the automotive industry. Our sales volume of silicon steel sheets, which accounted for 2.8% of total sales volume in 2010, increased by 20.1% primarily due to an increase in demand from manufacturers of power transformers and generators. Our sales volume of stainless steel products, which accounted for 6.7% of total sales volume in 2010, increased by 13.7% primarily due to an increase in demand from the automotive industry and the household goods industry. On the other hand, sales volume of wire rods, which accounted for 6.1% of total sales volume in 2010, decreased by 1.6% primarily due to increased purchase of wire rods imported from China by domestic customers.

The unit sales prices in Won of each of our principal product lines, other than silicon steel sheets, increased in 2010 compared to 2009. See Overview Sales Volume, Prices and Product Mix above. The weighted average unit prices of our products increased by 8.6% in 2010 compared to 2009 primarily due to increases in the sales prices of our principal products ranging from 9.8% to 25.0% in May 2010 in response to the global economic recovery following reductions in the sales prices of our principal products in May 2009 in response to the global economic downturn, the impact of which increase was partially offset by an appreciation in the average value of the Won against the Dollar in 2010 compared to 2009 that contributed to a decrease in our export prices in Won terms. The average exchange rate of the Won against the Dollar, as announced by Seoul Money Brokerage Services, Ltd., appreciated to Won 1,156.3 to US$1.00 in 2010 from Won 1,276.4 to US$1.00 in 2009.

Domestic Sales

Our sales to domestic customers increased by 36.4% in terms of sales revenues and by 12.2% in terms of sales volume of steel products in 2010 compared to 2009. Our domestic sales accounted for approximately 56.4% of our total sales volume of steel products in 2010, compared to 62.6% in 2009. The increase in domestic sales revenues in 2010 compared to 2009 was attributable primarily to an increase in the sales volume and the weighted average unit sales price per ton of our steel products sold to domestic customers in 2010 compared to 2009. In 2010, the volume of steel products sold in Korea increased primarily due to an increase in demand from the automotive industry and the household goods industry, the impact of which was partially offset by a decrease in demand from the construction industry.

Export Sales

Our export sales and overseas sales to customers abroad increased by 108.8% in terms of sales revenues and by 45.0% in terms of sales volume of steel products in 2010 compared to 2009. Our export sales and overseas sales to customers abroad accounted for approximately 43.6% of our total sales volume of steel products in 2010 compared to 37.4% in 2009. The increase in export sales and overseas sales to customers abroad in terms of sales revenues in 2010 compared to 2009 was attributable primarily to the consolidation of Daewoo International s export sales and overseas sales to customers abroad in 2010 as a result of the acquisition of Daewoo International in 2010 compared to no consolidation of such sales in 2009, as well as an increase in the sales volume and the weighted average unit sales price per ton of our steel products sold abroad in 2010 compared to 2009. In 2010, the volume of our export sales and overseas sales to customers abroad increased primarily due to an increase in demand from customers in Southeast Asia, North America, Japan and Europe.

Cost of Goods Sold

Our cost of goods sold increased by 66.1% to Won 51,561 billion in 2010 from Won 31,037 billion in 2009. The increase in cost of goods sold was due primarily to the consolidation of Daewoo International s cost of goods sold of Won 15,164 billion in 2010 as a result of the acquisition of Daewoo International in 2010 compared to no consolidation of such cost in 2009, as well as an increase in our sales volume of steel products as discussed above and increases in the average prices in Won terms of key raw materials that were used to manufacture finished goods sold in 2010 compared to 2009.

Gross Profit

Our gross profit in 2010 increased by 56.0% to Won 9,077 billion from Won 5,818 billion in 2009. Our gross margin in 2010 decreased to 15.0% from 15.8% in 2009 as the increase in sales was outpaced by the increase in cost of goods sold in 2010, as described above. Our gross margin was negatively affected in 2010 due to the consolidation of Daewoo International s results in 2010 compared to no such consolidation in 2009. Daewoo International, as a global trading company that primarily engages in trading of steel and raw materials, typically recognizes revenues from its trading activities on a gross basis that results in lower margin levels.

Selling and Administrative Expenses

Our selling and administrative expenses increased by 71.3% to Won 3,339 billion in 2010 from Won 1,949 billion in 2009. The significant increase in our selling and administrative expenses resulted principally from increases in transportation expenses, labor-related expenses, fees and charges and depreciation expense. Such factors were principally attributable to the following:

Transportation expenses increased by 93.1% to Won 1,251 billion in 2010 from Won 648 billion in 2009 principally due to the consolidation of Daewoo International s transportation expenses in 2010 following the acquisition of Daewoo International in 2010 compared to no consolidation of such expenses in 2009, as well as an increase in our sales volume as a result of the general recovery of the global economy in 2010 that led to an increase in demand for, and shipping of, our products.

Our labor-related expenses included in selling and administrative expenses, which consist of salaries, welfare and provision for severance benefits, increased by 66.9% to Won 751 billion in 2010 from Won 450 billion in 2009, primarily reflecting the consolidation of labor-related expenses of employees of Daewoo International in 2010 following the acquisition of Daewoo International in 2010 compared to no consolidation of such expenses in 2009, as well as increases in our incentive pay and related provision for severance benefits that reflect an increase in our operating income.

Fees and charges, which include certain administrative fees and professional service fees, increased by 69.0% to Won 267 billion in 2010 from Won 158 billion in 2009 primarily due to the consolidation of Daewoo International s fees and charges in 2010 as a result of the acquisition of Daewoo International in

2010 compared to no consolidation of such expenses in 2009. Fees and charges of Daewoo International in 2010 consisted primarily of fees paid to financial institutions in connection with accounts receivable-related financing activities as well as legal and consulting fees incurred in connection with its sale to us.

Depreciation expense increased by 86.8% to Won 231 billion in 2010 from Won 124 billion in 2009 primarily due to the amortization of certain intangible assets, including goodwill, acquired by us in connection with our acquisitions of Daewoo International and Sungjin Geotec in 2010.

Operating Income

Due to the factors described above, our operating income increased by 48.3% to Won 5,738 billion in 2010 from Won 3,868 billion in 2009. Our operating margin decreased to 9.5% in 2010 from 10.5% in 2009.

Non-operating Income (Expenses), Net

Our net non-operating expenses increased by 210.9% to Won 401 billion in 2010 from Won 129 billion in 2009 primarily due to a net loss on foreign currency translation in 2010 compared to a net gain on foreign currency translation in 2009 and an increase in interest expense, the impact of which was partially offset by a net equity in earnings of equity method accounted investees in 2010 compared to a net equity in losses of equity method accounted investees in 2009 and a decrease in loss on impairment of investments. Such factors were principally attributable to the following:

We recorded net loss on foreign currency translation of Won 203 billion in 2010 compared to a net gain of Won 436 billion in 2009 as the Won depreciated against the Yen in 2010 while it appreciated against the Yen in 2009. The Won appreciated at a slower level against the Dollar in 2010 compared to 2009. In terms of the market average exchange rate announced by Seoul Money Brokerage Services, Ltd., the Won depreciated against the Yen to Won 1,397.1 per Yen 100 as of December 31, 2010 from Won 1,262.8 per Yen 100 as of December 31, 2009, while the Won appreciated to Won 1,262.8 per Yen 100 as of December 31, 2009 from Won 1,393.9 per Yen 100 as of December 31, 2008. The Won appreciated against the Dollar to Won 1,138.9 to US$1.00 as of December 31, 2010 from Won 1,167.6 to US$1.00 as of December 31, 2009, as well as to Won 1,167.6 to US$1.00 as of December 31, 2009 from Won 1,257.5 to US$1.00 as of December 31, 2008.

Our interest expense increased by 23.5% to Won 657 billion in 2010 from Won 532 billion in 2009 primarily due to an increase in the average balance of our short-term borrowings and long-term debt held in 2010 compared to 2009, the impact of which was offset in part by a general decrease in interest rates in Korea from 2009 to 2010.

These factors were partially offset by the following:

We recorded a net equity in earnings of equity method accounted investees of Won 303 billion in 2010 compared to a net equity in losses of equity method accounted investees of Won 7 billion in 2009 primarily as a result of a 393.3% increase in equity in earnings of equity method accounted investees to Won 371 billion in 2010 from Won 75 billion in 2009 primarily due to the consolidation of Daewoo International s net equity in earnings of equity method accounted investees, including its equity interest in Kyobo Life Insurance, compared to no consolidation of such net equity in earnings in 2009.

Our loss on impairment of investments decreased by 81.8% to Won 52 billion in 2010 compared to Won 286 billion in 2009. The loss on impairment of investments of Won 52 billion in 2010 primarily resulted from the impairment loss of Won 40 billion incurred by POSCO E&C in 2010 from its real property investments. The loss on impairment of investments of Won 286 billion in 2009 primarily resulted from the impairment loss of Won 207 billion in our investment in LG Powercom in 2009.

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Income Tax Expense

Income tax expense increased by 107.6% to Won 1,113 billion in 2010 from Won 536 billion in 2009 primarily due to a 42.7% increase in income before income tax expense and net income (loss) of consolidated subsidiaries before acquisition as well as a 51.5% decrease in net credit in adjustments, including tax credit, to Won 179 billion in 2010 from Won 369 billion in 2009. Our effective tax rates were 20.8% in 2010 and 14.3% in 2009. Our effective tax rate increased in 2010 due to a decrease in tax credits as well as no tax refund recognized in 2010. In 2009, we obtained a tax refund related to additional tax payments made in 2005, which refund was finalized by the tax tribunal in 2009.

Net Income

Due to the factors described above, our net income increased by 30.1% to Won 4,218 billion in 2010 from Won 3,242 billion in 2009.

Segment Results Steel

Our sales to external customers increased by 27.0% to Won 43,806 billion in 2010 from Won 34,503 billion in 2009. After adjusting for inter-segment transactions, our net sales increased by 20.0% to Won 34,080 billion in 2010 from Won 28,413 billion in 2009, primarily as a result of an increase in our sales volume of steel products and, to a lesser extent, an increase in the average unit sales price per ton of steel products sold by us.

Operating income increased by 64.7% to Won 5,300 billion in 2010 from Won 3,217 billion in 2009, as the 20.0% increase in the segment s net sales more than outpaced increases in cost of goods sold and selling and administrative expenses, primarily due to the reasons discussed above. Operating margin, which is operating income as a percentage of total sales prior to adjusting for inter-company sales, increased to 12.1% in 2010 from 9.3% in 2009. Depreciation and amortization increased by 11.5% to Won 2,641 billion in 2010 from Won 2,369 billion in 2009, primarily due to an increase in capital investment in our facilities in recent years for production of higher value-added products.

Segment Results Engineering and Construction

Our sales to external customers decreased by 2.3% to Won 7,581 billion in 2010 from Won 7,760 billion in 2009. After adjusting for inter-segment transactions, our net sales increased by 7.9% to Won 4,216 billion in 2010 from Won 3,908 billion in 2009, primarily due to an increase in sales from POSCO E&C s plant operations related to the construction of LNG power plants in Incheon and coal power plants in Ventanas, Chile.

Operating income decreased by 7.7% to Won 319 billion in 2010 from Won 346 billion in 2009 as the market conditions in the domestic construction industry weakened in 2010, resulting in an increase in competition. The segment s operating margin, which is operating income as a percentage of total sales prior to adjusting for inter-company sales, decreased to 4.2% in 2010 from 4.5% in 2009.

Segment Results Trading

Our sales to external customers increased by 507.7% to Won 25,039 billion in 2010 from Won 4,120 billion in 2009, primarily due to the consolidation of Daewoo International s revenues in 2010 as a result of the acquisition of Daewoo International compared to no consolidation of such revenues in 2009, and to a lesser extent, an increase in the trading volume as well as the average unit sales price per ton of steel products sold. After adjusting for inter-segment transactions, our net sales increased by 533.1% to Won 18,880 billion in 2010 from Won 2,982 billion in 2009.

Operating income increased by 615.9% to Won 235 billion in 2010 from Won 33 billion in 2009, and the segment s operating margin, which is operating income as a percentage of total sales prior to adjusting for inter-company sales, increased to 0.9% in 2010 from 0.8% in 2009.

Segment Results Others

The others segment includes power generation, LNG production, network and system integration, logistics and magnesium coil and sheet production. Our sales to external customers increased by 71.6% to Won 5,869 billion in 2010 from Won 3,420 billion in 2009. Our sales increased in 2010 primarily due to an increase in revenues of POSCO Power Corporation as well as the consolidation of revenues of the subsidiaries of Daewoo International Corporation and Sungjin Geotec Co., Ltd. in 2010 compared to no such consolidation in 2009. After adjusting for inter-segment transactions, our net sales increased by 123.1% to Won 3,462 billion in 2010 from Won 1,552 billion in 2009.

Operating income increased by 48.0% to Won 397 billion in 2010 from Won 268 billion in 2009 primarily due to the consolidation of operating income of the subsidiaries of Daewoo International Corporation in 2010 compared to no such consolidation in 2009. The segment s operating margin, which is operating income as a percentage of total sales prior to adjusting for inter-company sales, decreased to 6.8% in 2010 from 7.8% in 2009.

Operating Results 2009 Compared to 2008

Sales

Our sales in 2009 decreased by 11.7% to Won 36,855 billion from Won 41,743 billion in 2008 primarily due to a 7.4% decrease in the sales volume of our steel products as well as a decrease of 5.2% in the average unit sales price per ton of our steel products, as discussed in Overview Sales Volume, Prices and Product Mix above.

Sales volume of silicon steel sheets, which accounted for 2.9% of total sales volume, showed the greatest decrease among our major steel product categories in 2009 with a decrease of 12.8%. Sales volume of cold rolled products, which accounted for 36.2% of total sales volume, decreased by 11.7%. Sales volume of hot rolled products, which accounted for 25.8% of total sales volume, decreased by 7.8%. Sales volume of plates, which accounted for 14.7% of total sales volume, decreased by 6.1%. Sales volume of wire rods, which accounted for 7.8% of total sales volume, decreased by 4.4%. On the other hand, sales volume of stainless steel products, which accounted for 7.3% of total sales volume, increased by 10.7%. See Item 4. Information on the Company Item 4.B. Business Overview Major Products.

Domestic Sales

Our sales to domestic customers in 2009 compared to 2008 decreased by 16.2% in terms of sales revenues (including sales of non-steel products and services) and decreased by 15.1% in terms of sales volume of steel products. In 2009, our sales to domestic customers accounted for approximately 62.6% of our total sales volume of steel products, compared to 68.3% in 2008. The decrease in domestic sales revenues in 2009 compared to 2008 was attributable primarily to a decrease in our sales volume to domestic customers as we strategically focused on increasing our sales to customers abroad in 2009 due to weak domestic demand and, to a lesser extent, a decrease in the price of steel products sold in Korea.

Export Sales

Our export sales and overseas sales to customers abroad in 2009 decreased by 3.6% in terms of sales revenues (including sales of non-steel products and services). The decrease in export sales and overseas sales to customers abroad in terms of sales revenues in 2009 compared to 2008 was attributable to a decrease in the price of steel products sold abroad, which was offset in part by an increase in sales volume to customers abroad. In response to weak domestic demand for steel products in the first half of 2009, we strategically focused on increasing our sales to customers abroad in 2009. In part due to such strategy, our export sales and overseas to customers abroad in 2009 increased by 9.4% in terms of sales volume of steel products compared to 2008, and export sales and overseas sales to customers abroad as a percentage of total sales volume increased to 37.4% of our total sales volume of steel products in 2009 compared to 31.7% in 2008.

Cost of Goods Sold

Our cost of goods sold increased by 4.7% to Won 31,037 billion from Won 32,562 billion in 2008. The decrease in cost of goods sold was attributable primarily to a decrease in our sales volume of steel products discussed above as well as decreases in the average prices of key raw materials. The average market price of coal per wet metric ton (benchmark free on board price of Australian premium hard coking coal) decreased significantly by 57.0% to US$129 in 2009 from US$300 in 2008, and the average market price of iron ore per dry metric ton (benchmark free on board price of Australian iron ore fines with iron (Fe) 60% content) decreased by 32.9% to US$58.20 in 2009 from US$86.80 in 2008. The average market price of nickel per ton trading on the London Metal Exchange decreased by 30.6% to US$14,655 in 2009 from US$21,111 in 2008. The impact from these factors was partially offset by a 6.9% increase in our depreciation and amortization expenses included in cost of goods sold to Won 2,429 billion in 2009 from Won 2,273 billion in 2008 primarily due to an increase in capital investments in our facilities in recent years for production of higher value-added products.

Gross Profit

Gross profit in 2009 decreased by 36.6% to Won 5,818 billion from Won 9,180 billion in 2008, and gross margin in 2009 decreased to 15.8% from 22.0% in 2008 as the 11.7% decrease in sales outpaced a 4.7% decrease in cost of goods sold discussed above. The decrease in sales in 2009 outpaced the decrease in cost of goods sold as the impact from decreases in sales prices of our steel products resulting from weak global market conditions was greater than the cost savings resulting from decreases in the average prices of key raw materials.

Selling and Administrative Expenses

Our selling and administrative expenses decreased by 2.8% in 2009 to Won 1,949 billion from Won 2,006 billion in 2008. The decrease in selling and administrative expenses resulted primarily from decreases in transportation and storage expenses, the impact of which was partially offset by increases in fees and charges and stock compensation expenses. Our transportation and storage expenses in 2009 decreased by 17.0% to Won 648 billion from Won 781 billion in 2008 primarily resulting from a decrease in oil prices in 2009 compared to 2008. Fees and charges, which include certain administrative fees and professional service fees, increased by 27.4% to Won 158 billion in 2009 from Won 124 billion in 2008 primarily as a result of increases in service fees and expenses incurred by our subsidiaries as well as increases in management and tax consulting expenses in 2009. We recognized stock compensation expenses, which are categorized under others, of Won 36 billion in 2009 primarily as a result of an increase in the benchmark average stock price used to calculate stock compensation in 2009 compared to 2008. We did not recognize any stock compensation expense in 2008.

Operating Income

Due to the factors described above, our operating income decreased by 46.1% in 2009 to Won 3,868 billion from Won 7,174 billion in 2008. Operating margin decreased to 10.5% in 2009 from 17.2% in 2008.

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Non-operating Income (Expenses), Net

Our net non-operating expenses decreased by 88.0% to Won 129 billion in 2009 from Won 1,078 billion in 2008 primarily due to by net gain on foreign currency translation in 2009 compared to net loss on foreign currency translation in 2008, net gain on derivative transactions in 2009 compared to net loss on derivative transactions in 2008, an increase in gain on disposal of property, plant and equipment and the disposition of other long-term assets by POSCO E&C, the aggregate impact of which was partially offset by increases in interest expense and loss on impairment of investments and net loss on valuation of derivatives in 2009 compared to net gain on valuation of derivatives in 2008. Such factors were principally attributable to the following:

We recognized net gain on foreign currency translation of Won 436 billion in 2009 compared to net loss on foreign currency translation of Won 811 billion in 2008 and net gain on derivative transactions of Won 10 billion in 2009 compared to net loss on derivative transactions of Won 62 billion in 2008 as the market average exchange rate of the Won against the U.S. dollar depreciated from Won 938.2 to US$1.00 as of December 31, 2007 to Won 1,257.5 to US$1.00 as of December 31, 2008 but appreciated to Won 1,167.6 to US$1.00 as of December 31, 2009.

Our gain on disposal of property, plant and equipment in 2009 increased by 485.7% to Won 82 billion from Won 14 billion in 2008 primarily due to the gain from disposition of a research center by POSCO E&C in 2009.

Our gain on disposal of other long-term assets increased by 387.5% to Won 234 billion in 2009 from Won 48 billion in 2008 primarily due to the disposition of shares of POS-Plaza in Shanghai by POSCO E&C.

These factors were partially offset by the following:

Our interest expense in 2009 increased by 54.2% to Won 532 billion from Won 345 billion in 2008 primarily due to an increase in our long-term debt, which was offset in part by a general decrease in interest rates in Korea in 2009.

Our loss on impairment of investments in 2009 increased by 136.4% to Won 286 billion from Won 121 billion in 2008 primarily due to an impairment loss of Won 209 billion as a result of objective evidence that indicated an impairment in our investment in LG Powercom.

We recorded net loss on valuation of derivatives of Won 43 billion in 2009 compared to net gain on valuation of derivatives of Won 58 billion in 2008 as the Won fluctuated against the U.S. dollar as described above.

Income Tax Expense

Income tax expense decreased by 69.1% to Won 536 billion in 2009 from Won 1,734 billion in 2008 primarily due to a 38.7% increase in income before income tax expense and net income (loss) of consolidated subsidiaries before acquisition as well as an increase in tax credit to Won 371 billion in 2009 from Won 168 billion in 2008 and a tax refund of Won 140 billion in 2009 representing additional tax payments made in the prior year. Our effective tax rate was 14.3% in 2009 compared to 28.4% in 2008. The statutory income tax rate applicable to us, including resident tax surcharges, decreased to 24.2% in 2009 from 27.5% in 2008.

Net Income

Due to the factors described above, our income decreased by 25.5% to Won 3,242 billion in 2009 from Won 4,350 billion in 2008.

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Segment Results Steel

Our sales to external customers decreased by 10.3% to Won 34,503 billion in 2009 from Won 38,448 billion in 2008. After adjusting for inter-segment transactions, our net sales decreased by 10.9% to Won 28,413 billion in 2009 from Won 31,901 billion in 2008, primarily as a result of a decrease in our sales volume of steel products and a decrease in the average unit sales price per ton of steel products sold by us.

Operating income decreased by 51.5% to Won 3,217 billion in 2009 from Won 6,629 billion in 2008, as the 10.9% decrease in the segment s net sales more than outpaced decreases in cost of goods sold and selling and administrative expenses, primarily due to reasons discussed above. Operating margin, which is operating income as a percentage of total sales prior to adjusting for inter-company sales, decreased to 9.3% in 2009 from 17.2% in 2008. Depreciation and amortization increased by 9.1% to Won 2,369 billion in 2009 from Won 2,171 billion in 2008, primarily due to an increase in capital investment in our facilities in recent years for production of higher value-added products.

Segment Results Engineering and Construction

Our sales to external customers increased by 40.4% to Won 7,760 billion in 2009 from Won 5,528 billion in 2008. After adjusting for inter-segment transactions, our net sales increased by 6.4% to Won 3,908 billion in 2009 from Won 3,672 billion in 2008, primarily due to an increase in sales from POSCO E&C s overseas operations from its thermal power plant construction projects in Chile.

Operating income increased by 21.8% to Won 346 billion in 2009 from Won 284 billion in 2008, primarily due to an increase in the volume of POSCO E&C s construction projects. The segment s operating margin, which is operating income as a percentage of total sales prior to adjusting for inter-company sales, decreased to 4.5% in 2009 from 5.1% in 2008 as the market conditions in the domestic construction industry weakened in 2009, resulting in an increase in competition.

Segment Results Trading

Our sales to external customers decreased by 27.2% to Won 4,120 billion in 2009 from Won 5,657 billion in 2008, primarily due to a decrease in the trading volume as well as the average unit sales price per ton of steel products sold. After adjusting for inter-segment transactions, our net sales decreased by 30.1% to Won 2,982 billion in 2009 from Won 4,265 billion in 2008.

Operating income decreased by 32.7% to Won 33 billion in 2009 from Won 49 billion in 2008, and the segment s operating margin, which is operating income as a percentage of total sales prior to adjusting for inter-company sales, decreased to 0.8% in 2009 from 0.9% in 2008.

Segment Results Others

The others segment includes power generation, LNG production, network and system integration, logistics and magnesium coil and sheet production. Our sales to external customers decreased by 8.8% to Won 3,420 billion in 2009 from Won 3,749 billion in 2008. Our sales decreased in 2009 primarily due to a decrease in revenues of POSCO Power Corporation resulting from lower production utilization rate, the impact of which was offset in part by an increase in revenues of POSCO Refractories & Environment Co., Ltd. After adjusting for inter-segment transactions, our net sales decreased by 18.5% to Won 1,552 billion in 2009 from Won 1,905 billion in 2008.

Operating income decreased by 45.1% to Won 268 billion in 2009 from Won 488 billion in 2008. The segment s operating margin, which is operating income as a percentage of total sales prior to adjusting for inter-company sales, decreased to 7.8% in 2009 from 13.0% in 2008. Our operating income decreased in 2009 primarily due to a decrease in operating income of POSCON Co., Ltd. Depreciation and amortization increased by 37.3% to Won 206 billion in 2009 from Won 150 billion in

2008, primarily due to an increase in capital investment by POSCO Power Corporation, including completion of a fuel cell manufacturing plant with an annual production capacity of 50 megawatts in Pohang in 2008.

Item 5.B. ***Liquidity and Capital Resources***

The following table sets forth the summary of our cash flows for the periods indicated

	For the Year Ended December 31,		
	2008	2009	2010
	(In billions of Won)		
Net cash provided by operating activities	₩ 3,687	₩ 8,633	₩ 2,025
Net cash used in investing activities	5,803	9,717	6,890
Net cash provided by (used in) financing activities	3,117	862	5,679
Cash and cash equivalents at beginning of period	1,293	2,491	2,199
Cash and cash equivalents at end of period	2,491	2,199	3,600
Net increase in cash and cash equivalents	1,198	(292)	1,401

Capital Requirements

Historically, uses of cash consisted principally of purchases of property, plant and equipment and other assets and repayments of outstanding debt and payments of dividends. From time to time, we have also engaged in acquisition of treasury shares.

Net cash used in investing activities was Won 5,803 billion in 2008, Won 9,717 billion in 2009 and Won 6,890 billion in 2010. These amounts included acquisition of property, plant and equipment of Won 4,093 billion in 2008, Won 6,407 billion in 2009 and Won 5,896 billion in 2010. We plan to increase our capital expenditures in 2011, which we may adjust on an on-going basis subject to market demand for our products, the production outlook of the global steel industry and global economic conditions in general. We may delay or not implement some of our current capital expenditure plans based on our assessment of such market conditions. We recorded net acquisition of short-term financial instruments of Won 53 billion in 2008 and Won 4,012 billion in 2009 and net disposal of short-term financial instruments of Won 2,880 billion in 2010. We also recorded net acquisition of available-for-sale securities of Won 1,331 billion in 2008, Won 352 billion in 2009 and Won 386 billion in 2010.

In our financing activities, we used cash of Won 9,043 billion in 2008, Won 5,836 billion in 2009 and Won 3,325 billion in 2010 for repayments of short-term borrowings, and Won 861 billion in 2008, Won 1,349 billion in 2009 and Won 789 billion in 2010 for repayments of outstanding long-term debt.

We paid dividends on common stock in the amount of Won 755 billion in 2008, Won 689 billion in 2009 and Won 693 billion in 2010.

In recent years, we have also selectively considered various opportunities to acquire or invest in companies that may complement our businesses, as well as invest in overseas resources development projects. For example, on September 20, 2010, we acquired a 68.15% interest in Daewoo International for Won 3.37 trillion. We submitted a letter of intent to Asiana Airlines Inc. and Daewoo E&C Co., Ltd. on March 4, 2011 and our Board of Directors decided on May 13, 2011 to participate in the final bid for the acquisition of a controlling stake in Korea Express Co., Ltd., a leading logistics company in Korea. Korea Express is being sold in an auction process and the preferred bidder is expected to be selected in the second quarter of 2011. We may require additional capital for such acquisitions or entering into other strategic relationships. Other than capital required for such activities, we anticipate that capital expenditures, repayments of outstanding debt and payments of cash dividends will represent the most significant uses of funds for the next several years.

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Payments of contractual obligations and commitments will also require considerable resources. In our ordinary course of business, we routinely enter into commercial commitments for various aspects of our operations, as well as issue guarantees for our related companies indebtedness. As of December 31, 2010, we issued guarantees of Won 6,456 billion for the repayment of loans of related companies and others. See note 17 of notes to our Consolidated Financial Statements. The following table sets forth the amount of long-term debt, capital lease and operating lease obligations as of December 31, 2010.

	Payments Due by Period				
Contractual Obligations	**Total**	**Less Than 1 Year**	**1 to 3 Years**	**4 to 5 Years**	**After 5 Years**
			(In billions of Won)		
Long-term debt obligations (a)	₩ 14,176	₩ 3,487	₩ 5,183	₩ 3,263	₩ 2,243
Interest payments on long-term debt (b)	1,367	459	647	261	
Capital lease obligations (c)	39	15	15	5	4
Operating lease obligations (d)	22	11	11	0	
Purchase obligations (e)	57,291	11,667	19,127	14,738	11,759
Accrued severance benefits (f)	1,127	49	152	201	725
Total	₩ 74,022	₩ 15,688	₩ 25,135	₩ 18,468	₩ 14,731

(a) Includes the current portion and premium on bond redemption but excludes amortization of discount on debentures and issuance costs.

(b) As of December 31, 2010, a portion of our long-term debt carried variable interest rates. We used the interest rate in effect as of December 31, 2010 in calculating the interest payments on long-term debt for the periods indicated.

(c) We entered into a capital lease contract with Ilshin Shipping Co., Ltd. for a vessel for transporting plates and other products.

(d) We acquired certain tools and equipment under operating lease agreements with Macquarie Capital Korea Co., Ltd. and others.

(e) Our purchase obligations include long-term contracts to purchase iron ore, coal, LNG and other raw materials. These contracts generally have terms of three to ten years and provide for periodic price adjustments to then-market prices. As of December 31, 2010, 308 million tons of iron ore and 52 million tons of coal remained to be purchased under long-term contracts. In addition, we entered into an agreement with Tangguh LNG Consortium in Indonesia to purchase 550 thousand tons of LNG annually for 20 years commencing in August 2005. The purchase price under the agreement with Tangguh LNG Consortium is variable based on the monthly standard oil price (as represented by the Japan Customs-cleared Crude Price), subject to a ceiling. We used the market price in effect as of December 31, 2010 in calculating the iron ore, coal and LNG purchase obligations described above for the periods indicated.

(f)

Represents, as of December 31, 2010, the expected amount of severance benefits that we will be required to pay under applicable Korean law to all of our employees when they reach their normal retirement age. The amounts were determined based on the employees current salary rates and the number of service years that will be accumulated upon their retirement. These amounts do not include amounts that may be paid to employees who cease to work at the company before their normal retirement age.

Capital Resources

We have traditionally met our working capital and other capital requirements principally from cash provided by operations, while raising the remainder of our requirements primarily through long-term debt and short-term borrowings. We expect that these sources will continue to be our principal sources of cash in the future. From time to time, we may also generate cash through sale of treasury shares.

Our net cash provided by operating activities was Won 3,687 billion in 2008, Won 8,633 billion in 2009 and Won 2,025 billion in 2010. Our net cash provided by operating activities increased by 134.1%, or Won 4,946 billion, to Won 8,633 billion in 2009 compared to Won 3,687 billion in 2008. Our sales decreased by 11.7%, or Won 4,888 billion, primarily reflecting a 7.4% decrease in the sales volume of our steel products as well as a 5.2% decrease in the average unit sales price per ton of our steel products, as discussed above, which decreased gross cash inflow from our sales activities. In addition, cash used for payment of income tax in 2009 increased significantly due to an increase in our income level in 2008. However, our overall net cash provided by operating activities increased significantly in 2009 compared to 2008 as we focused on decreasing our inventory level. Decrease in inventories in 2009 primarily reflected a decrease in the volume of inventories due to a reduction of our crude steel production in the first quarter of 2009 as well as a decrease in the price of steel products in 2009. In response to weak demand from certain segments of our customers in industries adversely impacted by deteriorating global economic conditions in the first quarter of 2009, such as the domestic automotive and construction industries, we reduced our crude steel production in the first quarter of 2009. In addition, we have taken the following steps in 2009 to reduce our inventory level:

- setting inventory targets for each product type and segment;
- monitoring sales activities through our newly-established special sales committee;
- focusing on reducing inventories older than 30 days; and
- setting up a system to report inventories older than 30 days to a responsible sales manager.

Our trade accounts and notes receivables also decreased in 2009, which typically occur in an economic recovery. We have taken the following steps in 2009 to reduce our accounts and notes receivable level:

- increasing management oversight on the accounts receivable turnover ratio;
- strengthening efforts to collect from delinquent customers and maintaining adequate level of collateral; and
- converting to cash settlement for customers with high risk of insolvency.

Our net cash provided by operating activities decreased by 76.5% to Won 2,025 billion in 2010 from Won 8,633 billion in 2009. The sales volume of our steel products increased by 24.5% in such periods as discussed above, which increased gross cash inflow from our sales activities. However, our overall net cash provided by operating activities decreased by 76.5% as an increase in the price of raw materials in 2010 led to an increase in the inventory level and a delay in recoupment of cash used in production activities, including purchase of raw materials. Our inventory level increased to Won 9,803 billion as of December 31, 2010 from Won 5,153 billion as of December 31, 2009. Such developments resulted in an overall decrease of net cash provided by operating activities in 2010 compared to 2009.

Net proceeds from short-term borrowings, after deducting for repayment of short-term borrowings, were Won 1,191 billion in 2008, Won (8) billion in 2009 and Won 1,969 billion in 2010. Net proceeds from long-term debt, after deducting for repayment of long-term debt and current portion of long-term debt, were Won 2,594 billion in 2008, Won 1,347 billion in 2009 and Won 3,899 billion in 2010. On April 14, 2011, we also issued $700 million of unsecured senior notes due 2021. Total long-term debt, including current portion but excluding discount on debentures issued, were Won 7,666 billion as of December 31, 2008, Won 9,017 billion as of December 31, 2009 and Won 14,039 billion as of December 31, 2010, and total short-term borrowings were Won 3,254 billion as of December 31, 2008, Won 3,226 billion as of December 31, 2009 and Won 5,838 billion as of December 31, 2010. We periodically increase our short-term borrowings and adjust our long-term debt financing levels depending on changes in our capital requirements. We also generated cash of Won 407 billion in 2007, Won 365 billion in 2008 and Won 249 billion in 2009 from the sale of our treasury shares.

We believe that we have sufficient working capital available to us for our current requirements and that we have a variety of alternatives available to us to satisfy our financial requirements to the extent that they are not met by funds generated by operations, including the issuance of debt and equity securities and bank borrowings denominated in Won and various foreign currencies. However, our ability to rely on some of these alternatives could be affected by factors such as the liquidity of the

Korean and the global financial markets, prevailing interest rates, our credit rating and the Government s policies regarding Won currency and foreign currency borrowings.

Liquidity

Our liquidity is affected by exchange rate fluctuations. See Overview Exchange Rate Fluctuations. Approximately 35.6% of our sales in 2008, 38.9% of our sales in 2009 and 49.3% of our sales in 2010 were denominated in foreign currencies. In 2010, approximately 86% of such sales were denominated in Dollars and approximately 14% in Yen. As of December 31, 2010, approximately 53.5% of our long-term debt (excluding discounts on debentures issued and including current portion) was denominated in foreign currencies, principally in Dollars and Yen.

Our liquidity is also affected by our construction expenditures and raw materials purchases. Cash used for acquisitions of property, plant and equipment was Won 4,093 billion in 2008, Won 6,407 billion in 2009 and Won 5,896 billion in 2010. We have entered into several long-term contracts to purchase iron ore, coal and other raw materials. The long-term contracts generally have terms of three to ten years and provide for periodic price adjustments to then-market prices. As of December 31, 2010, 308 million tons of iron ore and 52 million tons of coal remained to be purchased under long-term contracts. We may face unanticipated increases in capital expenditures and raw materials purchases. There can be no assurance that we will be able to secure funds on satisfactory terms from financial institutions or other sources that are sufficient for our unanticipated needs.

We had a working capital (current assets minus current liabilities) of Won 11,188 billion as of December 31, 2008, Won 11,359 billion as of December 31, 2009 and Won 10,014 billion as of December 31, 2010. POSCO had unused credit lines of Won 1,279 billion out of total available credit lines of Won 2,619 billion as of December 31, 2010. We have not had, and do not believe that we will have, difficulty gaining access to short-term financing sufficient to meet our current requirements.

Capital Expenditures and Capacity Expansion

Our capital expenditures amounted to Won 4,093 billion in 2008, Won 6,407 billion in 2009 and Won 5,896 billion in 2010. We currently plan to increase our capital expenditures in 2011, which we may adjust on an on-going basis subject to market demand for our products, the production outlook of the global steel industry and global economic conditions in general. We may delay or not implement some of our current capital expenditure plans based on our assessment of such market conditions.

Our current plan for capital investment in production facilities emphasizes capacity rationalization, increased production of higher value-added products and improvements in the efficiency of older facilities in order to reduce operating costs. The following table sets out the major items of our capital expenditures as of December 31, 2010:

Project	Expected Completion Date	Total Cost of Project	Estimated Remaining Cost of Completion as of December 31, 2010
		(In billions of Won)	
Pohang Works:			
Construction of a new steelmaking plant	February 2011	1,438	121
Construction of a pickling and galvanizing line	March 2012	247	172

Gwangyang Works:			
Construction of no. 5 sintering plant and no. 5 coke plant	December 2011	1,686	263
Construction of no. 4 hot rolled steel plant	March 2014	1,604	1,604
Pohang and Gwangyang Works:			
Raw materials treatment facility upgrades	September 2016	1,233	836

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U.S. GAAP Reconciliation

Our consolidated financial statements are prepared in accordance with Korean GAAP, which differ in significant respects from U.S. GAAP. For a discussion of the significant differences between Korean GAAP and U.S. GAAP, see Note 32 of Notes to Consolidated Financial Statements.

Our net income in accordance with U.S. GAAP was Won 4,377 billion in 2010 compared to Won 3,609 billion in 2009 and Won 4,084 billion in 2008 primarily due to the factors discussed in Operating Results. Our net income under U.S. GAAP of Won 4,377 billion in 2010 is 3.8% higher than our net income under Korean GAAP of Won 4,218 billion. See Note 32(a) of Notes to Consolidated Financial Statements.

Item 5.C. *Research and Development, Patents and Licenses, Etc.*

We maintain a research and development program to carry out basic research and applied technology development activities. Our technology development department works closely with the Pohang University of Science & Technology, Korea s first research-oriented college founded by us in 1986, and the Research Institute of Industrial Science and Technology, Korea s first private comprehensive research institute founded by us in 1987. As of December 31, 2010, Pohang University of Science & Technology and the Research Institute of Industrial Science and Technology employed a total of approximately 977 researchers.

In 1994, we founded the POSCO Technical Research Laboratory to carry out applied research and technology development activities. As of December 31, 2010, the Technical Research Laboratory employed a total of 434 researchers.

We recorded research and development expenses of Won 361 billion as cost of goods sold in 2008, Won 368 billion in 2009 and Won 395 billion in 2010, as well as research and development expenses of Won 95 billion as selling and administrative expenses in 2008, Won 84 billion in 2009 and Won 142 billion in 2010.

Our research and development program has filed over twenty-nine thousand industrial rights applications relating to steel-making technology, approximately one-fourth of which were registered as of December 31, 2010, and has successfully applied many of these to the improvement of our manufacturing process.

Item 5.D. *Trend Information*

These matters are discussed under Item 5.A. and Item 5.B. above where relevant.

Item 5.E. *Off-balance Sheet Arrangements*

As of December 31, 2008, 2009 and 2010, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Item 5.F. *Tabular Disclosure of Contractual Obligations*

These matters are discussed under Item 5.B. above where relevant.

Item 5.G. *Safe Harbor*

See Item 3. Key Information Item 3.D. Risk Factors This annual report contains forward-looking statements that are subject to various risks and uncertainties.

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Item 6. *Directors, Senior Management and Employees*

Item 6.A. *Directors and Senior Management*

Board of Directors

Our board of directors has the ultimate responsibility for the management of our business affairs. Under our articles of incorporation, our board is to consist of five directors who are to also act as our executive officers (Inside Directors) and eight directors who are to be outside directors (Outside Directors). Our shareholders elect both the Inside Directors and Outside Directors at a general meeting of shareholders. Candidates for Inside Director are recommended to shareholders by the board of directors after the board reviews such candidates qualifications and candidates for Outside Director are recommended to the shareholders by a separate board committee consisting of three Outside Directors and one Inside Director (Director Candidate Recommendation Committee) after the committee reviews such candidates qualifications. Any shareholder holding our outstanding shares with voting rights may suggest candidates for Outside Directors to the Director Candidate Recommendation Committee.

Our board of directors maintains the following six sub-committees:

- the Director Candidate Recommendation Committee;
- the Evaluation and Compensation Committee;
- the Finance and Operation Committee;
- the Executive Management Committee;
- the Audit Committee; and
- the Related Party Transactions Committee.

Our board committees are described in greater detail below under Item 6.C. Board Practices.

Under the Commercial Code and our articles of incorporation, one Chairman should be elected among the Outside Directors and several Representative Directors may be elected among the Inside Directors by our board of directors resolution.

Inside Directors

Our current Inside Directors are:

Name	Position	Responsibilities and Division	Years as Director	Years with POSCO	Age	Expiration of Term of Office
Chung, Joon-Yang	Chief Executive Officer and Representative		7	36	63	February 2012

	Director					
Choi, Jong-Tae	President and Representative Director	Chief Financial and Planning Officer	3	37	61	February 2012
Park, Han-Yong	Senior Executive Vice President and Representative Director	Chief Staff Officer	1	32	60	February 2012
Oh, Chang-Kwan	Senior Executive Vice President and Representative Director	Head of Stainless Steel Business Division	1	33	58	February 2012
Kim, Jin-Il	Senior Executive Vice President		1	36	58	February 2012

All Inside Directors are engaged in our business on a full-time basis.

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Outside Directors

Our current Outside Directors are set out in the table below. Each of our Outside Directors meets the applicable independence standards set forth under the rules of the Financial Investment Services and Capital Markets Act of Korea.

Name	Position	Principal Occupation	Years as Director	Age	Expiration of Term of Office
Yoo, Jang-Hee	Presiding Director of the Board of Directors	President, East Asian Economic Association	2	70	February 2012
Han, Joon-Ho	Director	CEO, Samchully Co., Ltd.	2	65	February 2012
Lee, Young-Sun	Director	President, Hallym University	2	63	February 2012
Kim, Byung-Ki	Director	Visiting Professor, Technology Management Economics and Policy Graduate Program, Seoul National University	2	61	February 2012
Lee, Chang-Hee	Director	Professor, Seoul National University	2	51	February 2012
Nam, Yong	Director		0	63	February 2013
Park, Sang-Kil	Director	Lawyer, Kim & Chang	0	57	February 2013
Byun, Dae-Gyu	Director	Chairman and CEO, Humax Co., Ltd.	0	51	February 2013

The term of office of the Directors elected in February 2011 is up to two (2) years**.** Each Director s term expires at the close of the ordinary general meeting of shareholders convened in respect of the fiscal year that is the last one to end during such Director s tenure.

Senior Management

In addition to the Inside Directors who are also our executive officers, we have the following executive officers:

Name	Position	Responsibility and Division	Years with POSCO	Age
Kwon, Young-Tae	Senior Executive Vice President	Head of Raw Materials Division	36	61
Kwon, Oh-Joon	Senior Executive Vice President	Chief Technology Officer	22	60
Kim, Sang-Young		Head of Corporate Relations Division	24	59

	Senior Executive Vice President			
Cho, Noi-Ha	Senior Executive Vice President	Head of Carbon Steel Business Division	33	58
Park, Ki-Hong	Executive Vice President	Head of Growth and Investment Division	5	53
Kim, Joon-Sik	Executive Vice President	General Superintendent (Gwangyang Works)	30	57
Cho, Bong-Rae	Executive Vice President	General Superintendent (Pohang Works)	31	58
Song, Sebin	Executive Vice President	Legal Affairs Department	0	49
Baek, Sung-Kwan	Executive Vice President	Steel Business Department II	30	55
Lee, Kyung-Hoon	Executive Vice President	Environment and Energy Department	32	57
Woo, Jong-Soo	Executive Vice President	General Superintendent (Technical Research Laboratories)	31	55
Hwang, Eun-Yeon	Executive Vice President	Head of Carbon Steel Marketing Division	24	52
Kim, Yeung-Gyu	Executive Vice President	Human Resources and Innovation Department	28	56
Jang, Sung-Hwan	Senior Vice President	Deputy General Superintendent (Administration, Pohang Works)	30	56

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Name	Position	Responsibility and Division	Years with POSCO	Age
Lee, Hoo-Geun	Senior Vice President	FINEX Research and Development Project Department (Pohang Works)	28	53
Lee, Jung-Sik	Senior Vice President	Corporate Strategy Department II	31	56
Suh, Young-Sea	Senior Vice President	Stainless Steel Marketing Department	27	55
Park, Myung-Kil	Senior Vice President	Procurement Service Center, Corporate Collaboration and Prosperity Department	25	52
Lee, Young-Hoon	Senior Vice President	Corporate Strategy Department I, Green Development Project Department	25	51
Park, Kui-Chan	Senior Vice President	Department of External Affairs	4	54
Park, Sung-Ho	Senior Vice President	Steel Technology Strategy Department	28	54
Oh, In-Hwan	Senior Vice President	Automotive Materials Marketing Department	29	52
Yeon, Kyu-Sung	Senior Vice President	Deputy General Superintendent (Maintenance, Pohang Works)	26	52
Lee, Kyoung-Mok	Senior Vice President	Deputy General Superintendent (Iron and Steel Making, Pohang Works)	29	55
Jeon, Woo-Sig	Senior Vice President	Strategic Business Department	25	51
Kim, Young-Hun	Senior Vice President	Corporate Future Creation Academy	29	53
Choi, Jeong-Woo	Senior Vice President	Corporate Audit Department	26	54
Cho, Sang-Ho	Senior Vice President	Magnesium Business Department	28	55
An, Tong-Il	Senior Vice President	Deputy General Superintendent (Maintenance, Gwangyang Works)	24	52
Yae, Jae-Hen	Senior Vice President	Labor and Outside Services Department	26	55
Min, Kyung-Zoon	Senior Vice President	Deputy General Superintendent (Hot and Cold Rolling, Gwangyang Works)	27	53
Kim, Won-Ki	Senior Vice President	POSCO-South Asia Co., Ltd.	29	54

Nam, Sik	Senior Vice President	POSCO-Vietnam Co., Ltd.	28	54
Ko, Suk-Bum	Senior Vice President	Deputy General Superintendent (Administration, Gwangyang Works)	26	53
Kim, Hag-Dong	Senior Vice President	Deputy General Superintendent (Iron and Steel Making, Gwangyang Works)	26	52
Kim, Sun-Won	Senior Vice President	Order Processing and Technical Service Department	28	53
Son, Gi-Jin	Senior Vice President	Corporate Contribution Department	28	51
Kim, Dong-Chul	Senior Vice President	Steel Business Department I	25	55
Kim, Jhi-Yong	Senior Vice President	Advanced Materials Business Department	18	49
Jeon, Cheol	Senior Vice President	Stainless Steel Production and Technology	28	54
Kim, Yong-Min	Senior Vice President	Zhangjiagang Pohang Stainless Steel Co., Ltd.	28	53
Lee, Young-Ki	Senior Vice President	Deputy General Superintendent (Hot and Cold Rolling, Pohang Works)	25	51
Yu, Seong	Senior Vice President	POSCO-Japan Co., Ltd.	25	54
Shin, Jae-Chul	Senior Vice President	Marketing Strategy Department	25	50
Kim, Se-Hyun	Senior Vice President	Productivity Research Center	1	51
Oh, In-Kyung	Senior Vice President	Global Leadership Center	1	50
Hwang, Seok-Joo	Senior Vice President	Information Planning Department	25	48
Yim Chang-Hee	Senior Vice President	General Superintendent (Gwangyang Research Lab)	25	54
Seo, Myung-Deuk	Senior Vice President	Raw Materials Procurement Department	26	55
Kim, Min-Dong	Senior Vice President	POSCO-Mexico Co., Ltd.	28	56
Chang, In-Hwa	Senior Vice President	New Growth Business Department	0	55
Shim, Tong-Wook	Senior Vice President	Finance Department	25	51

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Name	Position	Responsibility and Division	Years with POSCO	Age
Kwon, Suk-Chul	Senior Vice President	POSCO-China Co., Ltd.	27	54
Lee, Tae-Ju	Senior Vice President	European Union Office	28	53
Yun, Kimok	Senior Vice President	Stainless Steel Raw Materials Department	27	53
Kim, Jae-Yeol	Senior Vice President	Hot Rolled Products Marketing Department	25	51
Kim, Hong-Soo	Senior Vice President	Investment Department	28	53

Item 6.B. ***Compensation***

Compensation of Directors and Officers

Salaries and bonuses for Inside Directors and salaries for Directors are paid in accordance with standards decided by the board of directors within the limitation of directors remuneration approved by the annual general meeting of shareholders. In addition, executive officers compensation is paid in accordance with standards decided by the board of directors. The aggregate compensation paid and accrued to all Directors and executive officers was approximately Won 29.9 billion in 2010 and the aggregate amount set aside or accrued by us to provide pension and retirement benefits to such persons was Won 5.7 billion in 2010.

We have also granted stock options to some of our Directors and executive officers. See Item 6.E. Share Ownership for a list of stock options granted to our Directors and executive officers. At the annual shareholders meeting held in February 2006 our shareholders elected to terminate the stock option program. Stock options granted prior to this meeting remain valid and outstanding pursuant to the articles of incorporation in effect at the time of the issuance of the stock option.

Item 6.C. ***Board Practices***

Director Candidate Recommendation Committee

The Director Candidate Recommendation Committee is composed of three Outside Directors, Lee, Young-Sun (committee chair), Nam, Yong, Byun, Dae-Gyu and one Inside Director, Choi, Jong-Tae. The Director Candidate Recommendation Committee reviews the qualifications of potential candidates and proposes nominees to serve on our board of directors as an Outside Director. Any shareholder holding our outstanding shares with voting rights may suggest candidates for Outside Directors to the Director Candidate Recommendation Committee.

Evaluation and Compensation Committee

The Evaluation and Compensation Committee is composed of four Outside Directors, Kim, Byung-Ki (committee chair), Han, Joon-Ho, Lee, Chang-Hee and Byun, Dae-Gyu. The Evaluation and Compensation Committee s primary responsibilities include establishing evaluation procedures and compensation plans for executive officers and taking necessary measures to execute such plans.

Finance and Operation Committee

The Finance and Operation Committee is composed of three Outside Directors, Han, Joon-Ho (committee chair), Lee, Young-Sun, Nam, Yong and two Inside Directors, Park, Han-Yong and Oh, Chang-Kwan. This committee is an operational committee that oversees decisions with respect to finance and operational matters, including making assessments with respect to potential capital investments and evaluating prospective capital-raising activities.

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Executive Management Committee

The Executive Management Committee is composed of five Inside Directors: Chung, Joon-Yang (committee chair), Choi, Jong-Tae, Park, Han-Yong, Oh, Chang-Kwan and Kim, Jin-Il. This committee oversees decisions with respect to our operational and management matters, including review of management s proposals of new strategic initiatives, as well as deliberation over critical internal matters related to organization structure and development of personnel.

Audit Committee

Under Korean law and our articles of incorporation, we are required to have an Audit Committee. The Audit Committee may be composed of three or more directors; all members of the Audit Committee must be Outside Directors. Audit Committee members must also meet the applicable independence criteria set forth under the rules and regulations of the Sarbanes-Oxley Act of 2002. Members of the Audit Committee are elected by the shareholders at the ordinary general meeting of shareholders. We currently have an Audit Committee composed of three Outside Directors. Members of our Audit Committee are Lee, Chang-Hee (committee chair), Kim, Byung-Ki and Park, Sang-Kil.

The duties of the Audit Committee include:

- engaging independent auditors;
- approving independent audit fees;
- approving audit and non-audit services;
- reviewing annual financial statements;
- reviewing audit results and reports, including management comments and recommendations;
- reviewing our system of controls and policies, including those covering conflicts of interest and business ethics; and
- examining improprieties or suspected improprieties.

In addition, in connection with general meetings of stockholders, the committee examines the agenda for, and financial statements and other reports to be submitted by, the board of directors at each general meeting of stockholders. Our internal and external auditors report directly to the Audit Committee. The committee holds regular meetings at least once each quarter, and more frequently as needed.

Related Party Transactions Committee

The Related Party Transaction Committee is composed of three Outside Directors, Lee, Chang-Hee (committee chair), Kim, Byung-Ki and Park, Sang-Kil. This committee reviews related party and other internal transactions and ensures compliance with the Monopoly Regulation and Fair Trade Act.

Item 6.D. *Employees*

As of December 31, 2010, we had 33,557 employees, including 17,148 persons employed by our subsidiaries, almost all of whom were employed within Korea. Of the total number of employees, approximately 80% are technicians and skilled laborers and 20% are administrative staff. We use subcontractors for maintenance, cleaning and transport activities. We had 29,811 employees, including 13,295 persons employed by our subsidiaries, as of December 31, 2009, and 29,730 employees, including 13,023 persons employed by our subsidiaries, as of December 31, 2008. To improve operational efficiency and increase labor productivity, we plan to reduce the number of our employees in future years through natural attrition. However, we expect the number of persons employed by our subsidiaries in growth industries to increase in the future.

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We consider our relations with our work force to be excellent. We have never experienced a work stoppage or strike. Wages of our employees are among the highest of manufacturing companies in Korea. In addition to a base monthly wage, employees receive periodic bonuses and allowances. Base wages are determined annually following consultation between the management and employee representatives, who are currently elected outside the framework of the POSCO labor union. A labor union was formed by our employees in June 1988. Union membership peaked at 19,026 employees at the beginning of 1991, but has steadily declined since then. As of December 31, 2010, only 13 of our employees were members of the POSCO labor union.

In accordance with the National Pension Act of Korea, we contribute an amount equal to 4.5% of an employee s standard monthly wages, and each employee contributes 4.5% of his or her standard monthly wages, into his or her personal pension account. Our employees, including executive officers as well as non-executive employees, are subject to a pension insurance system, under which we make monthly contributions to the pension accounts of the employees, and upon retirement, such employees are paid from their pension accounts. Prior to 2011, our executive and non-executive employees were subject to a lump-sum severance payment system, under which they were entitled to receive a lump-sum severance payment upon termination of their employment, based on their length of service and salary level at the time of termination. Starting in 2011, in accordance with the Korean Employee Retirement Income Security Act, we replaced such lump-sum severance payment system with our current pension insurance system in the form of either a defined benefit plan or a defined contribution plan, with a total unfunded portion of Won 981 billion as of December 31, 2010. Our employees have the option of choosing either the defined benefit plan or the defined contribution plan. Lump-sum severance amounts previously accrued prior to our adoption of the current pension insurance system continue to remain payable. We also provide a wide range of fringe benefits to our employees, including housing, housing loans, company-provided hospitals and schools, a company-sponsored pension program, an employee welfare fund, industrial disaster insurance, and cultural and athletic facilities.

As of December 31, 2010, our employees owned, through our employee stock ownership association, approximately 0.01% of our common stock in their association accounts and 2.54% of our common stock in their employee accounts.

Item 6.E. ***Share Ownership***

Common Stock

The persons who are currently our Directors or executive officers held, as a group, 19,423 common shares as of June 23, 2011, the most recent practicable date for which this information is available. The table below shows the ownership of our common shares by our Directors and executive officers.

Shareholders	Number of Common Shares Owned
Choi, Jong-Tae	1,786
Chung, Joon-Yang	1,614
Cho, Noi-Ha	1,400
Kim, Joon-Sik	902
Kim, Hag-Dong	805
Kwon, Ohjoon	800
Kim, Young-Hun	797
Oh, Chang-Kwan	630
Kwon, Young-Tae	500
Shim, Tong-Wook	420

Woo, Jong-Soo	391
Min, Kyung-Zoon	330
Lee, Kyoung-Mok	322
Oh, In-Hwan	320

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Shareholders	Number of Common Shares Owned
Yae, Jae-Hen	320
Son, Gi-Jin	320
Kim, Dong-Chul	320
Jeon, Cheol	320
Kwon, Suk-Chul	320
Yim, Chang-Hee	320
Lee, Kyung-Hoon	319
Suh, Young-Sea	301
Lee, Hoo-Geun	298
Lee, Jung-Sik	296
Park, Sung-Ho	296
Kim, Sang-Young	293
Cho, Sang-Ho	281
Hwang, Seok-Joo	280
Chang, Song-Hwan	260
Kim, Sun-Won	243
Shin, Jae-Chul	243
Nam, Sik	241
Kim, Hong-Soo	241
Lee, Young-Ki	210
Baek, Sung-Kwan	207
Kim, Jin-Il	200
Ko, Suk-Bum	195
Kim, Won-Ki	192
Lee, Tae-Ju	192
Seo, Myung-Deuk	192
Yu, Seong	168
Kim, Jhi-Yong	143
Hwang, Eun-Yeon	119
Park, Ki-Hong	110
Cho, Bong-Rae	104
Kim, Min-Dong	102
Kim, Yong-Min	102
Choi, Jeong-Woo	100
Song, Sebin	100
An, Tong-Il	100
Yeon, Kyu-Sung	95
Jeon, Woo-Sig	80
Lee, Young-Hoon	78
Kim, Yeung-Gyu	50
Park, Kui-Chan	36
Park, Han-Yong	12
Yon, Kimok	7
Total	19,423

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Stock Options

The following table sets forth information regarding the stock options we have granted to our current Directors and executive officers as of March 31, 2011. With respect to the options granted, we may elect either to issue shares of common stock, distribute treasury stock or to pay in cash the difference between the exercise and the market price at the date of exercise. The options may be exercised by a person who has continued employment with POSCO for two or more years from the date on which the options are granted. Expiration date of options is seven years from the date on which the options are granted. All of the stock options below relate to our common stock.

At the annual shareholders meeting held in February 2006, our shareholders elected to terminate the stock option program. Stock options granted prior to this meeting remain valid and outstanding pursuant to the articles of incorporation in effect at the time of the issuance of the stock option.

Directors	Grant Date	Exercise Period From	To	Exercise Price	Granted Options	Exercised Options	Exercisable Options
Chung, Joon-Yang	April 27, 2002	4/28/2004	4/27/2009	136,400	9,316	9,316	0
	July 23, 2004	7/24/2006	7/23/2011	151,700	4,900	4,900	0
Choi, Jong-Tae	July 23, 2001	7/24/2003	7/23/2008	98,900	9,037	9,037	0
	April 26, 2003	4/27/2005	4/26/2010	102,900	1,921	1,921	0
Oh, Chang-Kwan	April 27, 2002	4/28/2004	4/27/2009	136,400	9,316	9,316	0
Kim, Jin-Il	April 26, 2003	4/27/2005	4/26/2010	102,900	9,604	9,604	0
Park, Han-Yong	April 26, 2003	4/27/2005	4/26/2010	102,900	9,604	9,604	0

Executive Officers	Grant Date	Exercise Period From	To	Exercise Price	Granted Options	Exercised Options	Exercisable Options
Kwon, Young-Tae	September 18, 2002	9/19/2004	9/18/2009	116,100	9,316	9,316	0
Kim, Sang-Young	July 23, 2004	7/24/2006	7/23/2011	151,700	9,800	0	9,800
Cho, Noi-Ha	April 28, 2005	4/29/2007	4/28/2012	194,900	10,000	0	10,000
Kwon, Oh-Joon	April 26, 2003	4/27/2005	4/26/2010	102,900	9,604	9,604	0

Item 7. *Major Shareholders and Related Party Transactions*

Item 7.A. *Major Shareholders*

The following table sets forth certain information relating to the shareholders of our common stock issued as of December 31, 2010.

Shareholders	Number of Shares Owned	Percentage
National Pension Service	4,646,245	5.33
Nippon Steel Corporation (1)	4,394,712	5.04

SK Telecom	2,481,310	2.85
Pohang University of Science and Technology	1,955,836	2.24
Directors and executive officers as a group	18,717	0.02
Public (2)	63,536,058	72,87
POSCO (held in the form of treasury stock)	7,792,072	8.94
POSCO (held through treasury stock fund)	2,361,885	2.71
Total issued shares of common stock	87,186,835	100.00%

(1) Held in the form of ADRs.

(2) Includes ADRs.

As of December 31, 2010, there were 16,813,948 shares of common stock outstanding in the form of ADRs, representing 19.28% of the total issued and outstanding shares of common stock.

Item 7.B. ***Related Party Transactions***

We have issued guarantees of Won 1,934 billion as of December 31, 2008, Won 2,103 billion as of December 31, 2009 and Won 3,588 billion as of December 31, 2010, in favor of affiliated and related companies. We have also engaged in various transactions with our subsidiaries and affiliated companies. See Note 30 of Notes to Consolidated Financial Statements.

As of December 31, 2008, 2009 and 2010, we had no loans outstanding to our executive officers and Directors.

Item 7.C. ***Interests of Experts and Counsel***

Not applicable

Item 8. ***Financial Information***

Item 8.A. ***Consolidated Statements and Other Financial Information***

See Item 18. Financial Statements and pages F-1 through F-115.

Legal Proceedings

We have been subject to a number of anti-dumping and countervailing proceedings in the United States, China, India, Russia, Thailand and Brazil The anti-dumping and countervailing proceedings have not had a material adverse effect on our business and operations. However, there can be no assurance that increases in, or new impositions of, anti-dumping duties, countervailing duties, quotas or tariffs on our sales of products abroad may not have a material adverse impact on our exports in the future. See Item 4. Information on the Company Item 4.B. Business Overview Markets Exports.

Except as described above, we are not involved in any pending or threatened legal or arbitration proceedings that may have, or have had during the last 12 months, a material adverse effect on our results of operations or financial position.

DIVIDENDS

The amount of dividends paid on our common stock is subject to approval at the annual general meeting of shareholders, which is typically held in February or March of the following year. In addition to our annual dividends, our board of directors is authorized to declare and distribute interim dividends once a year under our articles of incorporation. If we decide to pay interim dividends, our articles of incorporation authorize us to pay them in cash and to the shareholders of record as of June 30 of the relevant fiscal year. We may pay cash dividends out of retained earnings that have not been appropriated to statutory reserves.

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The table below sets out the annual dividends declared on the outstanding common stock to shareholders of record on December 31 of the years indicated and the interim dividends declared on the outstanding common stock to shareholders of record on June 30 of the years indicated. A total of 87,186,835 shares of common stock were issued at the end of 2010. Of these shares, 77,032,878 shares were outstanding and 10,153,957 shares were held by us in treasury and 2,361,885 shares were held through our treasury stock fund. The annual dividends set out for each of the years below were paid in the immediately following year.

Year	Annual Dividend per Common Stock to Public	Interim Dividend per Common Stock	Average Total Dividend per Common Stock
		(In Won)	
2006	6,000	2,000	8,000
2007	7,500	2,500	10,000
2008	7,500	2,500	10,000
2009	6,500	1,500	8,000
2010	7,500	2,500	10,000

Owners of the ADSs are entitled to receive any dividends payable in respect of the underlying shares of common stock.

Historically, we have paid to holders of record of our common stock an annual dividend. However, we can give no assurance that we will continue to declare and pay any dividends in the future.

Item 8.B. ***Significant Changes***

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our Consolidated Financial Statements included in this annual report.

Item 9. ***The Offer and Listing***

Item 9.A. ***Offer and Listing Details***

Market Price Information

Notes

Not applicable

Common Stock

The principal trading market for our common stock is the KRX KOSPI Market. Our common stock, which is in registered form and has a par value of Won 5,000 per share, has been listed on the first section of the KRX KOSPI Market since June 1988 under the identifying code 005490. The table below shows the high and low trading prices and the average daily volume of trading activity on the KRX KOSPI Market for our common stock since January 1, 2006.

	Price High	Low	Average Daily Trading Volume
	(In Won)		(Number of Shares)
2006			
First Quarter	251,500	196,500	420,095
Second Quarter	287,000	217,500	380,671
Third Quarter	254,000	225,500	270,661
Fourth Quarter	318,500	239,000	244,757
2007			
First Quarter	395,000	286,500	296,883
Second Quarter	481,000	366,000	246,291

	Price High	Low	Average Daily Trading Volume (Number of Shares)
	(In Won)		
Third Quarter	673,000	443,500	298,177
Fourth Quarter	765,000	557,000	331,286
2008			
First Quarter	575,000	437,000	334,157
Second Quarter	594,000	450,000	382,083
Third Quarter	544,000	410,000	389,984
Fourth Quarter	436,500	242,000	600,141
2009			
First Quarter	430,000	303,000	389,081
Second Quarter	435,000	369,000	390,866
Third Quarter	519,000	420,000	324,403
Fourth Quarter	619,000	472,500	293,724
2010			
First Quarter	625,000	516,000	255,173
Second Quarter	560,000	434,500	343,367
Third Quarter	524,000	460,500	257,784
Fourth Quarter	538,000	448,500	299,776
2011			
First Quarter	517,000	450,500	345,785
January	500,700	454,000	337,599
February	488,500	460,000	320,299
March	517,000	450,500	373,293
Second Quarter (through June 23)	505,000	421,000	282,070
April	505,000	468,000	355,630
May	475,500	431,500	240,612
June (through June 23)	440,500	421,000	237,346

ADSs

Our common stock is also listed on the New York Stock Exchange, the London Stock Exchange and the Tokyo Stock Exchange in the form of ADSs. The ADSs have been issued by The Bank of New York Mellon as ADR depositary and are listed on the New York Stock Exchange under the symbol PKX. One ADS represents one-fourth of one share of common stock. As of December 31, 2010,16,813,948 ADSs were outstanding, representing 19.28% shares of common stock

The table below shows the high and low trading prices and the average daily volume of trading activity on the New York Stock Exchange for our ADSs since January 1, 2006.

	Price High	Low	Average Daily Trading Volume (Number of ADSs)
	(In US$)		

2006			
First Quarter	63.80	48.97	812,089
Second Quarter	74.41	56.07	922,906
Third Quarter	66.88	58.59	760,752
Fourth Quarter	84.88	63.00	748,789
2007			
First Quarter	106.88	76.49	770,003
Second Quarter	129.60	99.34	712,996
Third Quarter	184.54	124.50	809,315

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	Price High	Price Low	Average Daily Trading Volume
	(In US$)		(Number of ADSs)
Fourth Quarter	195.89	147.17	721,160
2008			
First Quarter	147.74	108.41	418,434
Second Quarter	147.05	112.80	249,329
Third Quarter	133.73	88.35	294,629
Fourth Quarter	89.00	47.14	355,604
2009			
First Quarter	79.11	47.14	212,268
Second Quarter	89.00	69.23	168,527
Third Quarter	108.08	80.73	491,455
Fourth Quarter	131.47	100.00	458,775
2010			
First Quarter	140.10	108.23	429,700
Second Quarter	124.83	88.78	559,765
Third Quarter	113.98	94.67	344,102
Fourth Quarter	120.47	95.34	376,905
2011	117.57	97.46	380,459
First Quarter	117.57	100.50	404,586
January	112.40	100.50	389,107
February	110.30	101.60	407,426
March	117.57	100.59	415,952
Second Quarter (through June 23)	116.83	95.86	349,080
April	116.83	108.09	345,726
May	111.01	100.31	379,036
June (through June 23)	102.41	95.86	316,020

Item 9.B. ***Plan of Distribution***

Not applicable

Item 9.C. ***Markets***

The Korean Securities Market

On January 27, 2005, the Korea Exchange was established pursuant to the Korea Securities and Futures Exchange Act by consolidating the Korea Stock Exchange, the Korea Futures Exchange, the KOSDAQ Stock Market, Inc., or the KOSDAQ, and the KOSDAQ Committee of the Korea Securities Dealers Association, which had formerly managed the KOSDAQ. There are three different markets operated by the Korea Exchange: the KRX KOSPI Market, the KRX KOSDAQ Market, and the KRX Derivatives Market. The Korea Exchange has two trading floors located in Seoul, one for the KRX KOSPI Market and one for the KRX KOSDAQ Market, and one trading floor in Busan for the KRX Derivatives Market. The Korea Exchange is a limited liability company, the shares of which are held by (i) investment brokers and investment dealers that were formerly members of the Korea Futures Exchange or the Korea Stock Exchange and (ii) the stockholders of the KOSDAQ. Currently, the Korea Exchange is the only stock exchange in Korea and is operated by membership, having as its members most of the Korean investment brokers and investment dealers and some Korean branches of foreign investment brokers and investment dealers.

According to data published by the Korea Exchange, as of December 31, 2010, the aggregate market value of equity securities listed on the KRX KOSPI Market and the KRX KOSDAQ Market was approximately Won 1,239 trillion, and the average daily trading volume of equity securities for 2010 was approximately 1,024 million shares with an average transaction value of Won 7,544 billion The

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Korea Exchange has the power in some circumstances to suspend trading in the shares of a given company or to de-list a security pursuant to the Regulation on Listing on the Korea Exchange. The Korea Exchange also restricts share price movements. All listed companies are required to file accounting reports annually, semi-annually and quarterly and to release immediately all information that may affect trading in a security.

The Government has in the past exerted, and continues to exert, substantial influence over many aspects of the private sector business community that can have the intention or effect of depressing or boosting the market. In the past, the Government has informally both encouraged and restricted the declaration and payment of dividends, induced mergers to reduce what it considers excess capacity in a particular industry and induced private companies to offer publicly their securities.

The Korea Exchange publishes the Korea Composite Stock Price Index, or KOSPI, every ten seconds, which is an index of all equity securities listed on the Korea Exchange. On January 1, 1983, the method of computing KOSPI was changed from the Dow Jones method to the aggregate value method. In the new method, the market capitalizations of all listed companies are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, January 4, 1980.

Movements in KOSPI are set out in the following table together with the associated dividend yields and price earnings ratios.

Year	Opening	High	Low	Closing	Period Dividend Yield (1)(2) (Percent)	Average Price Earnings Ratio (2)(3)
1985	139.53	163.37	131.40	163.37	5.3	5.2
1986	161.40	279.67	153.85	272.61	4.3	7.6
1987	264.82	525.11	264.82	525.11	2.6	10.9
1988	532.04	922.56	527.89	907.20	2.4	11.2
1989	919.61	1,007.77	844.75	909.72	2.0	13.9
1990	908.59	928.82	566.27	696.11	2.2	12.8
1991	679.75	763.10	586.51	610.92	2.6	11.2
1992	624.23	691.48	459.07	678.44	2.2	10.9
1993	697.41	874.10	605.93	866.18	1.6	12.7
1994	879.32	1,138.75	855.37	1,027.37	1.2	16.2
1995	1,027.45	1,016.77	847.09	882.94	1.2	16.4
1996	882.29	986.84	651.22	651.22	1.3	17.8
1997	647.67	792.29	350.68	376.31	1.5	17.0
1998	374.41	579.86	280.00	562.46	1.9	10.8
1999	565.10	1,028.07	498.42	1,028.07	1.1	13.5
2000	1,028.33	1,059.04	500.60	504.62	1.6	18.6
2001	503.31	704.50	468.76	693.70	2.0	14.2
2002	698.00	937.61	584.04	627.55	1.4	17.8
2003	633.03	822.16	515.24	810.71	2.2	10.9
2004	821.26	936.06	719.59	895.92	2.1	15.8
2005	896.00	1,379.37	870.84	1,379.37	1.7	11.0

2006	1,383.32	1,464.70	1,203.86	1,434.46	1.7	11.4
2007	1,438.89	2,015.48	1,345.08	1,897.13	1.4	16.8
2008	1,891.45	1,888.88	938.75	1,124.47	2.6	8.9
2009	1,132.87	1,718.88	1,018.81	1,682.77	1.2	23.7
2010	1,681.71	2,052.97	1,552.79	2,051.00	1.1	19.0
2011 (through June 23)	2,063.69	2,231.47	1,882.09	2,055.86	1.3	12.6

Source: The KRX KOSPI Market

(1) Dividend yields are based on daily figures. Before 1983, dividend yields were calculated at the end of each month. Dividend yields after January 3, 1984 include cash dividends only.

(2) Starting in April 2000, dividend yield and price earnings ratio are calculated based on KOSPI 200, an index of 200 equity securities listed on the KRX KOSPI Market. Starting in April 2000, KOSPI 200 excludes classified companies, companies which did not submit annual reports to the KRX KOSPI Market, and companies which received qualified opinion from external auditors.

(3) The price earnings ratio is based on figures for companies that record a profit in the preceding year.

Shares are quoted ex-dividend on the first trading day of the relevant company s accounting period. Since the calendar year is the accounting period for the majority of listed companies, this may account for the drop in KOSPI between its closing level at the end of one calendar year and its opening level at the beginning of the following calendar year.

With certain exceptions, principally to take account of a share being quoted ex-dividend and ex-rights, permitted upward and downward movements in share prices of any category of shares on any day are limited under the rules of the Korea Exchange to 15% of the previous day s closing price of the shares, rounded down as set out below:

Previous Day s Closing Price (Won)	**Rounded Down to (Won)**
Less than 5,000	5
5,000 to less than 10,000	10
10,000 to less than 50,000	50
50,000 to less than 100,000	100
100,000 to less than 500,000	500
500,000 or more	1,000

As a consequence, if a particular closing price is the same as the price set by the fluctuation limit, the closing price may not reflect the price at which persons would have been prepared, or would be prepared to continue, if so permitted, to buy and sell shares. Orders are executed on an auction system with priority rules to deal with competing bids and offers.

Due to deregulation of restrictions on brokerage commission rates, the brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the Korea Exchange by the financial investment companies with a brokerage license. In addition, a securities transaction tax of 0.15% of the sales price will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares. An agricultural and fishery special surtax of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the Korea Exchange. See Item 10. Additional Information Item 10.E. Taxation Korean Taxation.

The number of companies listed on the KRX KOSPI Market, the corresponding total market capitalization at the end of the periods indicated and the average daily trading volume for those periods are set forth in the following table:

Year	Number of Listed Companies	Market Capitalization on the Last Day of Each Period (Billions of Won)	(Millions of US$) (1)	Average Daily Trading Volume, Value Thousands of Shares	(Millions of Won)	(Thousands of US$) (1)
1985	342	₩ 6,570	US$ 7,381	18,925	₩ 12,315	US$ 13,834
1986	355	11,994	13,924	31,755	32,870	38,159
1987	389	26,172	33,033	20,353	70,185	88,583
1988	502	64,544	94,348	10,367	198,364	289,963
1989	626	95,477	140,490	11,757	280,967	414,430
1990	669	79,020	110,301	10,866	183,692	256,411
1991	686	73,118	96,107	14,022	214,263	281,629
1992	688	84,712	107,448	24,028	308,246	390,977
1993	693	112,665	139,420	35,130	574,048	710,367
1994	699	151,217	191,730	36,862	776,257	984,223
1995	721	141,151	182,201	26,130	487,762	629,613
1996	760	117,370	139,031	26,571	486,834	576,680
1997	776	70,989	50,162	41,525	555,759	392,707
1998	748	137,799	114,091	97,716	660,429	546,803
1999	725	349,504	305,137	278,551	3,481,620	3,039,655
2000	704	188,042	149,275	306,163	2,602,211	2,065,739
2001	689	255,850	192,934	473,241	1,997,420	1,506,237
2002	683	258,681	215,496	857,245	3,041,598	2,533,815
2003	684	355,363	296,679	542,010	2,216,636	1,850,589
2004	683	412,588	395,275	372,895	2,232,109	2,138,445
2005	702	655,075	646,158	467,629	3,157,662	3,114,679
2006	731	704,588	757,948	279,096	3,435,180	3,695,331
2007	745	951,900	1,016,770	363,741	5,539,653	5,917,168
2008	763	576,888	458,758	352,599	3,211,039	2,553,510
2009	770	887,935	762,503	485,657	5,595,552	4,976,859
2010	777	1,141,885	1,320,442	380,859	5,619,768	6,498,531
2011 (through June 23)	783	1,159,768	1,076,351	263,839	6,353,156	5,896,201

Source: The Korea Exchange

(1) Converted at the Concentration Base Rate of The Bank of Korea or the Market Average Exchange Rate, as the case may be, at the end of the periods indicated.

The Korean securities markets are principally regulated by the Financial Services Commission and under the regulations set forth in the Financial Investment Services and Capital Markets Act. In July 2007, the National

Assembly of Korea enacted the Financial Investment Services and Capital Markets Act. The Financial Investment Services and Capital Markets Act, which came into effect on February 4, 2009, comprehensively regulates the Korean capital markets, the financial investment business (including collective investment businesses and trust businesses) and financial investment products (such as securities and derivatives). The FSCMA imposes restrictions on insider trading and price manipulation, requires specified information to be made available by listed companies to investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for shareholders holding substantial interests. The FSCMA regulates the operation and monitoring of the securities and derivatives markets.

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Protection of Customer s Interest in Case of Insolvency of Investment Brokers or Investment Dealers

Under Korean law, the relationship between a customer and an investment broker or an investment dealer in connection with a securities sell or buy order is deemed to be a consignment and the securities acquired by a consignment agent (i.e., the investment broker or the investment dealer) through such sell or buy order are regarded as belonging to the customer in so far as the customer and the consignment agent s creditors are concerned. Therefore, in the event of a bankruptcy or reorganization procedure involving an investment broker or an investment dealer, the customer of the investment broker or the investment dealer is entitled to the proceeds of the securities sold by the investment broker or the investment dealer.

When a customer places a sell order with an investment broker or an investment dealer that is not a member of the KRX KOSPI Market or the KRX KOSDAQ Market and this investment broker or investment dealer places a sell order with another investment broker or investment dealer that is a member of the KRX KOSPI Market or the KRX KOSDAQ Market, the customer is still entitled to the proceeds of the securities sold and received by the non- member company from the member company regardless of the bankruptcy or reorganization of the non-member company.

Under the Financial Investment Services and Capital Markets Act, the Korea Exchange is obliged to indemnify any loss or damage incurred by a counterparty as a result of a breach by members of the KRX KOSPI Market or the KRX KOSDAQ Market. If an investment broker or an investment dealer that is a member of the KRX KOSPI Market or the KRX KOSDAQ Market breaches its obligation in connection with a buy order, the Korea Exchange is obliged to pay the purchase price on behalf of the breaching member. Therefore, the customer can acquire the securities that have been ordered to be purchased by the breaching member.

When a customer places a buy order with a non-member company and the non-member company places a buy order with a member company, the customer has the legal right to the securities received by the non-member company from the member company because the purchased securities are regarded as belonging to the customer in so far as the customer and the non-member company s creditors are concerned.

As the cash deposited with an investment broker or an investment dealer is regarded as belonging to the investment broker or investment dealer, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from the investment broker or the investment dealer if a bankruptcy or rehabilitation procedure is instituted against the investment broker or the investment dealer and, therefore, can suffer from loss or damage as a result. However, in case of the investment broker or the investment dealer s bankruptcy, liquidation, cancellation of investment broker or investment dealer license or other insolvency events, the Depositor Protection Act provides that the Korea Deposit Insurance Corporation will, upon the request of the investors, pay each investor up to a total of Won 50 million, which shall represent both actual cash deposited and any interest accrued thereon. Pursuant to the Financial Investment Services and Capital Markets Act, as amended, investment brokers or investment dealers are required to deposit the cash received from its customers at the securities finance company established pursuant to the Financial Investment Services and Capital Markets Act. Set-off or attachment of cash deposits by investment brokers or investment dealers is prohibited. The premiums related to this insurance are paid by investment brokers or investment dealers.

Clearance and Settlement

The settlement of trades on the Korea Exchange is required to be handled by a settlement agency of the Korea Exchange. The Korea Securities Depository is the institution commissioned by the Korea Exchange to handle all such settlement of trades. The settlement of trades on the Korea Exchange takes place through a clearance and settlement procedure. The Korea Exchange has adopted the multilateral netting system and carries out the clearance of the trades by netting the sales

and purchases of each Korea Securities Depository participant. The Korea Exchange is required to provide the daily net settlement results of the trades to the Korea Securities Depository one business day after the day of the sale and purchase contract. The Korea Securities Depository then handles settlement of the securities and the funds based on the information received from the Korea Exchange. The securities are settled through book-entry changes in the accounts of Korea Securities Depository participants and the funds are settled by transfer to an account at a bank designated by the Korea Securities Depository. Settlement of trades is generally required to take place on the third day following the day of the sale and purchase contract.

Item 9.D. ***Selling Shareholders***

Not applicable

Item 9.E. ***Dilution***

Not applicable

Item 9.F. ***Expenses of the Issuer***

Not applicable

Item 10. ***Additional Information***

Item 10.A. ***Share Capital***

Currently, our authorized share capital is 200,000,000 shares, which consists of shares of common stock, par value Won 5,000 per share (Common Shares) and shares of non-voting stock, par value Won 5,000 per share (Non-Voting Shares). Common Shares and Non-Voting Shares together are referred to as Shares. Under our articles of incorporation, we are authorized to issue Non-Voting Shares up to the limit prescribed by applicable law, the aggregate of which currently is one-half of our total issued and outstanding capital stock. As of December 31, 2010, 87,186,835 Common Shares were issued, of which 7,792,072 shares were held by us in treasury and an additional 2,361,885 shares were held by our treasury stock fund. We have never issued any Non-Voting Shares. All of the issued and outstanding Common Shares are fully-paid and non-assessable and are in registered form. We issue share certificates in denominations of 1, 3, 4, 5, 10, 50, 100, 500, 1,000 and 10,000 shares.

Item 10.B. ***Memorandum and Articles of Association***

This section provides information relating to our capital stock, including brief summaries of material provisions of our articles of incorporation, the FSCMA, the Commercial Code and related laws, all as currently in effect. The following summaries are subject to, and are qualified in their entirety by reference to, our articles of incorporation and the applicable provisions of the FSCMA and the Commercial Code. We have filed copies of our articles of incorporation and these laws (except for the newly enacted the FSCMA) as exhibits to registration statements under the Securities Act or the Securities Exchange Act previously filed by us.

Dividends

We distribute dividends to our shareholders in proportion to the number of shares owned by each shareholder. The Common Shares represented by the ADSs have the same dividend rights as other outstanding Common Shares.

Holders of Non-Voting Shares are entitled to receive dividends in priority to the holders of Common Shares in an amount not less than 9% of the par value of the Non-Voting Shares as determined by the board of directors at the time of their issuance. If the amount available for dividends is less than the aggregate amount of such minimum dividend, we do not have to declare dividends on the Non-Voting Shares.

We may declare dividends annually at the annual general meeting of shareholders which is held within three months after the end of the fiscal year. We pay the annual dividend shortly after the annual general meeting to the shareholders of record as of the end of the preceding fiscal year. We may distribute the annual dividend in cash or in Shares. However, a dividend of Shares must be distributed at par value. Dividends in Shares may not exceed one-half of the annual dividend. In addition, we may declare, and distribute in cash, interim dividends pursuant to a board resolution once a fiscal year. We have no obligation to pay any annual dividend unclaimed for five years from the payment date.

Under the Commercial Code, we may pay an annual dividend only to the extent the net asset amount in our balance sheets exceeds the sum of the following: (i) our stated capital, (ii) the total amount of our capital surplus reserve and legal reserve accumulated up to the end of the relevant dividend period, and (iii) the legal reserve to be set aside for annual dividend. We may not pay an annual dividend unless we have set aside as earned surplus reserve an amount equal to at least 10% of the cash portion of the annual dividend or unless we have accumulated earned surplus reserve of not less than one-half of our stated capital. We may not use legal reserve to pay cash dividends but may transfer amounts from legal reserve to capital stock or use legal reserve to reduce an accumulated deficit.

Distribution of Free Shares

In addition to paying dividends in Shares out of our retained or current earnings, we may also distribute to our shareholders an amount transferred from our capital surplus or legal reserve to our stated capital in the form of free shares. We must distribute such free shares to all our shareholders in proportion to their existing shareholdings.

Preemptive Rights and Issuance of Additional Shares

We may issue authorized but unissued shares at the times and, unless otherwise provided in the Commercial Code, on the terms our board of directors may determine. All our shareholders are generally entitled to subscribe for any newly issued Shares in proportion to their existing shareholdings. We must offer new Shares on uniform terms to all shareholders who have preemptive rights and are listed on our shareholders register as of the relevant record date. Under the Commercial Code, we may vary, without shareholders approval, the terms of these preemptive rights for different classes of shares. We must give public notice of the preemptive rights regarding new Shares and their transferability at least two weeks before the relevant record date. Our board of directors may determine how to distribute Shares for which preemptive rights have not been exercised or where fractions of Shares occur.

Under our articles of incorporation, we may issue new Shares pursuant to a board resolution to persons other than existing shareholders, who in these circumstances will not have preemptive rights, if the new Shares are:

- offered publicly or to underwriters for underwriting pursuant to the FSCMA;
- issued to members of our employee stock ownership association pursuant to the FSCMA;
- represented by depositary receipts pursuant to the FSCMA;
- issued in a general public offering pursuant to a board resolution in accordance with the FSCMA, the amount of which is no more than 10% of the outstanding Shares;
- issued to our creditors pursuant to a debt-equity swap;

issued to domestic or foreign corporations pursuant to a joint venture agreement, strategic coalition or technology inducement agreement when deemed necessary for management purposes; or

issued to domestic or foreign financial institutions when necessary for raising funds in emergency cases.

In addition, we may issue convertible bonds or bonds with warrants, each up to an aggregate principal amount of Won 2,000 billion, to persons other than existing shareholders.

Members of our employee stock ownership association, whether or not they are our shareholders, generally have a preemptive right to subscribe for up to 20% of the Shares publicly offered pursuant to the FSCMA. This right is exercisable only to the extent that the total number of Shares so acquired and held by members of our employee stock ownership association does not exceed 20% of the total number of Shares then issued. As of December 31, 2010, our employees owned, through our employee stock ownership association, approximately 0.01% of our common stock in their association accounts and 2.54% of our common stock in their employee accounts.

General Meeting of Shareholders

We hold the annual general meeting of shareholders within three months after the end of each fiscal year. The record date of the register of shareholders is December 31 of each year, and such shareholders listed on the register of shareholder as of the record date are entitled to exercise their right at the general meeting of shareholders. Subject to a board resolution or court approval, we may hold an extraordinary general meeting of shareholders:

as necessary;

at the request of holders of an aggregate of 3% or more of our outstanding Shares;

at the request of shareholders holding an aggregate of 1.5% or more of our outstanding Shares for at least six months; or

at the request of our audit committee.

Holders of Non-Voting Shares may request a general meeting of shareholders only after the Non-Voting Shares become entitled to vote or enfranchised, as described under Voting Rights below.

We must give shareholders written notice setting out the date, place and agenda of the meeting at least two weeks before the date of the general meeting of shareholders. However, for holders of 1% or less of the total number of issued and outstanding voting Shares, we may give notice by placing at least two public notices in at least two daily newspapers or by notices to be posted on the electronic disclosure database system maintained by the Financial Supervisory Service or the Korea Exchange at least two weeks in advance of the meeting. Currently, we use *The Seoul Shinmun* published in Seoul, *The Maeil Shinmun* published in Taegu and *The Kwangju Ilbo* published in Kwangju for this purpose. Shareholders not on the shareholders register as of the record date are not entitled to receive notice of the general meeting of shareholders or attend or vote at the meeting. Holders of Non-Voting Shares, unless enfranchised, are not entitled to receive notice of general meetings of shareholders, but may attend such meetings. Our general meetings of shareholders are held either in Pohang or Seoul.

Voting Rights

Holders of our Common Shares are entitled to one vote for each Common Share, except that voting rights of Common Shares held by us, or by a corporate shareholder that is more than 10% owned by us either directly or indirectly, may not be exercised. The Commercial Code and the FSCMA permitted cumulative voting, under which voting method each shareholder would have multiple voting rights corresponding to the number of directors to be appointed in the voting and may exercise all voting rights cumulatively to elect one director.

Our shareholders may adopt resolutions at a general meeting by an affirmative majority vote of the voting Shares present or represented at the meeting, where the affirmative votes also represent at least one-fourth of our total voting Shares then issued and outstanding. However, under the Commercial Code and our articles of incorporation, the following matters, among others, require approval by the holders of at least two-thirds of the voting Shares present or represented at a meeting, where the affirmative votes also represent at least one-third of our total voting Shares then issued and outstanding:

- amending our articles of incorporation;
- removing a director;
- effecting any dissolution, merger or consolidation of us;
- transferring the whole or any significant part of our business;
- effecting our acquisition of all of the business of any other company;
- issuing any new Shares at a price lower than their par value; or
- approving matters required to be approved at a general meeting of shareholders, which have material effects on our assets, as determined by the Board of Directors.

In general, holders of Non-Voting Shares are not entitled to vote on any resolution or receive notice of any general meeting of shareholders. However, in the case of amendments to our articles of incorporation, or any merger or consolidation of us, or in some other cases that affect the rights or interests of the Non-Voting Shares, approval of the holders of Non-Voting Shares is required. We may obtain the approval by a resolution of holders of at least two-thirds of the Non-Voting Shares present or represented at a class meeting of the holders of Non-Voting Shares, where the affirmative votes also represent at least one-third of our total issued and outstanding Non-Voting Shares. In addition, the holders of Non-Voting Shares may be entitled to vote during the period between the general meeting of shareholders in which required preferred dividends are not paid to such holders until the next general meeting of shareholders at which the payment of such preferred dividends to such holders is declared. The holders of enfranchised Non-Voting Shares have the same rights as holders of Common Shares to request, receive notice of, attend and vote at a general meeting of shareholders.

Shareholders may exercise their voting rights by proxy. A shareholder may give proxies only to another shareholder, except that the Government may give proxies to a designated public official and a corporate shareholder may give proxies to its officers or employees.

Holders of ADRs exercise their voting rights through the ADR depositary, an agent of which is the record holder of the underlying Common Shares. Subject to the provisions of the deposit agreement, ADR holders are entitled to instruct the ADR depositary how to vote the Common Shares underlying their ADSs.

Rights of Dissenting Shareholders

In some limited circumstances, including the transfer of the whole or any significant part of our business and our merger or consolidation with another company, dissenting shareholders have the right to require us to purchase their

Shares. Only the shareholders who have executed a share purchase agreement evidencing their acquisition of the relevant Shares on or prior to the day immediately following the public disclosure of the board resolutions approving any of the aforementioned transactions have the rights to require us to purchase their Shares. To exercise this right, shareholders, including holders of Non-Voting Shares, must submit to us a written notice of their intention to dissent before the general meeting of shareholders. Within 20 days after the relevant resolution is passed at a meeting, the dissenting shareholders must request us in writing to purchase their Shares. We are obligated to purchase the Shares of dissenting shareholders within one month after the expiration of the 20-day period. The purchase price for the Shares is required to be determined through negotiation between the dissenting shareholders and us. If we cannot agree on a price through negotiation, the purchase price will be the average of (1) the weighted average of the daily Share prices on the Korea Exchange for the two-month period before the date of the adoption of the relevant board resolution, (2) the weighted average of the daily Share price on the Korea Exchange for the one month period before the date of the adoption of the relevant resolution and (3) the weighted average of the daily Share price on the Korea Exchange for the one week period before such date of the adoption of the relevant resolution. However, the court may determine this price if we or dissenting shareholders do not accept the purchase price. Holders of ADSs will not be able to exercise dissenter s rights unless they have withdrawn the underlying common stock and become our direct shareholders.

Register of Shareholders and Record Dates

Our transfer agent, Kookmin Bank, maintains the register of our shareholders at its office in Seoul, Korea. It registers transfers of Shares on the register of shareholders on presentation of the Share certificates.

The record date for annual dividends is December 31. For the purpose of determining the shareholders entitled to annual dividends, the register of shareholders may be closed for the period from January 1 to January 31 of each year. Further, for the purpose of determining the shareholders entitled to some other rights pertaining to the Shares, we may, on at least two weeks public notice, set a record date and/or close the register of shareholders for not more than three months. The trading of Shares and the delivery of share certificates may continue while the register of shareholders is closed.

Annual Report

At least one week before the annual general meeting of shareholders, we must make our annual report and audited financial statements available for inspection at our principal office and at all of our branch offices. In addition, copies of annual reports, the audited financial statements and any resolutions adopted at the general meeting of shareholders will be available to our shareholders.

Under the FSCMA, we must file with the FSC and the Korea Exchange (1) an annual business report within 90 days after the end of our fiscal year, (2) a half-year report within 45 days after the end of the first six months of our fiscal year, and (3) quarterly reports within 45 days after the end of the third month and the ninth month of our fiscal year. Copies of these reports are or will be available for public inspection at the FSC and the Korea Exchange.

Transfer of Shares

Under the Commercial Code, the transfer of Shares is effected by delivery of share certificates. However, to assert shareholders rights against us, the transferee must have his name and address registered on our register of shareholders. For this purpose, a shareholder is required to file his name, address and seal with our transfer agent. A non-Korean shareholder may file a specimen signature in place of a seal, unless he is a citizen of a country with a sealing system similar to that of Korea. In addition, a non-resident shareholder must appoint an agent authorized to receive notices on his behalf in Korea and file a mailing address in Korea. The above requirements do not apply to the holders of ADSs.

Under current Korean regulations, the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a brokerage, dealing or collective investment license and internationally recognized custodians may act as agents and provide related services for foreign shareholders.

Certain foreign exchange controls and

securities regulations apply to the transfer of Shares by non-residents or non-Koreans. See Item 10. Additional Information Item 10.D. Exchange Controls.

Our transfer agent is Kookmin Bank, located at 36-3, Yeoido-dong, Yeongdeungpo-gu, Seoul, Korea.

Acquisition of Shares by Us

We may not acquire our own Shares except in limited circumstances, such as a reduction in capital. In addition, we may acquire Shares through purchases on the Korea Exchange or through a tender offer. Notwithstanding the foregoing restrictions, we may acquire interests in our own Shares through agreements with trust companies and asset management companies. The aggregate purchase price for the Shares may not exceed the total amount available for distribution of dividends available at the end of the preceding fiscal year less the amount of dividends and mandatory reserves required to be set aside for that fiscal year, subject to certain procedural requirements.

Under the Commercial Code, except in the case of a reduction in capital, we must resell or transfer any Shares acquired by us from a third party within a reasonable time. In general, corporate entities in which we own more than 50% equity interest may not acquire our Shares. Under the FSCMA, we are subject to certain selling restrictions for the Shares acquired by us. In the case of a reduction in capital, we must immediately cancel the Shares acquired by us.

Liquidation Rights

In the event of our liquidation, after payment of all debts, liquidation expenses and taxes, our remaining assets will be distributed among shareholders in proportion to their shareholdings. Holders of Non-Voting Shares have no preference in liquidation.

Item 10.C. ***Material Contracts***

None.

Item 10.D. ***Exchange Controls***

Shares and ADSs

The Foreign Exchange Transaction Act and the Presidential Decree and regulations under that Act and Decree (collectively, Foreign Exchange Transaction Laws) and the Foreign Investment Promotion Law regulate investment in Korean securities by non-residents and issuance of securities outside Korea by Korean companies. Under the Foreign Exchange Transaction Laws, non-residents may invest in Korean securities subject to procedural requirements in accordance with these laws. The FSC has also adopted, pursuant to its authority under the FSCMA, regulations that restrict investment by foreigners in Korean securities.

Subject to certain limitations, the Ministry of Strategy and Finance has the authority to take the following actions under the Foreign Exchange Transaction Laws:

> if the Government deems it necessary on account of war, armed conflict, natural disaster or grave and sudden and significant changes in domestic or foreign economic circumstances or similar events or circumstances, the Ministry of Strategy and Finance may temporarily suspend performance under any or all foreign exchange transactions, in whole or in part, to which the Foreign Exchange Transaction Laws apply (including suspension of payment and receipt of foreign exchange) or impose an obligation to deposit, safe-keep or sell any means of payment to The Bank of Korea or certain other governmental

agencies or financial institutions; and

if the Government concludes that the international balance of payments and international financial markets are experiencing or are likely to experience significant disruption or that

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the movement of capital between Korea and other countries is likely to adversely affect the Won, exchange rates or other macroeconomic policies, the Ministry of Strategy and Finance may take action to require any person who intends to effect a capital transaction to obtain permission or to require any person who effects a capital transaction to deposit a portion of the means of payment acquired in such transactions with The Bank of Korea or certain other governmental agencies or financial institutions.

Government Review of Issuance of ADSs

In order for us to issue shares represented by ADSs, we are required to file a prior report of the issuance with our designated foreign exchange bank or the Ministry of Strategy and Finance, depending on the issuance amount. No further Korean governmental approval is necessary for the initial offering and issuance of the ADSs.

Under current Korean laws and regulations, the depositary bank is required to obtain our prior consent for the number of shares to be deposited in any given proposed deposit which exceeds the difference between (1) the aggregate number of shares deposited by us for the issuance of ADSs (including deposits in connection with the initial and all subsequent offerings of ADSs and stock dividends or other distributions related to these ADSs) and (2) the number of shares on deposit with the depositary bank at the time of such proposed deposit. We can give no assurance that we would grant our consent, if our consent is required.

Reporting Requirements for Holders of Substantial Interests

Under the FSCMA, any person whose direct or beneficial ownership of shares with voting rights, whether in the form of shares or ADSs, certificates representing the rights to subscribe for Shares and equity-related debt securities including convertible bonds and bonds with warrants (collectively, Equity Securities) together with the Equity Securities beneficially owned by certain related persons or by any person acting in concert with the person accounts for 5% or more of the total outstanding Equity Securities is required to report the status and the purpose (whether or not to exert an influence on management control over the issuer) of the holdings to the FSC and the Korea Exchange within five business days after reaching the 5% ownership interest. In addition, any change in the purpose of holding such ownership interest or a change in the ownership interest subsequent to the report which equals or exceeds 1% of the total outstanding Equity Securities is required to be reported to the FSC and the Korea Exchange within five business days from the date of the change. However, the reporting deadline of such reporting requirement is extended to the tenth day of the month immediately following the month of such change in their shareholding for (1) professional investors, as defined under the FSCMA, or (2) persons who hold shares for purposes other than management control. Those who report the purpose of shareholding as management control of the issuer are prohibited from exercising their voting rights and acquiring additional shares for five days subsequent to their report under the FSCMA.

Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment and may result in a loss of voting rights with respect to the ownership of Equity Securities exceeding 5%. Furthermore, the FSC may issue an order to dispose of non-reported Equity Securities.

In addition to the reporting requirements described above, any person whose direct or beneficial ownership of a company s shares accounts for 10% or more of the total issued and outstanding shares with voting rights (a major stockholder) must report the status of his or her shareholding to the Securities and Futures Commission and the Korea Exchange within five business days after he or she becomes a major stockholder. In addition, any change in the ownership interest subsequent to the report must be reported to the Securities and Futures Commission and the Korea Exchange by the fifth business day of any changes in his or her shareholding. Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment.

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Under the KRX regulations, if a company listed on the KRX KOSPI Market has submitted public disclosure of material matters to a foreign financial investment supervisory authority pursuant to the laws of the foreign jurisdiction, then it must submit a copy of the public disclosure and a Korean translation thereof to the Korea Exchange. In addition, if a company listed on the KRX KOSPI Market is approved for listing on a foreign stock exchange or determined to be de-listed from the foreign stock exchange or actually lists on, or de-lists from, a foreign stock exchange, then it must submit to the Korea Exchange a copy, together with a Korean translation thereof, of all documents submitted to, or received from, the relevant foreign government, supervisory authority or stock exchange.

Restrictions Applicable to ADSs

No Korean governmental approval is necessary for the sale and purchase of ADSs in the secondary market outside Korea or for the withdrawal of shares underlying ADSs and the delivery inside Korea of shares in connection with the withdrawal, provided that a foreigner who intends to acquire the shares must obtain an investment registration card from the Financial Supervisory Service (FSS) as described below. The acquisition of the shares by a foreigner must be immediately reported by the foreigner or his standing proxy in Korea to the Governor of the FSS (Governor).

Persons who have acquired shares as a result of the withdrawal of shares underlying the ADSs may exercise their preemptive rights for new shares, participate in free distributions and receive dividends on shares without any further governmental approval.

In addition, under the FSC regulations, effective as of November 30, 2006, we are required to file a securities registration statement with the FSC and such securities registration statement has to become effective pursuant to the FSCMA in order for us to issue shares represented by ADSs, except in certain limited circumstances.

Restrictions Applicable to Shares

Under the Foreign Exchange Transaction Laws and FSC regulations (together, the Investment Rules), foreigners may invest, with limited exceptions and subject to procedural requirements, in all shares of Korean companies, whether listed on the KRX KOSPI Market, unless prohibited by specific laws. Foreign investors may trade shares listed on the KRX KOSPI Market only through the KRX KOSPI Market, except in limited circumstances, including, among others:

- odd-lot trading of shares;
- acquisition of shares (Converted Shares) by exercise of warrant, conversion right under convertible bonds or withdrawal right under depositary receipts issued outside of Korea by a Korean company;
- acquisition of shares as a result of inheritance, donation, bequest or exercise of shareholders rights, including preemptive rights or rights to participate in free distributions and receive dividends;
- over-the-counter transactions between foreigners of a class of shares for which the ceiling on aggregate acquisition by foreigners, as explained below, has been reached or exceeded with certain exceptions;
- shares acquired by direct investment as defined in the Foreign Investment Promotion Law;
- disposal of shares pursuant to the exercise of appraisal rights of dissenting shareholders;
- disposal of shares in connection with a tender offer;
- acquisition of shares by a foreign depositary in connection with the issuance of depositary receipts;

acquisition and disposal of shares through overseas stock exchange market if such shares are simultaneously listed on the KRX KOSPI Market or the KRX KOSDAQ Market and such overseas stock exchange; and

arm s length transactions between foreigners, if all of such foreigners belong to an investment group managed by the same person.

The Investment Rules require a foreign investor who wishes to invest in shares for the first time on the Korea Exchange (including Converted Shares) to register its identity with the FSS prior to making any such investment; however, the registration requirement does not apply to foreign investors who acquire Converted Shares with the intention of selling such Converted Shares within three months from the date of acquisition of the Converted Shares or who acquire the shares in an over-the-counter transaction or dispose of shares where such acquisition or disposal is deemed to be a foreign direct investment pursuant to the Foreign Investment Promotion Law. Upon registration, the FSS will issue to the foreign investor an investment registration card which must be presented each time the foreign investor opens a brokerage account with a financial investment company with a brokerage license or dealing license in Korea. Foreigners eligible to obtain an investment registration card include foreign nationals who are individuals residing abroad for more than six months, foreign governments, foreign municipal authorities, foreign public institutions, international financial institutions or similar international organizations, corporations incorporated under foreign laws and any person in any additional category designated by decree of the Ministry of Strategy and Finance. All Korean offices of a foreign corporation as a group are treated as a separate foreigner from the offices of the corporation outside Korea. However, a foreign corporation or depositary issuing depositary receipts may obtain one or more investment registration cards in its name in certain circumstances as described in the relevant regulations.

Upon a foreign investor s purchase of shares through the Korea Exchange, no separate report by the investor is required because the investment registration card system is designed to control and oversee foreign investment through a computer system. However, a foreign investor s acquisition or sale of shares outside the Korea Exchange (as discussed above) must be reported by the foreign investor or his standing proxy to the Governor at the time of each such acquisition or sale; *provided, however,* that a foreign investor must ensure that any acquisition or sale by it of shares outside the Korea Exchange in the case of trades in connection with a tender offer, odd-lot trading of shares or trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, is reported to the Governor by the Korea Securities Depository, financial investment companies with a dealing or brokerage license or securities finance companies engaged to facilitate such transaction. A foreign investor must appoint one or more standing proxies from among the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks) financial investment companies with a dealing, brokerage or collective investment license and internationally recognized custodians which will act as a standing proxy to exercise shareholders rights or perform any matters related to the foregoing activities if the foreign investor does not perform these activities himself. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the Governor in cases deemed inevitable by reason of conflict between laws of Korea and those of the home country of the foreign investor.

Certificates evidencing shares of Korean companies must be kept in custody with an eligible custodian in Korea. Only foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license, the Korea Securities Depository and internationally recognized custodians are eligible to act as a custodian of shares for a non-resident or foreign investor. A foreign investor must ensure that his custodian deposits its shares with the Korea Securities Depository. However, a foreign investor may be exempted from complying with this deposit requirement with the approval of the Governor in circumstances where compliance with that requirement is made impracticable, including cases where compliance would contravene the laws of the home country of such foreign investor.

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Under the Investment Rules, with certain exceptions, foreign investors may acquire shares of a Korean company without being subject to any foreign investment ceiling. As one such exception, designated public corporations are subject to a 40% ceiling on the acquisition of shares by foreigners in the aggregate. Designated public corporations may set a ceiling on the acquisition of shares by a single person according to its articles of incorporation. We set this ceiling at 3% until the discontinuation of our designation as a public corporation on September 28, 2000. As a result, we currently do not have any ceiling on the acquisition of shares by a single person or by foreigners in the aggregate. Furthermore, an investment by a foreign investor of not less than 10% of the outstanding shares with voting rights of a Korean company is defined as a direct foreign investment under the Foreign Investment Promotion Law, which is, in general, subject to the report to, and acceptance by, the Ministry of Knowledge Economy. The acquisition of shares of a Korean company by a foreign investor may also be subject to certain foreign shareholding restrictions in the event that the restrictions are prescribed in each specific law which regulates the business of the Korean company.

Under the Foreign Exchange Transaction Laws, a foreign investor who intends to acquire shares must designate a foreign exchange bank at which he must open a foreign currency account and a Won account exclusively for stock investments. No approval is required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account at the time required to place a deposit for, or settle the purchase price of, a stock purchase transaction to a Won account opened in the name of a financial investment company with a dealing, brokerage or collective investment license. Funds in the foreign currency account may be remitted abroad without any governmental approval.

Dividends on Shares are paid in Won. No governmental approval is required for foreign investors to receive dividends on, or the Won proceeds of the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Won proceeds of the sale of, any shares held by a non-resident of Korea must be deposited either in a Won account with the investor s financial investment company with a dealing, brokerage or collective investment license or his Won Account. Funds in the investor s Won Account may be transferred to his foreign currency account or withdrawn for local living expenses up to certain limitations. Funds in the Won Account may also be used for future investment in shares or for payment of the subscription price of new shares obtained through the exercise of preemptive rights.

Financial investment companies with a dealing, brokerage or collective investment license are allowed to open foreign currency accounts with foreign exchange banks exclusively for accommodating foreign investors stock investments in Korea. Through these accounts, these financial investment companies and asset management companies may enter into foreign exchange transactions on a limited basis, such as conversion of foreign currency funds and Won funds, as counterparty to foreign investors, without the investors having to open their own accounts with foreign exchange banks.

Item 10.E. ***Taxation***

The following summary is based upon tax laws of the United States and Korea as in effect on the date of this annual report on Form 20-F, and is subject to any change in United States or Korean law that may come into effect after such date. Investors in the shares of common stock or ADSs are advised to consult their own tax advisers as to the United States, Korean or other tax consequences of the purchase, ownership and disposition of such securities, including the effect of any national, state or local tax laws.

Korean Taxation

The following summary of Korean tax considerations applies to you so long as you are not:

- a resident of Korea;

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a corporation with registered office or main office located in Korea or actual management of which takes place in Korea; or

engaged in a trade or business in Korea through a permanent establishment or a fixed base to which the relevant income is attributable or with which the relevant income is effectively connected.

Shares or ADSs

Dividends on the Shares of Common Stock or ADSs

We will deduct Korean withholding tax from dividends paid to you at a rate of 22.0% (including resident surtax). If you are a qualified resident in a country that has entered into a tax treaty with Korea, you may qualify for a reduced rate of Korean withholding tax. See the discussion under Tax Treaties below for an additional explanation on treaty benefits.

In order to obtain the benefits of a reduced withholding tax rate under an applicable tax treaty, you must submit to us, prior to the dividend payment date, such evidence of tax residence as may be required by the Korean tax authorities. Evidence of tax residence will include a certificate of your tax residency issued by a competent authority of your country of tax residence, and may be submitted to us through the ADR depositary. If we distribute to you free shares representing a transfer of earning surplus or certain capital reserves into paid-in capital, that distribution may be subject to Korean tax.

Taxation of Capital Gains

As a general rule, capital gains earned by non-residents upon the transfer of the Shares or ADSs would be subject to Korean withholding tax at a rate equal to the lesser of (i) 11.0% (including resident surtax) of the gross proceeds realized or (ii) 22.0% (including resident surtax) of the net realized gain (subject to the production of satisfactory evidence of the acquisition costs and certain direct transaction costs arising out of the transfer of such Shares or ADSs), unless such non-resident is exempt from Korean income taxation under an applicable Korean tax treaty into which Korea has entered with the non-resident s country of tax residence. See the discussion under Tax Treaties below for an additional explanation of treaty benefits. Even if you do not qualify for any exemption under a tax treaty, you will not be subject to the foregoing withholding tax on capital gains if you qualify for the relevant Korean domestic tax law exemptions discussed in the following paragraphs.

With respect to shares of our common stock, you will not be subject to Korean income taxation on capital gains realized upon the transfer of such shares through the Korea Exchange if you (i) have no permanent establishment in Korea and (ii) did not own or have not owned (together with any shares owned by any person with which you have a certain special relationship and possibly including the shares represented by the ADSs) 25% or more of our total issued and outstanding shares at any time during the calendar year in which the sale occurs and during the five calendar years prior to the calendar year in which the sale occurs.

Capital gains earned by you (regardless of whether you have a permanent establishment in Korea) from the transfer of ADSs outside Korea (except for the case where you transfer the ADSs which you received as a holder of the relevant shares upon the deposit of such shares) will be exempt from Korean income taxation by virtue of the Special Tax Treatment Control Law (STTCL), provided that the issuance of the ADSs is deemed to be an overseas issuance under the STTCL.

If you are subject to tax on capital gains with respect to the sale of ADSs, or of shares of common stock which you acquired as a result of a withdrawal, the purchaser or, in the case of the sale of shares of common stock on the Korea

Exchange or through a licensed financial investment company in Korea, the licensed financial investment company, is required to withhold Korean tax from the sales price in an amount equal to the lesser of (i) 11% (including resident surtax) of the gross realization proceeds or (ii) 22% (including resident surtax) of the net realized gain (subject to the production of satisfactory evidence of the acquisition costs and certain direct transaction costs arising out of the transfer of such Shares or ADSs) and to make payment of these amounts to the Korean tax authority, unless you establish your entitlement to an exemption under an applicable tax treaty or domestic tax law. To obtain the benefit of an exemption from tax pursuant to a tax treaty, you must submit to the purchaser or the licensed financial investment company, or through the ADR depositary, as the case may be, prior to or at the time of payment, such evidence of your tax residence as the Korean tax authorities may require in support of your claim for treaty benefits. See the discussion under Tax Treaties below for an additional explanation on claiming treaty benefits.

Tax Treaties

Korea has entered into a number of income tax treaties with other countries (including the United States), which would reduce or exempt Korean withholding tax on dividends on, and capital gains on transfer of, shares of our common stock or ADSs. For example, under the Korea-United States income tax treaty, reduced rates of Korean withholding tax of 16.5% or 11.0% (respectively, including resident surtax, depending on your shareholding ratio) on dividends and an exemption from Korean withholding tax on capital gains are available to residents of the United States that are beneficial owners of the relevant dividend income or capital gains, subject to certain exceptions. However, under Article 17 (Investment of Holding Companies) of the Korea-United States income tax treaty, such reduced rates and exemption do not apply if (i) you are a United States corporation, (ii) by reason of any special measures, the tax imposed on you by the United States with respect to such dividends or capital gains is substantially less than the tax generally imposed by the United States on corporate profits, and (iii) 25% or more of your capital is held of record or is otherwise determined, after consultation between competent authorities of the United States and Korea, to be owned directly or indirectly by one or more persons who are not individual residents of the United States. Also, under Article 16 (Capital Gains) of the Korea-United States income tax treaty, the exemption on capital gains does not apply if you are an individual, and (a) you maintain a fixed base in Korea for a period or periods aggregating 183 days or more during the taxable year and your ADSs or shares of common stock giving rise to capital gains are effectively connected with such fixed base or (b) you are present in Korea for a period or periods of 183 days or more during the taxable year.

You should inquire whether you are entitled to the benefit of an income tax treaty with Korea. It is the responsibility of the party claiming the benefits of an income tax treaty in respect of dividend payments or capital gains to submit to us, the purchaser or the financial investment company with a brokerage license, as applicable, a certificate as to his or her tax residence. In the absence of sufficient proof, we, the purchaser or the financial investment company with a brokerage license, as applicable, must withhold tax at the normal rates. In addition, in order for you to obtain the benefit of a tax exemption on certain Korean source income (e.g., dividends and capital gains) under an applicable tax treaty, Korean tax law requires you (or your agent) to submit the application for tax exemption along with a certificate of your tax residency issued by a competent authority of your country of tax residence, subject to certain exceptions. Such application should be submitted to the relevant district tax office by the ninth day of the month following the date of the first payment of such income.

Inheritance Tax and Gift Tax

If you die while holding an ADS or donate an ADS, it is unclear whether, for Korean inheritance and gift tax purposes, you will be treated as the owner of the shares of common stock underlying the ADSs. If the tax authority interprets depositary receipts as the underlying share certificates, you may be treated as the owner of the shares of common stock and your heir or the donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax presently at the rate of 10% to 50%; provided that the value of the ADSs or shares of common stock is greater than a specified amount.

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If you die while holding a share of common stock or donate a share of common stock, your heir or donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax at the same rate as indicated above.

At present, Korea has not entered into any tax treaty relating to inheritance or gift taxes.

Securities Transaction Tax

If you transfer shares of common stock on the KRX KOSPI Market, you will be subject to securities transaction tax at the rate of 0.15% and an agriculture and fishery special surtax at the rate of 0.15% of the sale price of the shares of common stock. If you transfer shares of common stock on the KRX KOSDAQ Market, you will be subject to securities transaction tax at the rate of 0.3%. If your transfer of the shares of common stock is not made on the Korea Exchange, subject to certain exceptions, you will be subject to securities transaction tax at the rate of 0.5% and will not be subject to an agriculture and fishery special surtax.

Depositary receipts constitute share certificates subject to the securities transaction tax. The transfer of share certificates listed on the New York Stock Exchange, the NASDAQ National Market or other qualified foreign exchanges is exempt from the securities transaction tax under the Securities Transaction Tax Law. Accordingly, once the ADSs are listed on the New York Stock Exchange, your transfer of ADRs should not be subject to the securities transaction tax. In principle, the securities transaction tax, if applicable, must be paid by the transferor of the shares or rights. When the transfer is effected through a securities settlement company, such settlement company is generally required to withhold and pay the tax to the tax authorities. When such transfer is made through a financial investment company with a brokerage license only, such financial investment company is required to withhold and pay the tax. Where the transfer is effected by a non-resident without a permanent establishment in Korea, other than through a securities settlement company or a financial investment company with a brokerage license, the transferee is required to withhold the securities transaction tax.

United States Taxation

This summary describes the material U.S. federal income tax consequences for a U.S. holder (as defined below) of owning our shares of common stock or ADSs. This summary applies to you only if you hold shares of common stock or ADSs as capital assets for tax purposes. This summary does not apply to you if you are a member of a class of holders subject to special rules, such as:

- a dealer in securities or currencies;
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings;
- a bank;
- a life insurance company;
- a tax-exempt organization;
- a person that holds shares of common stock or ADSs that are a hedge or that are hedged against interest rate or currency risks;
- a person that holds shares of common stock or ADSs as part of a straddle or conversion transaction for tax purposes;

a person whose functional currency for tax purposes is not the U.S. dollar; or

a person that owns or is deemed to own 10% or more of any class of our stock.

This summary is based on laws, treaties and regulatory interpretations in effect on the date hereof, all of which are subject to change, possibly on a retroactive basis.

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Please consult your own tax advisers concerning the U.S. federal, state, local and other national tax consequences of purchasing, owning and disposing of shares of common stock or ADSs in your particular circumstances.

For purposes of this summary, you are a U.S. holder if you are a beneficial owner of a share of common stock or ADS that is:

- a citizen or resident of the United States;
- a U.S. domestic corporation; or
- subject to U.S. federal income tax on a net income basis with respect to income from the share of common stock or ADS.

Shares of Common Stock and ADSs

In general, if you hold ADSs, you will be treated as the holder of the shares of common stock represented by those ADSs for U.S. federal income tax purposes, and no gain or loss will be recognized if you exchange an ADS for the shares of common stock represented by that ADS.

Dividends

The gross amount of cash dividends that you receive (prior to deduction of Korean taxes) generally will be subject to U.S. federal income taxation as foreign source dividend income. Dividends paid in Won will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of your (or, in the case of ADSs, the depositary s) receipt of the dividend, regardless of whether the payment is in fact converted into Dollars. If such a dividend is converted into Dollars on the date of receipt, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. U.S. holders should consult their own tax advisers regarding the treatment of any foreign currency gain or loss on any Won received by U.S. holders that are converted into Dollars on a date subsequent to receipt.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual prior to January 1, 2013 with respect to the ADSs and common stock will be subject to taxation at a maximum rate of 15% if the dividends are qualified dividends. Dividends paid on the ADSs and common stock will be treated as qualified dividends if (i) we are eligible for the benefits of a comprehensive income tax treaty with the United States that the Internal Revenue Service has approved for the purposes of the qualified dividend rules and (ii) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company (PFIC). The income tax treaty between Korea and the United States (Treaty) has been approved for the purposes of the qualified dividend rules, and we believe we are eligible for benefits under the Treaty. Based on our audited financial statements and relevant market and shareholder data, we believe that we were not treated as a PFIC for U.S. federal income tax purposes with respect to our 2009 or 2010 taxable year. In addition, based on our audited financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a PFIC for our 2011 taxable year. You should consult your own tax advisers regarding the availability of the reduced dividend tax rate in the light of your own particular circumstances.

Distributions of additional shares in respect of shares of common stock or ADSs that are made as part of a pro-rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax.

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Sales and Other Dispositions

For U.S. federal income tax purposes, gain or loss that you realize on the sale or other disposition of shares of common stock or ADSs will be capital gain or loss, and will be long-term capital gain or loss if the shares of common stock or ADSs were held for more than one year. Your ability to offset capital losses against ordinary income is limited. Long-term capital gain recognized by an individual U.S. holder generally is subject to taxation at a reduced rate.

Foreign Tax Credit Considerations

You should consult your own tax advisers to determine whether you are subject to any special rules that limit your ability to make effective use of foreign tax credits, including the possible adverse impact of failing to take advantage of benefits under the income tax treaty between the United States and Korea. If no such rules apply, you generally may claim a credit, up to any applicable reduced rates provided under the Treaty, against your U.S. federal income tax liability for Korean taxes withheld from dividends on shares of common stock or ADSs, so long as you have owned the shares of common stock or ADSs (and not entered into specified kinds of hedging transactions) for at least a 16-day period that includes the ex-dividend date. Instead of claiming a credit, you may, at your election, deduct such Korean taxes in computing your taxable income, provided that you do not elect to claim a foreign tax credit for any foreign income taxes paid or accrued for the relevant tax year and subject to generally applicable limitations under U.S. tax law. Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain hedged positions in securities and may not be allowed in respect of arrangements in which your expected economic profit is insubstantial. You may not be able to use the foreign tax credit associated with any Korean withholding tax imposed on a distribution of additional shares that is not subject to U.S. tax unless you can use the credit against United States tax due on other foreign-source income.

Any Korean securities transaction tax or agriculture and fishery special tax that you pay will not be creditable for foreign tax credit purposes.

The calculation of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions involves the application of complex rules that depend on a U.S. holder s particular circumstances. You should consult your own tax advisers regarding the creditability or deductibility of such taxes.

U.S. Information Reporting and Backup Withholding Rules

Payments in respect of the notes, shares of common stock or ADSs that are made within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the holder (1) is a corporation or other exempt recipient or (2) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification of its non-U.S. status in connection with payments received within the United States or through a U.S.-related financial intermediary.

Item 10.F. ***Dividends and Paying Agents***

See Item 8.A. Consolidated Statements and Other Financial Information Dividends above for information concerning our dividend policies and our payment of dividends. See Item 10.B. Memorandum and Articles of Association Dividends for a discussion of the process by which dividends are paid on shares of our common stock. The paying agent for payment of our dividends on ADSs in the United States is the Bank of New York Mellon.

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Item 10.G. ***Statements by Experts***

Not applicable

Item 10.H. ***Documents on Display***

We file reports, including annual reports on Form 20-F, and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. You may read and copy any materials filed with the SEC at the Public Reference Rooms in Washington, D.C., New York, New York and Chicago, Illinois. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Any filings we make electronically will be available to the public over the Internet at the SEC s web site at *http://www.sec.gov.*

Item 10.I. ***Subsidiary Information***

Not applicable

Item 11. ***Quantitative and Qualitative Disclosures about Market Risk***

We are exposed to foreign exchange rate and interest rate risk primarily associated with underlying liabilities, and to changes in the commodity prices of principal raw materials and the market value of our equity investments. Following evaluation of these positions, we selectively enter into derivative financial instruments to manage the related risk exposures. These contracts are entered into with major financial institutions, which minimizes the risk of credit loss. The activities of our finance division are subject to policies approved by our senior management. These policies address the use of derivative financial instruments, including the approval of counterparties, setting of limits and investment of excess liquidity. Our general policy is to hold or issue derivative financial instruments for hedging purposes. From time to time, we may also enter into derivative financial contracts for trading purposes.

Exchange Rate Risk

Korea is our most important market and, therefore, a substantial portion of our cash flow is denominated in Won. Most of our exports are denominated in Dollars. Japan is also an important market for us, and we derive significant cash flow denominated in Yen. We are exposed to foreign exchange risk related to foreign currency denominated liabilities and anticipated foreign exchange payments. Anticipated foreign exchange payments, which represent a substantial sum and are mostly denominated in Dollars, relate primarily to imported raw material costs and freight costs. Foreign currency denominated liabilities relate primarily to foreign currency denominated debt. We use, to a limited extent, cross-currency interest rate swaps to reduce our exchange rate exposure with respect to foreign currency denominated debt. Under cross-currency interest rate swaps, we typically agree with the other parties to exchange, at the maturity date, a fixed amount denominated in one currency with a fixed amount denominated in another currency. Until the maturity date, we agree to exchange interest payments, at specified intervals, calculated based on different interest rates for each currency. We also use, to a limited extent, currency forward contracts to purchase Dollars to reduce our exchange rate exposure. Under currency forward contracts, we typically agree with the other parties to exchange, at the maturity date, a fixed amount denominated in Dollars with an amount denominated in Yen or Won at a fixed exchange rate.

As of December 31, 2010, we had entered into swap contracts, currency forward contracts and currency future contracts. We may incur losses under our existing contracts or any swap or other derivative product transactions entered into in the future. See Note 24 of Notes to Consolidated Financial Statements.

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Interest Rate Risk

We are also subject to market risk exposure arising from changing interest rates. A reduction of interest rates increases the fair value of our debt portfolio, which is primarily of a fixed interest nature. From time to time, we use, to a limited extent, interest rate swaps to reduce interest rate volatility on some of our debt and manage our interest expense by achieving a balanced mixture of floating and fixed rate debt. As of December 31, 2010, we entered into two interest rate swap contracts.

The following table summarizes the carrying amounts, fair values, principal cash flows by maturity date and weighted average interest rates of our short-term and long-term liabilities as of December 31, 2010 which are sensitive to exchange rates and/or interest rates. The information is presented in Won, which is our reporting currency.

	Maturities						December 31, 2010		December 31, 20	
	2011	2012	2013	2014	2015	Thereafter	Total	Fair Value	Total	Fai Valu
	(In billions of Won except rates)									
al currency:										
d rate	1,915	1,184	1,228	668	1,377	642	7,013	7,157	4,565	4,6
rage ghted rate (1)	5.11%	5.84%	5.54%	5.01%	4.50%	5.05%	5.17%		5.11%	
able rate	87	32	11	12	13	47	202	202	153	1
rage ghted rate (1)	3.51%	3.50%	1.64%	1.64%	1.64%	1.64%	2.74%		2.94%	
-total	2,002	1,215	1,239	681	1,389	689	7,215	7,359	4,719	4,7
eign rency, ncipally ars and :										
d rate	5,850	590	2,022	969	165	1,553	11,149	11,373	5,517	5,5
rage ghted rate (1)	1.80%	2.62%	1.50%	7.67%	2.71%	4.12%	2.64%		3.81%	
able rate	1,473	1	115	58	1	1	1,651	1,625	2,077	2,0
rage ghted rate (1)	2.21%	2.96%	2.06%	1.71%	2.96%	2.96%	2.18%		1.48%	
-total	7,323	592	2,137	1,028	166	1,553	12,799	12,998	7,594	7,6
l	9,325	1,807	3,376	1,708	1,555	2,242	20,014	20,357	12,313	12,3

(1) Weighted average rates of the portfolio at the period end.

Commodity Price Risk

We are exposed to market risk of price fluctuations related to the purchase of raw materials, especially iron ore and coal. To ensure adequate supply of raw materials, we enter into long-term supply contracts to purchase iron ore, coal, nickel, chrome, stainless steel scrap and LNG. These contracts generally have terms of three to ten years and provide for periodic price adjustments to then-market prices. The long-term contracts to purchase iron ore and coal generally provide for quarterly adjustments to the purchase prices to be determined through negotiation between the supplier and us. Such price negotiations are driven by various factors, including the global economic outlook, global market prices of raw materials and steel products, supply and demand outlook of raw materials and production costs of raw materials. Typically, globally influenced buyers and sellers of raw materials determine benchmark prices of raw materials, based on which other buyers and sellers negotiate their prices after taking into consideration the quality of raw materials and other factors. In case of iron ore, if we fail to agree on the quarterly price adjustment within a predetermined deadline, the supplier and we typically agree on the purchase price based on the index price that reflects the spot market price as well as the quality of iron ore and transportation expense. As of December 31, 2010, 323 million tons of iron ore and 52 million tons of coal remained to be purchased under long-term supply contracts. Increases in prices of our key raw materials and our inability to pass along such increases to our customers could adversely affect our margins and profits. A 5% increase in the price of coal, iron ore and LNG in 2010 would have increased our operating expenses by Won 568 billion in 2010.

Equity Price Risk

We are exposed to equity price risk primarily from changes in the stock price of SK Telecom and Nippon Steel Corporation. As of December 31, 2010, we hold a 2.90% interest in SK Telecom (excluding shares placed as collateral for exchangeable bonds issued in August 2008) and a 3.50% interest in Nippon Steel Corporation. We have not entered into any derivative instruments or any other arrangements to manage our equity price risks.

Item 12. ***Description of Securities Other than Equity Securities***

Not applicable

Item 12.A. ***Debt Securities***

Not applicable

Item 12.B. ***Warrants and Rights***

Not applicable

Item 12.C. ***Other Securities***

Not applicable

Item 12.D. ***American Depositary Shares***

Fees and Charges

Under the terms of the deposit agreement, holders of our ADSs are required to pay the following service fees to the depositary:

Services	Fees
Issuance of ADSs upon deposit of shares	Up to $0.05 per ADS issued
Delivery of deposited shares against surrender of ADSs	Up to $0.05 per ADS surrendered
Distribution delivery of ADSs pursuant to sale or exercise of rights	Up to $0.05 per ADS held
Distributions of dividends	Up to $0.02 per ADS held
Distribution of securities other than ADSs	A fee equivalent to the fee that would be payable if securities distributed had been shares and such shares had been deposited for issuance of ADSs.
Other corporate action involving distributions to shareholders	1. As necessary for taxes and other governmental charges that the depositary or the custodian have to pay on any ADS or share underlying an ADS (for example, stock transfer taxes, stamp duty or withholding

taxes).

2. As necessary for any charges incurred by the depositary or its agents for servicing the deposited securities.

Holders of our ADSs are also responsible for paying certain fees and expenses incurred by the depositary and certain taxes and governmental charges such as:

- fees for the transfer and registration of shares charged by the registrar and transfer agent for the shares in Korea (*i.e.*, upon deposit and withdrawal of shares);

- expenses incurred for converting foreign currency into U.S. dollars;

expenses for cable, telex and fax transmissions and for delivery of securities;

taxes and duties upon the transfer of securities (*i.e.*, when shares are deposited or withdrawn from deposit); and

fees and expenses incurred in connection with the delivery or servicing of shares on deposit.

Depositary fees payable upon the issuance and surrender of ADSs are typically paid to the depositary by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depositary and by the brokers (on behalf of their clients) delivering the ADSs to the depositary for surrender. The brokers in turn charge these fees to their clients. Depositary fees payable in connection with distributions of cash or securities to ADS holders and the depositary services fee are charged by the depositary to the holders of record of ADSs as of the applicable ADS record date.

The depositary fees payable for cash distributions are generally deducted from the cash being distributed. In the case of distributions other than cash (i.e., stock dividend, rights), the depositary charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or uncertificated in direct registration), the depositary sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via the Korea Securities Depositary, or KSD), the depositary generally collects its fees through the systems provided by KSD (whose nominee is the registered holder of the ADSs held in KSD) from the brokers and custodians holding ADSs in their KSD accounts. The brokers and custodians who hold their clients ADSs in KSD accounts in turn charge their clients accounts the amount of the fees paid to the depositary.

In the event of refusal to pay the depositary fees, the depositary may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depositary fees from any distribution to be made to such holder of ADSs.

The fees and charges that holders of our ADSs may be required to pay may vary over time and may be changed by us and by the depositary. Holders of our ADSs will receive prior notice of such changes.

Fees and Payments from the Depositary to Us

In 2010, we received the following payments from the depositary

Reimbursement of NYSE listing fees:	$ 79,816.58
Reimbursement of London Stock Exchange listing fees:	$ 34,852.52
Reimbursement of Tokyo Stock Exchange fees:	$ 33,876.67
Reimbursement of proxy process expenses (printing, postage and distribution):	$ 133,485.23
Contributions toward our investor relations efforts:	$ 48,602.64

In addition, as part of its service to us, the depositary waives its fees for the standard costs associated with the administration of the ADS facility, associated operating expenses, investor relations advice and access to an internet-based tool used in our investor relations activities.

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Item 13. ***Defaults, Dividend Arrearages and Delinquencies***

Not applicable

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Item 14. ***Material Modifications to the Rights of Security Holders and Use of Proceeds***

Not applicable

Item 15. ***Controls and Procedures***

a. Disclosure Controls and Procedures

Our management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of December 31, 2010. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission s rules and forms, and that it is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

b. Management s Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed by, and under the supervision of, our principal executive, principal operating and principal financial officers, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. 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.

Our management has completed an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2010 based on criteria in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2010. Our management has excluded Daewoo International and its subsidiaries from our assessment of internal control over financial reporting as of December 31, 2010 because we acquired Daewoo International and its subsidiaries in a purchase business combination in September 2010. Daewoo International and its subsidiaries comprised approximately 5.54% of our

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consolidated sales in 2010 and approximately 13.08% of our consolidated total assets as of December 31, 2010.

KPMG Samjong Accounting Corp. (KPMG Samjong), an independent registered public accounting firm, which also audited our consolidated financial statements as of, and for the year ended December 31, 2010, as stated in their report which is included herein, has issued an attestation report on the effectiveness of our internal control over financial reporting.

c. Attestation Report of the Independent Registered Public Accounting Firm

The attestation report of our independent registered public accounting firm on the effectiveness of our internal control over financial reporting is furnished in Item 18 of this Form 20-F.

d. Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting that occurred during the year covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 16. ***[Reserved]***

Item 16A. ***Audit Committee Financial Expert***

At our annual general meeting of shareholders in February 2011, our shareholders elected the following three members to the audit committee: Lee, Chang-Hee (committee chair), Kim, Byung-Ki and Park, Sang-Kil. The board of directors has approved this newly elected audit committee. Lee, Chang-Hee is an audit committee financial expert and is independent within the meaning of applicable SEC rules.

Item 16B. ***Code of Ethics***

We have adopted a code of business conduct and ethics, as defined in Item 16B. of Form 20-F under the Securities Exchange Act of 1934, as amended. Our code of business conduct and ethics, called Code of Conduct, applies to our chief executive officer and chief financial officer, as well as to our directors, other officers and employees. Our Code of Conduct is available on our web site at *www.posco.com.* If we amend the provisions of our Code of Conduct that apply to our chief executive officer or chief financial officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our web site at the same address.

Item 16C. ***Principal Accountant Fees and Services***

Audit and Non-Audit Fees

The following table sets forth the fees billed to us by our independent auditor, KPMG in 2009 and 2010:

	For the Year Ended December 31,	
	2009	2010
	(In millions of Won)	
Audit fees	₩ 3,122	₩ 5,198

Audit-related fees		750
Tax fees	674	477
Other fees	51	439
Total fees	₩ 3,847	₩ 6,864

Audit fees in 2010 as set forth in the above table are the aggregate fees billed by KPMG Samjong, the Korean member firm of KPMG International, in connection with the audit of our annual

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financial statements and the annual financial statements of other related companies and review of interim financial statements.

Audit-related fees in 2010 as set forth in the above table are the aggregate fees billed by KPMG Samjong for due diligence service related to an acquisition project, accounting advisory service on consolidation and general consultation on financial accounting and reporting standards.

Tax fees in 2010 as set forth in the above table are fees billed by KPMG Samjong for our tax compliance and tax planning, as well as tax planning and preparation of other related companies.

Other fees in 2010 as set forth in the above table are fees billed by KPMG Samjong primarily related to review of financial information on potential investment projects.

Audit Committee Pre-Approval Policies and Procedures

Our audit committee has not established pre-approval policies and procedures for the engagement of our independent auditors for services. Our audit committee expressly approves on a case-by-case basis any engagement of our independent auditors for audit and non-audit services provided to our subsidiaries or us.

Item 16D. ***Exemptions from the Listing Standards for Audit Committees***

Not applicable

Item 16E. ***Purchases of Equity Securities by the Issuer and Affiliated Purchasers***

The following table sets forth the repurchases of common shares by us or any affiliated purchasers during the fiscal year ended December 31, 2010:

Period	Total Number of Shares Purchased	Average Price Paid Per Share (In Won)	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet Be Purchased Under the Plans
January 1 to January 31				
February 1 to February 29				
March 1 to March 31				
April 1 to April 30				
May 1 to May 31				
June 1 to June 30				
July 1 to July 31				
August 1 to August 31				
September 1 to September 30				
October 1 to October 31				
November 1 to November 30				

December 1 to December 31

Total

Item 16F. ***Change in Registrant s Certifying Accountant***

Not applicable

Item 16G. ***Corporate Governance***

Pursuant to the rules of the New York Stock Exchange applicable to foreign private issuers like us that are listed on the New York Stock Exchange, we are required to disclose significant differences between the New York Stock Exchange s corporate governance standards and those that we follow under Korean law and in accordance with our own internal procedures. The following is a summary of such significant differences.

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NYSE Corporate Governance Standards	POSCO s Corporate Governance Practice
Director Independence	
Independent directors must comprise a majority of the board	Our articles of incorporation provide that our board of directors must comprise no less than a majority of Outside Directors. Our Outside Directors must meet the criteria for outside directorship set forth under the Korean Securities and Exchange Act. The majority of our board of directors is independent (as defined in accordance with the New York Stock Exchange s standards), and 8 out of 13 directors are Outside Directors. Under our articles of incorporation, we may have up to five Inside Directors and eight Outside Directors.
Nomination/Corporate Governance Committee	
Listed companies must have a nomination/corporate governance committee composed entirely of independent directors	We have not established a separate nomination corporate governance committee. However, we maintain a Director Candidate Recommendation Committee composed of three Outside Directors and one Inside Director.
Compensation Committee	
Listed companies must have a compensation committee composed entirely of independent directors	We maintain an Evaluation and Compensation Committee composed of four Outside Directors.
Executive Session	
Listed companies must hold meetings solely attended by non-management directors to more effectively check and balance management directors	Our Outside Directors hold meetings solely attended by Outside Directors in accordance with operation guidelines of our board of directors.
Audit Committee	
Listed companies must have an audit committee that is composed of minimum of three directors and satisfy the requirements of Rule 10A-3 under the Exchange Act	We maintain an Audit Committee comprised of three Outside Directors who meet the applicable independence criteria set forth under Rule 10A-3 under the Exchange Act.
Shareholder Approval of Equity Compensation Plan	
Listed companies must allow their shareholders to exercise their voting rights with respect to any material revision to the company s equity compensation plan	We currently have an Employee Stock Ownership Program. We previously provided a stock options program for officers and directors, as another equity compensation plan. However, during our annual

shareholders meeting in February 2006, our shareholders resolved to terminate the stock option program and amended our articles of incorporation to delete the provision allowing grant of stock options to officers and directors. Consequently, since February 24, 2006, we have not granted stock options to officers and directors. Matters related to the Employee Stock Ownership Program are not subject to shareholders approval under Korean law.

Corporate Governance Guidelines

Listed companies must adopt and disclose corporate governance guidelines	We have adopted a Corporate Governance Charter setting forth our practices with respect to relevant corporate governance matters. Our Corporate Governance Charter is in compliance with Korean law but does not meet all requirements established by the New York Stock Exchange for U.S. companies listed on the exchange. A copy of our Corporate Governance Charter is available on our website at *www.posco.com.*

Code of Business Conduct and Ethics

Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers	We have adopted a Code of Conduct for all directors, officers and employees. A copy of our Code of Conduct is available on our website at *www.posco.com.*

PART III

Item 17. ***Financial Statements***

Not applicable

Item 18. ***Financial Statements***

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Item 19. ***Exhibits***

1.1	Articles of Incorporation of POSCO (English translation)
2.1	Form of Common Stock Certificate (including English translation) (incorporated by reference to Exhibit 4.3 to the Registrant s Registration Statement No. 33-81554)*
2.2	Form of Deposit Agreement (including Form of American Depositary Receipts) (incorporated by reference to the Registrant s Registration Statement (File No. 33-84318) on Form F-6)*
2.3	Letter from ADR Depositary to the Registrant relating to the Pre-release of American Depositary Receipts (incorporated by reference to the Registrant s Registration Statement (File No. 33-84318) on Form F-6)*
8.1	List of consolidated subsidiaries
12.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed previously

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
POSCO:

We have audited the accompanying consolidated statements of financial position of POSCO and subsidiaries (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of POSCO and subsidiaries as of December 31, 2010 and 2009 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with accounting principles generally accepted in the Republic of Korea.

Accounting principles generally accepted in the Republic of Korea vary in certain significant respects from U.S. generally accepted accounting principles. Information relating to the nature and effect of such differences is presented in note 32 to the consolidated financial statements.

The accompanying consolidated financial statements as of and for the year ended December 31, 2010 have been translated into United States dollars solely for the convenience of the readers. We have audited the translation and, in our opinion, the consolidated financial statements expressed in Korean Won have been translated into United States dollars on the basis set forth in note 2 to the consolidated financial statements.

As further described in note 1 to the consolidated financial statements, POSCO acquired a controlling financial interest in Daewoo International Corporation in 2010, and the results of operations of Daewoo International Corporation for the year ended December 31, 2010 are consolidated in their entirety into POSCO s consolidated statement of income as if the acquisition has occurred on January 1, 2010, with the pre-acquisition net earnings deducted in determining POSCO s consolidated net income for 2010. Therefore, comparability with POSCO s consolidated financial statements for prior years is impacted accordingly.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of POSCO s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 17, 2011 expressed an unqualified opinion on the effectiveness of POSCO s internal control over financial reporting.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea
June 17, 2011

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Report of Independent Registered Public Accounting Firm
On Internal Control Over Financial Reporting

The Board of Directors and Shareholders
POSCO:

We have audited POSCO s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). POSCO s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting 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.

In our opinion, POSCO maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control Integrated Framework issued by the COSO.

As described in Management s Report on Internal Control over Financial Reporting, management has excluded Daewoo International Corporation and its subsidiaries from its assessment of internal control over financial reporting as of December 31, 2010, because it was acquired by the Company in a purchase business combination during 2010. We have also excluded Daewoo International Corporation and its subsidiaries from our audit of internal control over financial reporting. Daewoo International Corporation and its subsidiaries comprised approximately 5.54% of the Company s 2010 consolidated sales and approximately 13.08% of the Company s consolidated total assets at December 31, 2010.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of POSCO and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2010, and our report dated June 17, 2011 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea
June 17, 2011

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POSCO and Subsidiaries
Consolidated Statements of Financial Position
As of December 31, 2010 and 2009

	Notes	2010	2009	(note 2) 2010
		(In millions of Korean Won and thousands of US dollar)		
Assets				
Cash and cash equivalents, net of government grants	3	₩ 3,598,822	2,196,731	$ 3,159,911
Short-term financial instruments	3,11	2,954,351	5,820,447	2,594,039
Trading securities	4	183,953	505,811	161,518
Current portion of investment securities, net	7	46,566	56,463	40,887
Trade accounts and notes receivable, net of allowance for doubtful accounts and present value discount	5,11	7,995,649	5,145,022	7,020,501
Other accounts and notes receivable, net of allowance for doubtful accounts and present value document	5	685,069	447,693	601,518
Advance payments		892,957	588,354	784,052
Inventories	6,11,31	9,803,453	5,152,839	8,607,826
Deferred income tax assets	26	383,869	404,401	337,052
Other current assets, net of allowance for doubtful accounts	12	562,434	316,389	493,840
Total current assets		27,107,123	20,634,150	23,801,144
Property, plant and equipment	9,11,31	53,921,182	47,506,269	47,344,966
Less accumulated depreciation		(28,222,033)	(25,666,484)	(24,780,080)
Property, plant and equipment, net		25,699,149	21,839,785	22,564,886
Investment securities, net	7,11	9,317,705	6,211,966	8,181,320
Intangible assets, net	10,31	3,161,452	629,969	2,775,882
Long-term trade accounts and notes receivable, net of allowance for doubtful accounts and present value discount	5	12,629	15,685	11,089
Long-term loans receivable, net of allowance for doubtful accounts and present value discount	5	140,446	103,607	123,317
Deferred income tax assets	26	438,833	294,441	385,313
Guarantee deposits		118,516	51,269	104,062
Long-term financial instruments	3	22,748	18,634	19,974
Resource development investments	8	1,164,015		1,022,052
Other long-term assets, net of allowance for doubtful accounts	12	763,317	512,242	670,223
Total non-current assets		40,838,810	29,677,598	35,858,118

Total assets	₩	67,945,933	50,311,748	59,659,262

See accompanying notes to consolidated financial statements.

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POSCO and Subsidiaries
Consolidated Statements of Financial Position
As of December 31, 2010 and 2009

	Notes		2010	2009		(note 2) 2010
	(In millions of Korean Won and thousands of US dollar)					
Liabilities						
Trade accounts and notes payable		₩	4,125,253	2,734,900	$	3,622,138
Short-term borrowings	13		5,838,370	3,225,801		5,126,324
Current portion of long-term debts, net of discount on debentures issued	13		3,430,562	786,887		3,012,171
Accrued expenses			477,322	344,274		419,108
Other accounts and notes payable			910,018	642,446		799,033
Withholdings			115,681	200,894		101,572
Income tax payable			769,475	393,719		675,630
Advances received			997,728	811,644		876,045
Deferred income tax liabilities	26		3,895	71		3,420
Other current liabilities	16		424,923	134,182		373,099
Total current liabilities			17,093,227	9,274,818		15,008,540
Long-term debt, net of current portion and discount on debentures issued	14		10,608,584	8,229,781		9,314,763
Accrued severance benefits, net	15		439,102	300,421		385,549
Deferred income tax liabilities	26		1,541,388	531,927		1,353,401
Other long-term liabilities	16		1,062,211	310,487		932,665
Total non-current liabilities			13,651,285	9,372,616		11,986,378
Total liabilities			30,744,512	18,647,434		26,994,918
Parent shareholders equity						
Capital stock	1,18		482,403	482,403		423,569
Capital surplus	19		4,411,018	4,446,032		3,873,051
Capital adjustments, net	22		(2,402,702)	(2,410,668)		(2,109,669)
Accumulated other comprehensive income	28		1,009,099	455,471		886,030
Retained earnings	20		31,395,470	27,935,726		27,566,485
			34,895,288	30,908,964		30,639,466
Non-controlling interest			2,306,133	755,350		2,024,878
Total equity			37,201,421	31,664,314		32,664,344
Total liabilities and equity		₩	67,945,933	50,311,748		59,659,262

See accompanying notes to consolidated financial statements.

POSCO and Subsidiaries
Consolidated Statements of Income
For the years ended December 31, 2010, 2009 and 2008

	Notes		2010	2009	2008	(note 2) 2010
			(In millions of Korean Won and thousands of US dollar except per share information)			
Sales	31	₩	60,637,860	36,855,001	41,742,636	53,242,480
Cost of goods sold	31		51,560,675	31,037,425	32,562,339	45,272,347
Gross profit			9,077,185	5,817,576	9,180,297	7,970,133
Selling and administrative expenses	25,31		3,338,876	1,949,414	2,006,368	2,931,667
Operating income			5,738,309	3,868,162	7,173,929	5,038,466
Non-operating income						
Interest and dividend income			431,623	351,553	362,309	378,983
Gain on foreign currency transactions			1,055,832	814,758	1,078,243	927,063
Gain on foreign currency translation			225,657	541,007	122,287	198,136
Gain on valuation of trading securities			1,882	5,811	16,535	1,653
Gain on disposal of trading securities			15,373	21,298	55,056	13,498
Gain on disposal of property, plant and equipment			30,595	82,000	14,392	26,863
Gain on valuation of derivatives	24		94,617	51,101	346,932	83,078
Gain on derivative transaction	24		438,170	77,879	41,575	384,731
Equity in earnings of equity method accounted investees	7		371,228	75,250	32,931	325,954
Gain on recovery of allowance for doubtful accounts			3,861	7,736	19,116	3,390
Reversal of stock compensation expense	23		10,436		55,155	9,163
Gain on disposal of other long-term assets			30,570	234,314	48,141	26,841
Others			146,918	99,686	177,204	128,999
	31		2,856,762	2,362,393	2,369,876	2,508,352
Non-operating expenses						
Interest expense			656,769	532,090	344,686	576,670
Other bad debt expense			27,302	11,253	23,269	23,973

Loss on disposal of trading securities	1,331	1,164	1,243	1,169
Loss on valuation of trading securities	34	21	3,870	30
Loss on foreign currency transactions	1,035,834	884,347	1,207,257	909,504
Loss on foreign currency translation	428,271	105,219	933,086	376,039
Loss on derivative transaction	422,882	67,697	103,739	371,308
Loss on valuation of derivatives	118,609	94,346	288,655	104,143
Donations	75,530	128,925	142,570	66,318
Loss on impairment of investments	52,138	285,961	120,840	45,779
Loss on disposal of property, plant and equipment	75,289	54,992	53,823	66,107
Loss on impairment of intangible assets	1,120	50,493	45,890	984

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POSCO and Subsidiaries
Consolidated Statements of Income
For the years ended December 31, 2010, 2009 and 2008

	Notes		2010	2009	2008	(note 2) 2010
	(In millions of Korean Won and thousands of US dollar except per share information)					
Equity in losses of equity method accounted investees			67,850	82,130	56,795	59,575
Others			294,426	192,642	122,443	258,516
	31		3,257,385	2,491,280	3,448,166	2,860,115
Net income before income tax expense and net income (loss) of consolidated subsidiaries before acquisition			5,337,686	3,739,275	6,095,639	4,686,703
Income tax expense	26,31		(1,112,896)	(535,996)	(1,733,983)	(977,168)
Net income (loss) of consolidated subsidiaries before acquisition	31		7,095	(39,032)	11,522	6,230
Net income		₩	4,217,695	3,242,311	4,350,104	3,703,305
Net income attribute to controlling interest		₩	4,181,285	3,218,425	4,378,751	3,671,337
Net income (loss) attributable to non-controlling interest	31	₩	36,410	23,886	(28,647)	31,968
Basic and diluted earnings per share *(in Korean Won and US Dollar)*	27	₩	54,279	41,982	58,002	48

See accompanying notes to consolidated financial statements.

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POSCO and Subsidiaries
Consolidated Statements of Changes in Equity
For the years ended December 31, 2010, 2009 and 2008

		Capital Stock	Capital Surplus	Capital Adjustments	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Non Controlling Interest	Total
		(In millions of Korean Won)						
Balance as of January 1, 2008	₩	482,403	4,176,592	(2,727,147)	784,933	21,767,302	633,657	25,117,740
Net income						4,378,751	(28,647)	4,350,104
Effect of changes in scope of consolidation							31,518	31,518
Effect of changes in percentage of ownership of investees			20,194					20,194
Dividends						(755,037)		(755,037)
Changes in treasury stock			121,938	213,951				335,889
Unrealized loss on available-for-sale securities, net					(1,276,043)			(1,276,043)
Changes in capital adjustments of equity method accounted investees					37,575			37,575
Foreign currency translation adjustments					438,314			438,314
Loss on valuation of derivatives					(6,765)			(6,765)
Effect of changes in percentage non-controlling interest							39,726	39,726
Others			359	4,115		2,230	4,286	10,990

Balance as of December 31, 2008	₩	482,403	4,319,083	(2,509,081)	(21,986)	25,393,246	680,540	28,344,205

See accompanying notes to consolidated financial statements.

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POSCO and Subsidiaries
Consolidated Statements of Changes in Equity
For the years ended December 31, 2010, 2009 and 2008

		Capital Stock	Capital Surplus	Capital Adjustments	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Non Controlling Interest	Total
		(In millions of Korean Won)						
Balance as of January 1, 2009	₩	482,403	4,319,083	(2,509,081)	(21,986)	25,393,246	680,540	28,344,205
Net income						3,218,425	23,886	3,242,311
Effect of changes in scope of consolidation							25,437	25,437
Effect of changes in percentage of ownership of investees			9,607					9,607
Dividends						(689,129)		(689,129)
Changes in treasury stock			117,291	98,751				216,042
Unrealized loss on available-for-sale securities, net					583,012			583,012
Changes in capital adjustments of equity method accounted investees					10,002			10,002
Foreign currency translation adjustments					(126,357)			(126,357)
Loss on valuation of derivatives					10,800			10,800
Effect of changes in percentage non-controlling interest							30,704	30,704
Others			51	(338)		13,184	(5,217)	7,680

Balance as of December 31, 2009	₩	482,403	4,446,032	(2,410,668)	455,471	27,935,726	755,350	31,664,314

See accompanying notes to consolidated financial statements.

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POSCO and Subsidiaries
Consolidated Statements of Changes in Equity
For the years ended December 31, 2010, 2009 and 2008

		Capital Stock	Capital Surplus	Capital Adjustments	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Non Controlling Interest	Total
		(In millions of Korean Won)						
Balance as of January 1, 2010	₩	482,403	4,446,032	(2,410,668)	455,471	27,935,726	755,350	31,664,314
Net income						4,181,285	36,410	4,217,695
Effect of changes in scope of consolidation							1,139,505	1,139,505
Effect of changes in percentage of ownership of investees			(36,404)					(36,404)
Dividends						(693,296)		(693,296)
Unrealized gain on available-for-sale securities, net					544,988			544,988
Changes in capital adjustments of equity method accounted investees					(94,826)			(94,826)
Foreign currency translation adjustments					103,466			103,466
Effect of changes in percentage non-controlling interest							404,805	404,805
Others			1,390	7,966		(28,245)	(29,937)	(48,826)
Balance as of December 31, 2010	₩	482,403	4,411,018	(2,402,702)	1,009,099	31,395,470	2,306,133	37,201,421

See accompanying notes to consolidated financial statements.

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POSCO and Subsidiaries
Consolidated Statements of Changes in Equity
For the years ended December 31, 2010, 2009 and 2008

	Capital Stock	Capital Surplus	Capital Adjustments	Accumulated Other Comprehensive (Loss)	Retained Earnings	Non Controlling Interest	Total
	(In thousands of US dollar)						
Balance as of January 1, 2010	$ 423,569	3,903,795	(2,116,663)	399,222	24,528,691	663,228	27,802,541
Net income					3,671,336	31,969	3,703,306
Effect of changes in scope of consolidation						1,000,531	1,000,531
Effect of changes in percentage of ownership of investees		(31,964)					(31,964)
Dividends					(608,742)		(608,742)
Unrealized gain on available-for-sale securities, net				478,521			478,521
Changes in capital adjustments of equity method accounted investees				(83,261)			(83,261)
Foreign currency translation adjustments				90,847			90,847
Effect of changes in percentage non-controlling interest						355,435	355,435
Others		1,220	6,994		(24,800)	(26,286)	(42,871)
Balance as of December 31, 2010	$ 423,569	3,873,051	(2,109,669)	886,030	27,566,485	2,024,878	32,664,344

See accompanying notes to consolidated financial statements.

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POSCO and Subsidiaries
Consolidated Statements of Cash Flows
For the years ended December 31, 2010, 2009 and 2008

		2010	2009	2008		(note 2) 2010
		(In millions of Korean Won and thousands of US dollars)				
Cash flows from operating activities						
Net income	₩	4,217,695	3242,311	4,350,104	$	3,703,305
Adjustments to reconcile net income to net cash provided by operating activities						
Depreciation and amortization		2,950,883	2,552,777	2,379,291		2,590,994
Accrual of severance benefits		376,970	79,186	314,156		330,995
Provision for doubtful accounts, net		87,767	45,537	28,186		77,064
Loss (gain) on derivatives transactions, net		(15,288)	(10,182)	62,165		(13,423)
Loss (gain) on foreign currency translation, net		199,001	(462,724)	750,464		174,731
Loss on impairment of investments		52,138	285,961	120,840		45,779
Loss (gain) on disposal of property, plant and equipment, net		44,694	(27,008)	39,431		39,244
Loss on impairment of property, plant and equipment		135,665	11,642	1,799		119,120
Loss on impairment of intangible assets, net		1,120	50,493	45,890		984
Gain on disposal of trading securities, net		(14,042)	(20,134)	(53,813)		(12,330)
Gain on valuation of trading securities, net		(1,848)	(5,790)	(12,665)		(1,623)
Loss (gain) on valuation of derivatives, net		23,991	43,245	(58,277)		21,065
Equity in earnings posses) of equity method accounted investees, net		(303,378)	6,880	23,864		(266,380)
Other employee benefits		9,644	6,822	71,070		8,468
Net income (loss) of consolidated subsidiaries before acquisition		7,095	(39,032)	11,552		6,230
Stock compensation expense, net		(10,436)	36,100	(55,155)		(9,163)
Others		90,554	(74,247)	62,816		79,507
		3,634,530	2,479,526	3,731,614		3,191,262
Changes in operating assets and liabilities						
Decrease (increase) in trade accounts and notes receivable		(2,254,772)	713,418	(1,538,854)		(1,979,781)
Decrease (increase) in inventories		(4,216,445)	3,344,506	(3,393,710)		(3,702,208)
Decrease (increase) in other accounts and notes receivable		(211,512)	97,462	(222,706)		(185,716)
Decrease (increase) in accrued income		18,671	(5,092)	(11,914)		16,393
Decrease (increase) in advance payments		(271,058)	426,459	(586,601)		(238,000)
Decrease (increase) in prepaid expenses		(4,732)	32,837	(11,468)		(4,156)
		359,614	(296,400)	609,200		315,755

Increase (decrease) in trade accounts and notes payable				
Increase in other accounts and notes payable	158,682	55,564	7,829	139,329
Increase (decrease) in advances received	101,883	247,127	215,491	89,458
Increase (decrease) in accrued expenses	121,481	110,736	94,716	106,665
Increase (decrease) in income tax payable	363,724	(1,677,482)	1,146,204	319,364
Deferred income tax, net	(67,853)	(23,475)	(432,528)	(59,577)
Payment of severance benefits	(114,020)	(144,007)	(125,374)	(100,114)
Increase in group severance insurance deposits	(140,615)	(19,913)	(141,807)	(123,466)
Increase (decrease) in other current liabilities	223,509	(107,223)	28,816	196,250
Others	105,783	156,500	(31,997)	92,882
	(5,827,660)	2,911,017	(4,394,703)	(5,116,922)
Net cash provided by operating activities	2,024,565	8,632,854	3,687,015	1,777,645

See accompanying notes to consolidated financial statements.

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POSCO and Subsidiaries
Consolidated Statements of Cash Flows
For the years ended December 31, 2010, 2009 and 2008

		2010	2009	2008		(note 2) 2010
		(In millions of Korean Won and thousands of US dollars)				
Cash flow from investing activities						
Acquisition of trading securities	₩	(811,419)	(2,061,180)	(7,058,161)	$	(712,458)
Acquisition of short-term financial instruments		(14,360,040)	(11,946,832)	(5,098,326)		(12,608,693)
Acquisition of available-for-sale securities		(703,219)	(553,486)	(1,357,622)		(617,455)
Acquisition of property, plant and equipment		(5,895,960)	(6,406,503)	(4,093,313)		(5,176,890)
Acquisition of intangible assets		(208,895)	(101,202)	(131,107)		(183,419)
Acquisition of other long-term assets		(821,322)	(95,821)	(122,700)		(721,154)
Short-term loans provided		(326,367)	(94,042)	(79,876)		(286,564)
Long-term loans provided		(57,540)	(32,239)	(285,654)		(50,523)
Payment for business acquisition, Net of cash acquired		(3,206,145)	(80,380)	(279,031)		(2,815,124)
Disposal of trading securities		1,169,172	2,823,359	7,008,770		1,026,580
Disposal of short-term financial instruments		17,240,470	7,934,977	5,045,613		15,137,826
Disposal of available-for-sale securities		316,840	201,395	26,752		278,199
Disposal of long-term financial instruments		5,168	1,824	279,610		4,538
Disposal of interest in subsidiaries		10,412	244,785			9,142
Disposal of property, plant and equipment		253,178	378,978	53,773		222,300
Collection on short-term loans		227,309	29,655	191,251		199,587
Others		278,431	39,783	97,252		244,475
Net cash used in investing activities		(6,889,927)	(9,716,929)	(5,802,769)		(6,049,633)
Cash flow from financing activities						
Proceeds from short-term borrowings		5,294,625	5,828,483	10,233,819		4,648,893
Proceeds from long-term debt		4,687,849	2,695,932	3,454,625		4,116,120
Proceeds from other long-term liabilities		262,505	96,279	49,851		230,490
Disposal of treasury stock			249,124	364,753		
Repayment of current portion of long-term debt		(471,486)	(763,504)	(491,635)		(413,983)
Repayment of short-term borrowings		(3,325,397)	(5,836,058)	(9,042,662)		(2,919,832)
Repayment of long-term debt		(317,502)	(585,629)	(369,348)		(278,779)
Payment of cash dividends		(693,296)	(689,129)	(755,037)		(608,742)
Acquisition of treasury stock				(36,832)		
Repayment of other long-term liabilities		(49,311)	(60,651)	(38,145)		(43,297)
Others		291,208	(72,749)	(252,807)		255,690
Net cash provided by financing activities		5,679,195	862,098	3,116,582		4,986,560
		10,496	(40,865)	141,536		9,216

Effect of exchange rate changes on cash and cash equivalents					
Net increase in cash and cash equivalents from changes in consolidated subsidiaries		576,414	(28,699)	55,519	506,115
Net increase (decrease) in cash and cash equivalents		1,400,743	(291,541)	1,197,883	1,229,903
Cash and cash equivalents					
Cash and cash equivalent at beginning of the year		2,199,170	2,490,711	1,292,828	1,930,960
Cash and cash equivalent at end of the year (note 3)	₩	3,599,913	2,199,170	2,490,711	$ 3,160,868

Supplemental cash flow information for the years ended December 31 is as follow:

	2010	2009	2008	2010
	(In millions of Korean Won and thousands of US Dollar)			
Cash paid for interest	₩ 537,530	487,472	319,224	$ 471,973
Cash paid for income taxes	763,329	2,266,055	1,028,588	670,234

See accompanying notes to consolidated financial statements.

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POSCO and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

1. Consolidated Companies

General descriptions of POSCO, the controlling company, and its controlled subsidiaries (collectively the Company), which consist of 37 domestic subsidiaries including POSCO Engineering & Construction Co., Ltd. and 76 foreign subsidiaries, whose accounts are included in the consolidated financial statements, and 42 equity-method investees, which are excluded from the consolidation, are as follows:

The Controlling Company

POSCO, the controlling 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 distribute steel rolled products and plates in the domestic and overseas markets. The shares of POSCO have been listed on the Korea Exchange since 1988. POSCO operates two plants (Pohang mill and Gwangyang mill), one office in Korea, and eight overseas liaison offices.

As of December 31, 2010, POSCO s shareholders are as follows:

	Number of Shares	Percentage of Ownership (%)
National Pension Service	4,646,245	5.33
Nippon Steel Corporation (*1)	4,394,712	5.04
SK Telecom Co., Ltd.	2,481,310	2.85
Pohang University of Science and Technology	1,955,836	2.24
Shinhan Financial Croup Co., Ltd. (*2)	1,848,503	2.12
Others	71,860,229	82.42
	87,186,835	100.00

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

(*2) Includes number of shares held by its subsidiaries according to the Korean Commercial Code of the Republic of Korea.

As of December 31, 2010, the shares of POSCO are listed on the Korea Exchange, while its depository receipts are listed on the New York, London and Tokyo Stock Exchanges.

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POSCO and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

Consolidated Subsidiaries

The consolidated financial statements include the accounts of POSCO and its controlled subsidiaries. The following table sets forth certain information with regard to consolidated subsidiaries as of December 31, 2010:

	Primary Business	Number of Outstanding Shares	POSCO	Number of Shares Subsidiaries	Total	Percentage of Ownership (%)	Percentage of Ownership of Subsidiaries (%)
Co., Ltd.	Engineering and construction	36,723,000	32,876,418		32,876,418	89.53	
Co., Ltd. steel Co.,	Steel sales and service	18,000,000	17,155,000		17,155,000	95.31	
ed & Color .	Coated steel manufacturing	6,000,000	3,412,000		3,412,000	56.87	
Co., Ltd.	Steel work maintenance and machinery installation	2,700,000	2,700,000		2,700,000	100.00	
Co., Ltd.	Computer hardware and software distribution	137,034,729	99,403,282		99,403,282	72.54	
arch	Economic research and consulting	3,800,000	3,800,000		3,800,000	100.00	
; Co., Ltd.	Athletic facilities operation	3,945,000	2,737,000	1,208,000	3,945,000	100.00	POSCO E&C (30.62)
Co., Ltd. SCO nsultants	Architecture and consulting	340,000	340,000		340,000	100.00	

ialty Steel	Specialty steel manufacturing	26,000,000	26,000,000		26,000,000	100.00	
enture	Investment in venture companies	6,000,000	5,700,000		5,700,000	95.00	
ration (*1)	Electronic commerce	3,200,000	1,030,000	966,300	1,996,300	62.38	POSCO E&C and others (30.19)
ntec . (formerly, actories & Co., Ltd.)	Refractories manufacturing and sellings	5,907,000	3,544,200		3,544,200	60.00	
inal	Transporting and warehousing	5,000,000	2,550,000		2,550,000	51.00	
., Ltd.	Construction	10,560,000		4,229,280	4,229,280	40.05	POSCO E&C (40.05)
o., Ltd. (*2)	Facilities management	714,286	214,286		214,286	30.00	
ECH merly, king & o., Ltd.)	Packing materials manufacturing	4,164,000	2,034,246		2,034,246	48.85	
er Corp.	Generation of electricity	46,666,667	40,000,000		40,000,000	85.71	
Energy	Investment in new technology	570		126	126	22.11	POSCO Power (11.58) POSTECH Venture Capital (10.53)
.	Rental houses construction and managemet	400,000		400,000	400,000	100.00	POSCO E&C (100.00)

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	Primary Business	Number of Outstanding Shares	POSCO	Number of Shares Subsidiaries	Total	Percentage of Ownership (%)	Percentage of Ownership of Subsidiaries (%)
C Co., Ltd. OSCORE	Components manufacturing and sales	5,937,607	2,030,456	1,992,647	4,023,103	67.76	POSCO P&S (33.56)
d.	Steel by-products processing and sales	7,810,980	5,467,686		5,467,686	70.00	
o., Ltd.	Real estate rental and sales	2,000,000		2,000,000	2,000,000	100.00	POSCO E&C (100.00)
ineering	Construction and engneering service	5,000,000		4,612,947	4,612,947	92.26	POSCO P&S (92.26)
Cell Co.,	Generation of electricity	800,000		800,000	800,000	100.00	POSCO Power (75.00) POSCO E&C (25.00)
Co., Ltd.	Production of diverse stainless steel	4,468,000	4,468,000		4,468,000	100.00	
MS	Cold-rolling of stainless steel, nickel alloy	250,080		250,080	250,080	100.00	POSCO AST (100.00)
l Co., Ltd.	Ferromanganese manufacturing	10,000,000	6,500,000		6,500,000	65.00	
E Co., Ltd.	Generation of electricity	3,480,000	3,480,000		3,480,000	100.00	
SPFC	Steel manufacturing	2,000,000		2,000,000	2,000,000	100.00	POSCO P&S (100.00)
td. (*1)		3,620,000		3,131,000	3,131,000	86.49	

	Rare metals and special metals manufacturing						Samjung P&A (86.49)
tec	Industrial machinery manufacturing	39,880,120	12,345,110	4,848,400	17,193,510	43.11	POSCO E&C (12.16)
y Stage	Financial investment	2,000,000		200,000	200,000	10.00	POSTECH Venture Capital Corp. (10.00)
ily Strategy	Financial investment	28,600,000	20,000,000	8,600,000	28,600,000	100.00	POSCO E&C and others (30.07)
rnational (*1)	Trading, Energy & resource development	101,054,636	68,681,566		68,681,566	67.96	
)	LED lightning	6,000,000	1,000,000	3,800,000	4,800,000	80.00	POSCO ICT (63.33)
T	Steel manufacturing	1,885,000	1,885,000		1,885,000	100.00	
C	Steel manufacturing	2,984,272		1,521,979	1,521,979	51.00	POSCO P&S (51.00)
erica (POSAM)	Steel trading	376,593	374,532	2,061	376,593	100.00	POSCAN (0.55)
tralia Pty.	Steel sellings and mine development	761,775	761,775		761,775	100.00	
ada Ltd.	Coal trading	1,099,885		1,099,885	1,099,885	100.00	POSCO P&S (100.00)
kview Coal	Mine development	304,061		304,061	304,061	100.00	POSCAN (100.00)
Co., Ltd.	Steel intermediate trading	9,360,000	9,360,000		9,360,000	100.00	
) Steel (*3)	Steel manufacturing					50.00	POSCO P&S (5.00) POSCO Specialty Steel (10.00)

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	Primary Business	Number of Outstanding Shares	POSCO	Number of Shares Subsidiaries	Total	Percentage of Ownership (%)	Percentage o Ownership o Subsidiaries (%
CFM Coated (*3)	Coated steel manufacturing					85.00	POSCO P&S (15.00) POSCO-Chin (40.00)
Co., Ltd. (*3)	Steel service center					100.00	POSCO P&S (43.40)
Co., Ltd.	Steel service center	9,800		9,310	9,310	95.00	POSCO-Japan (95.00)
usiness Center)	Real estate rental					60.00	POSCO E&C (60.00)
Vietnam erly, E&C	Steel structure fabrication and sales					100.00	POSCO E&C (85.71) POSCO P&S (14.29)
Pohang Co., Ltd. (*3)	Stainless steel manufacturing					82.48	POSCO-Chin (23.88)
hang Coated (*3)	Coated steel manufacturing					95.46	POSCO-Chin (6.11)
and) Co., Ltd.	Steel service center	14,857,921	12,721,734	2,136,187	14,857,921	100.00	POSCO P&S (14.38)
CO Steel	Specialty steel manufacturing and sales	19,200	13,440		13,440	70.00	
Co., Ltd.	Steel processing and sellings	4,900		2,785	2,785	56.84	POSCO-Japan (56.84)
ment Co., Ltd.	Finance	5,000,000	5,000,000		5,000,000	100.00	

C SDN. BHD	Steel service center	56,550,200	25,269,900	14,315,238	39,585,138	70.00	POSCO P&S (25.31)
ng Stainless (*3)	Stainless steel manufacturing					100.00	Zhangjiagang Pohang Stainless Stee (20.00) POSCO-Chin (10.00)
ou) ocessing d. (*3)	Steel service center					100.00	POSCO-Chin (10.00)
entures	Investment in bio tech ventures					100.00	POSAM (100.00)
i Inc.	Construction and sales	24,400		24,400	24,400	100.00	POSCO E&C (100.00)
Coil Center	Steel service center					100.00	POSCO P&S (100.00)
Ltd.	Iron ore mining and trading	17,500,001		17,500,001	17,500,001	100.00	POSA (100.00)
Holding	Holding company					100.00	
Co., Ltd.	Steel trading	90,438	90,438		90,438	100.00	
Ltd.	Coal trading	12,550,000		12,550,000	12,550,000	100.00	POSA (100.00
Ltd.	Coal trading	11,050,000		11,050,000	11,050,000	100.00	POSA (100.00
Private Ltd.	Steel manufacturing	450,000,000	450,000,000		450,000,000	100.00	
e Steel ntre Pvt. Ltd.	Steel service center	115,057,046	74,787,080		74,787,080	65.00	
Co., Ltd.	Steel service center	99,000		89,100	89,100	90.00	POSCO-Japa (90.00)

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	Primary Business	Number of Outstanding Shares	POSCO	Number of Shares Subsidiaries	Total	Percentage of Ownership (%)	Percentage Ownership Subsidiaries
teel	Steel service center					100.00	POA (24.2 POSCO-Ch (36.20)
jing)	Construction and engineering					100.00	POSCO E& (100.00)
e C.V. (*3)	Steel service center					90.00	POSAM (61.00) Daewoo Internation (29.00)
ng Port	Harbor loading & unloading					100.00	ZPSS (75.0 POSCO-Ch (25.00)
l	Distribution center					100.00	POA (100.00)
Co., Ltd.	Cold-rolled steel manufacturing and sales					85.00	
o., Ltd.	Cold-rolled steel manufacturing and sales	1,541,191,740	1,304,955,672	236,236,068	1,541,191,740	100.00	POSCAN (15.33)
hi Steel Pvt. Ltd.	Steel service center	55,673,970	42,532,980		42,532,980	76.40	
Vroclaw Center	Steel service center	100,000	60,000		60,000	60.00	
	Coal trading	35,000,000		35,000,000	35,000,000	100.00	POSA (100.

Co., Ltd.	Steel service center					86.86	
ng) ssing 3)	Steel service center					100.00	POSCO-Ch (10.00)
E td. (*3)	Components manufacturing and sales					100.00	POSCO P& (15.15) POA (15.1 POSCO TM (69.70)
., Ltd.	Steel service center	99,000		81,550	81,550	82.37	POSCO-Jap (82.37)
SDN.	Steel service center	123,000,000	98,486,000	16,414,000	114,900,000	93.41	Daewoo Internation (13.34)
rporation	Mine development and operation	100		100	100	100.00	POSCAN (85.00) Samjung P& (15.00)
ssing 3)	Steel service center					100.00	POSCO-Ch (31.43)
e Manila Inc. (*3)	Steel service center					100.00	POSCO P& (100.00)
ast Steel r	Distribution center	117,627,000		77,963,180	77,963,180	66.28	POSCO-Mex (66.28)
Ltd. (*3)	Stainless cold steel manufacturing					92.97	
tra Steel	Steel service center	1,455,308	1,455,308		1,455,308	100.00	

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s	Primary Business	Number of Outstanding Shares	POSCO	Number of Shares Subsidiaries	Total	Percentage of Ownership (%)	Percentage of Ownership of Subsidiaries (%)
ia el Centre	Steel service center	58,209,443	58,209,443		58,209,443	100.00	
key essing)	Steel service center	242,444	242,444		242,444	100.00	
tnam essing 3)	Steel service center					70.00	
aoning) Center	Steel service center					100.00	POSCO-China (10.00)
onesia essing *1)	Steel service center	12,521,722	8,139,119	2,504,344	10,643,463	85.00	Daewoo International (20.00)
na Center	Steel service center					90.00	POSCO-China (10.00)
R Coal	Coal trading					100.00	POSCAN (100.00)
Pty.	Iron ore mining and trading	188,752,130	188,752,130		188,752,130	100.00	
l	Trading	555,000		555,000	555,000	100.00	Daewoo International

rp. (*1)						(100.00)
l .	Trading				100.00	Daewoo International (100.00)
l Japan	Trading	9,600	9,600	9,600	100.00	Daewoo International (100.00)
l te. Ltd.	Trading				100.00	Daewoo International (100.00)
ia	Trading	2,040,000	2,040,000	2,040,000	100.00	Daewoo International (100.00)
ment 3)	Cement manufacturing				100.00	Daewoo International (100.00)
ina) 3)	Holding company				100.00	Daewoo International (100.00)
R	Clothes manufacturing and sales	40,000	40,000	40,000	100.00	Daewoo International (100.00)
xtile C (*1,3)	Spinning and weaving				100.00	Daewoo International (100.00)
xtile C (*1,3)	Spinning and weaving				100.00	Daewoo International (100.00)
l oldings	Energy & Resource development	111,480,911	111,480,911	111,480,911	100.00	Daewoo International (100.00)
per ng 3)	Paper manufacturing				66.50	Daewoo International (33.80) Daewoo-China (32.70)

uritius	Iron ore mining and trading	100.00	POSA (100.00)

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Subsidiaries	Primary Business	Number of Outstanding Shares	Number of Shares POSCO	Number of Shares Subsidiaries	Total	Percentage of Ownership (%)	Percentage of Ownership of Subsidiaries (%)	Location
OSCO Zhangjiagang) tainless Steel rocessing Center o., Ltd. (*1,3)	Steel service center					100.00	ZPSS (100.00)	China
DAEWOO NT L MEXICO .A. de C.V. *1)	Trading	53,078		53,078	53,078	100.00	Daewoo International (100.00)	Mexico
enesys Inc. *1)	Steel service center	1,301,731	385,000	278,000	663,000	50.93	POSCO-Japan (21.36)	Japan

(*1) These subsidiaries are newly included in the consolidation.

(*2) These subsidiaries are included in the consolidated financial statements as the controlling company has control over them in consideration of board of directors composition and other factors.

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

Summary of financial information of consolidated subsidiaries as of and for the year ended December 31, 2010 is as follows:

Subsidiaries	Total Assets	Total Liabilities	Net Assets	Sales	Net Income (Loss)
	Summary of Financial Information (In millions of Korean Won) (*)				
Domestic					
POSCO E&C Co., Ltd.	5,187,914	2,659,275	2,528,639	6,237,953	162,939
POSCO P&S Co., Ltd. (formerly, Posteel Co., Ltd.)	938,696	393,285	545,411	2,062,495	66,841

POSCO Coated Steel Co., Ltd.	503,328	248,265	255,063	1,001,774	4,936
POSCO Plant Engineering Co., Ltd.	191,891	102,890	89,001	439,529	12,356
POSCO ICT Co., Ltd.	628,421	379,214	249,207	840,995	17,501
POSCO Research Institute	27,503	3,615	23,888	23,207	278
Seung Kwang Co., Ltd.	79,903	34,269	45,634	15,567	2,609
POSCO A&C Co., Ltd. (Formerly, POSCO Architects & Consultants Co., Ltd.)	87,968	41,164	46,804	127,835	4,611
POSCO Specialty Steel Co., Ltd.	1,267,956	527,844	740,112	1,543,122	117,005
POSTECH Venture Capital Corp.	36,557	863	35,694		128
eNtoB Corporation	66,043	36,745	29,298	603,640	2,504
POSCO Chemtech Company Ltd. (formerly, POSCO Refractories & Environment Co., Ltd.)	355,865	120,930	234,935	756,053	56,083
POSCO Terminal Co., Ltd.	68,508	8,516	59,992	78,478	14,434
Metapolis Co., Ltd.	626,152	518,914	107,238	170,682	(10,806)
POSMATE Co., Ltd.	93,889	23,690	70,199	98,503	28,194
POSCO M-TECH Co., Ltd. (formerly, Samjung Packing & Aluminum Co., Ltd.)	291,438	137,164	154,274	524,625	7,949
POSCO Power Corp.	2,546,306	1,705,246	841,060	881,671	42,503
Postech 2006 Energy Fund	26,274	324	25,950		(964)
PHP Co., Ltd.	593,758	614,337	(20,579)	1,825	(14,801)
POSCO TMC Co., Ltd. (formerly, POSCORE Co., Ltd.)	140,657	53,952	86,705	189,686	7,512
PNR Co., Ltd.	170,059	151,142	18,917	27,281	(17,973)
Megaasset Co., Ltd.	67,826	58,885	8,941	100,865	4,580

POSCO and Subsidiaries
Notes to Consolidated Financial Statements
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	Summary of Financial Information				
Subsidiaries	**Total Assets**	**Total Liabilities**	**Net Assets**	**Sales**	**Net Income (Loss)**
	(In millions of Korean Won) (*)				
Daewoo Engineering Company	354,797	199,066	155,731	750,599	40,012
POSCO FuelCell Co., Ltd.	13,091	9,337	3,754	4,049	(276)
POSCO AST Co., Ltd.	236,570	132,041	104,529	330,425	7,179
DaiMyung TMS Co., Ltd.	21,692	43,090	(21,398)	15,985	(4,057)
POS-HiMetal Co., Ltd.	85,738	43,296	42,442		(6,389)
POSCO E&E Co., Ltd.	17,787	69	17,718		416
Gwangyang SPFC Co., Ltd.	10,065	13	10,052		52
9digit Co., Ltd.	17,545	10,508	7,037	19,145	1,396
Sungjin Geotec Co., Ltd.	586,335	434,595	151,740	370,625	(11,843)
Postech Early Stage Fund	10,000		10,000		
POSCO Family Strategy Fund	28,538		28,538		(62)
Daewoo International Corporation	4,791,018	3,207,025	1,583,993	15,672,004	122,017
POSCO LED Co., Ltd.	28,591	325	28,266	138	(1,734)
POSCO NST Co., Ltd.	94,543	56,674	37,869	33,164	169
Pohang SRDC Co., Ltd.	14,921		14,921		
Foreign					
POSCO America Corporation	260,418	139,360	121,058	288,907	(23,596)
POSCO Australia Pty. Ltd.	1,195,886	515,913	679,973	106,475	47,552
POSCO Canada Ltd.	424,570	96,062	328,508	170,421	56,029
POSCAN Elkview Coal Ltd.	66,913	2,130	64,783		9,085
POSCO Asia Co., Ltd.	515,340	481,379	33,961	2,335,842	3,064
VSC POSCO Steel Corporation	54,899	35,880	19,019	189,354	5,445
Dalian POSCO CFM Coated Steel Co., Ltd.	155,703	155,589	114	68,149	(4,932)
POSCO-CTPC Co., Ltd.	77,281	47,763	29,518	149,810	2,398
POSCO-JKPC Co., Ltd.	86,912	70,353	16,559	75,831	2,385
International Business Center Corporation	95,860	55,905	39,955	28,354	13,560
POSCO E&C Vietnam Co., Ltd. (formerly, POSLILAMA E&C Co., Ltd.)	53,600	72,731	(19,131)	72,865	3,688
Zhangjiagang Pohang Stainless Steel Co., Ltd.	1,471,851	838,301	633,550	2,461,020	54,301
Guangdong Pohang Coated Steel Co., Ltd.	183,036	79,330	103,706	250,722	25,547

POSCO (Thailand) Co., Ltd.	163,287	118,332	44,955	224,630	10,117
Myanmar-POSCO Steel Co., Ltd.	21,556	10,245	11,311	24,127	3,481
POSCO-JOPC Co., Ltd.	71,955	68,233	3,722	76,947	766
POSCO Investment Co., Ltd.	680,589	587,339	93,250		6,566
POSCO-MKPC SDN. BHD	116,837	69,179	47,658	135,852	3,395
Qingdao Pohang Stainless Steel Co., Ltd.	242,342	124,372	117,970	542,446	7,906
POSCO (Suzhou) Automotive Processing Center Co., Ltd.	219,427	149,199	70,228	352,367	13,688
POSCO Bio Ventures L.P.	20,553	72	20,481		(10,536)
POSEC-Hawaii Inc.	1,331	509	822		(693)
POS-Qingdao Coil Center Co., Ltd.	60,395	45,576	14,819	149,653	1,058
POS-Ore Pty. Ltd.	105,583	14,579	91,004	118,687	55,028
POSCO-China Holding Corp.	302,623	55,538	247,085	148,503	14,510

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	Summary of Financial Information				
Subsidiaries	Total Assets	Total Liabilities	Net Assets	Sales	Net Income (Loss)
	(In millions of Korean Won) (*)				
POSCO-Japan Co., Ltd.	794,459	675,363	119,096	1,490,633	10,719
POS-CD Pty. Ltd.	69,703	66,119	3,584	15,214	(2,102)
POS-GC Pty. Ltd.	34,031	9,698	24,333	12,476	(488)
POSCO-JNPC Co., Ltd.	153,189	138,864	14,325	179,031	2,499
POS-India Private Ltd.	92,856	181	92,684		(21,612)
POSCO-Foshan Steel Processing Center Co., Ltd.	129,474	88,799	40,675	518,268	6,229
POSCO E&C (Beijing) Co., Ltd.	76,377	53,679	22,698	118,167	1,403
POS-MPC S.A. de C.V.	178,641	160,551	18,090	240,277	(2,161)
Zhangjigang Pohang Port Co., Ltd.	26,905	12,502	14,403	5,200	(789)
Qingdao Pos-metal Co., Ltd.	7,092	5,019	2,073	73,408	114
POSCO-Vietnam Co., Ltd.	753,100	619,297	133,803	813,637	(66,251)
POSCO-Mexico Co., Ltd.	441,014	346,865	94,149	302,595	(24,970)
POSCO-India Delhi Steel Processing Centre Pvt. Ltd.	92,826	70,928	21,898	113,056	8,919
POSCO-Poland Wroclaw Steel Processing Center Co., Ltd.	48,413	33,788	14,625	53,941	717
POS-NP Pty. Ltd.	57,687	13,301	44,386	45,032	5,438
POSCO-Vietnam Processing Center Co., Ltd.	58,283	36,039	22,244	85,698	4,419
POSCO (Chongqing) Automotive Processing Center Co., Ltd.	73,258	62,378	10,880	84,385	473
Suzhou POS-CORE Technology Co., Ltd.	56,772	32,854	23,918	89,248	1,593
POSCO-JYPC Co., Ltd.	56,347	53,870	2,477	74,565	(1,222)
POSCO-Malaysia SDN. BHD	78,028	78,170	(142)	125,209	(5,954)
POS-Minerals Corporation	113,105		113,105		(1,188)
POSCO (Wuhu) Automotive Processing Center Co., Ltd.	85,772	63,854	21,918	124,687	2,872
POSCO-Philippine Manila Processing Center Inc.	25,448	15,888	9,560	37,558	1,462
POSCO Mexico East Steel Distribution Center Co., Ltd.	13,872	2,370	11,502	5,547	696
POSCO VST Co., Ltd.	195,191	131,450	63,741	210,656	(8,333)
POSCO Maharashtra Steel Pvt. Ltd.	159,681	79,556	80,125		(867)
POSCO India Chennai Steel Processing Centre Pvt. Ltd.	78,906	64,492	14,414	52,228	73

POSCO Turkey Nilufer Processing Center Co., Ltd.	37,307	21,919	15,388	3,032	(2,228)
POSCO Vietnam Ha Noi Processing Center Co., Ltd.	42,885	36,710	6,175	39,675	(836)
POSCO (Liaoning) Automotive Processing Center Ltd.	75,631	56,670	18,961	45,933	1,416
POSCO-Indonesia Jakarta Processing Center, PT	34,309	27,026	7,283	42,882	1,023
POSCO China Dalian Plate Processing Center Ltd.	55,692	17,056	38,636		(3,631)
POSCO-NCR Coal Ltd.	25,063		25,063		

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Subsidiaries	Total Assets	Total Liabilities	Net Assets	Sales	Net Income (Loss)
	Summary of Financial Information (In millions of Korean Won) (*)				
POSCO WA Pty. Ltd.	212,080	808	211,272		(13,096)
Daewoo International America Corp.	224,042	187,747	36,295	675,675	729
Daewoo International Deutschland GmbH	111,227	101,437	9,790	495,921	183
Daewoo International Japan Corp.	157,213	150,178	7,035	623,297	168
Daewoo International Singapore Pte. Ltd.	86,642	82,455	4,187	1,017,681	576
Daewoo Italia S.r.l	99,538	95,826	3,712	223,452	258
Daewoo Cement (Shandong) Co., Ltd.	350,754	245,252	105,502	97,965	(2,633)
Daewoo (China) Co., Ltd.	42,931	6,425	36,506	3,205	(17,448)
PT. RISMAR Daewoo Apparel	15,757	17,416	(1,659)	59,168	(2,830)
Daewoo Textile Fergana LLC	106,719	95,542	11,177	122,998	17,086
Daewoo Textile Bukhara LLC	68,807	50,311	18,496	44,322	1,364
Daewoo International Australia Holdings Pty. Ltd.	132,221	4,947	127,274	379	(995)
Daewoo Paper Manufacturing Co., Ltd.	79,383	69,917	9,466	93,284	(22,118)
POSCO Mauritius Ltd.	21,548		21,548		
POSCO (Zhangjiagang) Stainless Steel Processing Center Co., Ltd.	11,841	111	11,730		
DAEWOO INT L MEXICO S.A. de C.V.	50,298	46,319	3,979	152,650	983
Xenesys Inc.	18,333	2,653	15,680	935	(3,624)

(*) Total assets, total liabilities and net assets of POSCO s foreign subsidiaries are translated at the exchange rate at the end of the reporting period, and sales and net income (loss) are translated at the average exchange rate of the reporting period.

Significant Changes in Scope of Consolidation

(a) On September 20, 2010, POSCO acquired 68.15% of the capital shares of Daewoo International Corporation in order to enhance its competitiveness through securing the export capability and to create the synergy effect between

POSCO and its subsidiaries. Based on the resolution of the Board of Directors on April 23, 2010, POSCO signed a share purchase agreement with Daewoo International Corporation s shareholders including Korea Asset Management Corporation on August 30, 2010, and obtained an approval from the Fair Trade Commission Republic of Korea for business acquisition on September 13, 2010. The results of operations of Daewoo International Corporation for the year ended December 31, 2010 are consolidated in their entirety into in each line items of consolidated statement of income as if the acquisition has occurred on January 1, 2010 and the pre-acquisition net earnings are deducted in determining our consolidated net income. Therefore, comparability with POSCO s consolidated financial statements for prior years is impacted accordingly.

(b) Business information of the investee company:

Investee	**Business Information**
Daewoo International Corporation	Export and import trade, brokerage, drawing, retail, resource development, distribution and others

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Changes in the related goodwill for the year ended December 31, 2010 are as follows:

	Beginning Balance	Acquisition	Amortization	Ending Balance
		(In millions of won)		
Goodwill (*)	₩	₩ 1,159,977	₩ (14,500)	₩ 1,145,477

(*) Goodwill is calculated as the excess of the acquisition cost of an investment over the Company s share of the fair value of the identifiable net assets acquired and is amortized using the straight-line method over 20 years.

(c) The summary of historical financial statements of the investee as of September 30, 2010 which is the acquisition date for business combination and as of and for the year ended December 31, 2009 are as follows:

1) Summarized statements of financial position

	September 30, 2010 (*)	December 31, 2009
	(In millions of won)	
Current assets	₩ 2,289,376	1,757,421
Non-current assets	2,331,577	2,127,755
Total assets	4,620,953	3,885,176
Current liablities	2,369,955	1,449,598
Non-current liablities	782,773	1,045,847
Total liablities	3,152,728	2,495,445
Total shareholders equity	1,468,225	1,389,731
Total liablities and shareholders equity	₩ 4,620,953	3,885,176

(*) This financial information was not audited.

2) Summarized statements of income

	For the Nine-Month Period Ended	For the Year Ended

		September 30, 2010 (*)	December 31, 2009
		(In millions of won)	
Sales	₩	11,577,047	11,147,952
Cost of goods sold		10,919,446	10,390,672
Gross profit		657,601	757,280
Selling and administrative expenses		516,560	585,943
Operating profit		141,041	171,337
Non-operating income, net		(80,451)	7,521
Income before income taxes		60,590	178,858
Income tax expense		37,271	54,244
Net income	₩	23,319	124,614

(*) This financial information was not audited.

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Equity-Method Investees

The following table sets forth certain information with regard to equity-method investees as of December 31, 2010:

	Primary Business	Number of Outstanding Shares	POSCO	Number of Shares Subsidiaries	Total	Percentage of Ownership (%)	Percen Owne Subsidi
hnology Co.,	Engineering	3,402,000		866,190	866,190	25.46	POSC (25
opment Inc.	Real estate	4,456,000		1,332,344	1,332,344	29.90	POSC (29
Ltd.	Real estate	285,304		85,306	85,306	29.90	POSC (29
	Material manufacturing	37,000,000	18,130,000		18,130,000	49.00	POSC (29
	Construction	8,000,000		2,008,000	2,008,000	25.10	POSC (22 POSC (3
orporation (*1)	Wind power plant construction and management	5,000,000		2,500,000	2,500,000	50.00	POSC (50
Co., Ltd. (*1)	Solar power plant construction and management	2,000,000		900,000	900,000	37.50	POSC (37
Business	Multiplex development	6,200,000		1,151,960	1,151,960	18.58	POSC (18
nt Co.,Ltd.	Generation of electricity	7,230,000		2,322,999	2,322,999	32.13	POSC (32

rnational	Non-resident building lease	200,000		98,000	98,000	49.00	POSC (49
Development	Construction	2,663,223		582,580	582,580	21.87	POSC (16 POSC (5
, Ltd.	Life insurance	20,500,000		4,920,000	4,920,000	24.00	Dae Intern Corpo (24
Co., Ltd. [*1]	Steel processing	2,303,746	825,288		825,288	35.82	
	Facilities lease	4,021,438,370	2,010,719,185		2,010,719,185	50.00	
(UPI) [*1,3]	Steel processing					50.00	POSAM
Limited [*1]	Material manufacturing	86,700	43,350		43,350	50.00	
ufacturing	Steel processing	23,455,600	2,345,558	4,573,842	6,919,400	29.50	POSC (19
)	Steel manufacturing					50.00	
sia (POSMI)	Steel service center	12,600	1,193	3,579	4,772	37.87	POSC (28
d. [*1]	Material processing	9,715		3,239	3,239	33.40	POSA
SAS [*1]	Material processing	6,601,426	3,234,698		3,234,698	49.00	
co ,3)	Manufacturing and sellings					35.00	POSCO (35
g Center Co.,	Steel service center					20.00	
lopment [*1,3]	Construction					50.00	POSC (50

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es	Primary Business	Number of Outstanding Shares	POSCO	Number of Shares Subsidiaries	Total	Percentage of Ownership (%)	Percentage of Ownership of Subsidiaries (%)	Loc
Tsingpu lloy d. [*1,3]	Material processing					49.00	ZPSS (49.00)	Cl
Spiral LC *1,3)	Steel pipe manufacturing and sales					35.00	POSAM (35.00)	U
ue) angdau) e al d. [*1,3]	Specialty steel manufacturing					34.00	POSCO-China (10.00)	Cl
el) Cold sheet d. [*3]	Steel manufacturing					25.00		Cl
SLPC ,3)	Steel processing					30.00		Slo
Moly)	Material processing					20.00	POS-Mineral Corporation (20.00)	U
) UNG Steel ing d. [*1,3]	Steel processing					30.00		Cl
) SeAH ire ng) d. [*3]	Steel processing					25.00	POSCO-China (25.00)	Cl

SFC ormerly, K LLC)	Steel processing	14,600,000	648,171,993	648,171,993	44.40	POSCO E&C (0.94) POSCO P&S (43.46)	U
LC (*3)	Coal trading				20.00		Ca
(WA) d. (*1)	Iron ore mining and trading	397,493,929	194,772,025	194,772,025	49.00	POSCO WA (49.00)	Aus
ai ng o Corp.	Trading				49.00	Daewoo International Corporation (49.00)	Cl
ai giao ade ansheng o Int l g d. (*1,3)	Trading				49.00	Daewoo International Corporation (49.00)	Cl
g Power . (*1)	Plywood manufacturing	16,791,045	8,227,612	8,227,612	49.00	Daewoo International Corporation (49.00)	Papu Gu
ar Timber tional	Generation of electricity	600	270	270	45.00	Daewoo International Corporation (45.00)	Mya
l hes ny Ltd.	Medicine manufacturing	29,400	9,702	9,702	33.00	Daewoo International Corporation (33.00)	Su
A LNG	Gas processing	12,000	2,400	2,400	20.00	Daewoo International Corporation (20.00)	Ko
, AMSA	Energy & Resource development				4.00	Daewoo International Corporation (4.00)	Mada

(*1) Although POSCO owns over 30% equity interest in these investees, POSCO is not their largest shareholder, excluding them from consolidation.

(*2)

This investment is accounted for using the equity method because it has 40% of voting rights of the investee to exercise significant influence on the investee although POSCO s percentage of ownership is below 20%.

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

POSCO and Subsidiaries
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Subsidiaries Excluded from Scope of Consolidation

Location	Investees	Country	Reason
Domestic	POHANG SPFC CO., LTD.	Korea	Small company
	POSWITH CO., LTD.	Korea	Small company
	BASYS INDUSTRY CO., LTD.	Korea	Small company
	POSTECH BD Newundertaking fund	Korea	Small company
	POSBRO CO., LTD.	Korea	Small company
	POMIC	Korea	Small company
	POSFINE	Korea	Small company
	MAPO HIGH BROAD PARKING CO., LTD.	Korea	Small company
	DAKOS CO., LTD.	Korea	Small company
	POSCALCIUM COMPANY, LTD.	Korea	Small company
	Plant Engineering Service Technology Co., Ltd.	Korea	Small company
	BUSAN E&E CO., LTD.	Korea	Small company
	POREKA CO., LTD.	Korea	Small company
	SONGDO SE CO., LTD.	Korea	Small company
	POS GREEN CO., LTD.	Korea	Small company
	GUNSAN SPFC CO., LTD.	Korea	Small company
	POS ECO HOUSING CO., LTD.	Korea	Small company
Foreign	DAEWOO HANDELS GmbH	Germany	Small company
	POSCO Engineering and Construction-UZ	Russia	Small company
	DAEWOO (M) SDN. BHD.	Malaysia	Small company
	DAEWOO INTERNATIONAL CORPORATION (M) SDN BHD	Malaysia	Small company
	POSCO E&C SMART	Mexico	Small company
	POSCO MEXICO HUMAN TECH	Mexico	Small company
	DWEMEX, S.A. DE C.V.	Mexico	Small company
	POS MPC Servicios de C.V.	Mexico	Small company
	POSCO-AAPC	U.S.A.	Small company
	PGSF LLC	U.S.A.	Small company
	TECHREN Solar LLC	U.S.A.	Small company
	MYANMAR DAEWOO LTD.	Myanmar	Small company
	MYANMAR DAEWOO INT L LTD.	Myanmar	Small company
	POSCO E&C Venezuela C.A	Venezuela	Small company
	POSCO SS VINA	Vietnam	
	DAEWOO STC & APPAREL VIETNAM LTD.	Vietnam	Small company
	GEZIRA TANNERY CO., LTD.	Sudan	Small company
	Europe Steel Distribution Center (POS-ESDC, Logistics, Trading and Investment d.o.o)	Slovenia	Small company
	POSCO South East Asia Pte. Ltd.	Singapore	Small company

DAEWOO EL SALVADOR S.A. DE C.V.	El Salvador	Small company
VECTUS LIMITED	UK	Small company
POSCO-URUGUAY S.A.	Uruguay	Small company
DAEWOO ENERGY CENTRAL ASIA	Uzbekistan	Small company
POSCO E&C India Private Ltd.	India	Small company
POSCORE-INDIA	India	Small company
POSCO-ISDC	India	Small company
DAEWOO INTERNATIONAL INDIA PRIVATE LTD.	India	Small company
POSCO Foundation	India	Small company

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Location	Investees	Country	Reason
Foreign	PT. POSNESIA	Indonesia	Small company
	PT. MRI	Indonesia	Small company
	PT. DEC Indonesia	Indonesia	Small company
	PT. KRAKATAU POSCO	Indonesia	Small company
	PT. POSCO E&C INDONESIA	Indonesia	Small company
	Dalian Poscon Dongbang Automatic Co., Ltd.	China	Small company
	San Pu Trading Co., Ltd.	China	Small company
	Zhangjiagang BLZ Pohang International Trading Co., Ltd.	China	Small company
	POSCO ICT-CHINA	China	Small company
	POSCO-CYPC	China	Small company
	Tianjin Daewoo Paper Manufacturing Co., Ltd.	China	Small company
	Daewoo Int l Guangzhou Corp.	China	Small company
	DAEWOO INTERNATIONAL SHANGHAI CO., LTD.	China	Small company
	ZEUS (Cayman)	Cayman Islands	Small company
	DAYTEK ELECTRONICS CORP.	Canada	Small company
	DAEWOO CANADA LTD.	Canada	Small company
	POSCO South Asia	Thailand	Small company
	POSCO Australia GP Pty. Limited	Australia	Small company
	Hume Coal Pty. Ltd.	Australia	Small company
	POSCO Gulf Logistics LLC	UAE	Small company

The above investees are accounted for using cost method in the consolidated financial statements.

Changes in Scope of Consolidation in 2010

Investees	Location	Reason
eNtoB Corporation	Seoul	The Company s ownership exceeded 50% through additional increase in paid in capital in 2010.
Gwangyang SPFC Co., Ltd.	Gwangyang	The Company made investments to establish.
9digit Co., Ltd.	Incheon	The Company newly acquired more than 50% of interest related to this investment in 2010.
Sungjin Geotec Co., Ltd.	Ulsan	The Company newly acquired more than 50% of interest related to this investment in 2010.
Postech Early Stage Fund	Pohang	The Company made investments to establish.
POSCO Family Strategy Fund	Pohang	The Company made investments to establish.
Daewoo International Corporation	Seoul	The Company newly acquired more than 50% of interest related to this investment in 2010.
POSCO LED Co., Ltd.	Seongnam	The Company made investments to establish.

POSCO NST Co., Ltd.	Busan	The Company made investments to establish.
Pohang SRDC Co., Ltd.	Pohang	The Company made investments to establish.
POSCO Bio Ventures L.P.	U.S.A.	It was classfied from equity investees to subsidiaries due to changes in control structures.
Qingdao Pos-metal Co., Ltd.	China	Total assets exceeded ₩10,000 million as of December 31, 2009.
POSCO-Poland Wroclaw Steel Processing Center Co., Ltd.	Poland	The Company s ownership exceeded 50% through additional increase in paid in capital in 2010.
POSCO Mexico East Steel Distribution Center Co., Ltd.	Mexico	Total assets exceeded ₩10,000 million as of December 31, 2009.
POSCO Maharashtra Steel Pvt. Ltd.	India	Total assets exceeded ₩10,000 million as of December 31, 2009.

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Investees	Location	Reason
POSCO India Chennai Steel Processing Centre Pvt. Ltd.	India	Total assets exceeded ₩10,000 million as of December 31, 2009.
POSCO Turkey Nilufer Processing Center Co., Ltd.	Turkey	Total assets exceeded ₩10,000 million as of December 31, 2009.
POSCO Vietnam Ha Noi Processing Center Co., Ltd.	Vietnam	Total assets exceeded ₩10,000 million as of December 31, 2009.
POSCO (Liaoning) Automotive Processing Center Ltd.	China	Total assets exceeded ₩10,000 million as of December 31, 2009.
POSCO-Indonesia Jakarta Processing Center, PT	Indonesia	Total assets exceeded ₩10,000 million as of December 31, 2009.
POSCO China Dalian Plate Processing Center Ltd.	China	The Company made investments to establish.
POSCO-NCR Coal Ltd.	Canada	The Company made investments to establish.
POSCO WA Pty. Ltd.	Australia	The Company made investments to establish.
Daewoo International America Corp.	U.S.A.	The Company newly acquired more than 50% of interest related to this investment in 2010.
Daewoo International Deutschland GmbH	Germany	The Company newly acquired more than 50% of interest related to this investment in 2010.
Daewoo International Japan Corp.	Japan	The Company newly acquired more than 50% of interest related to this investment in 2010.
Daewoo International Singapore Pte. Ltd.	Singapore	The Company newly acquired more than 50% of interest related to this investment in 2010.
Daewoo Italia S.r.l	Italy	The Company newly acquired more than 50% of interest related to this investment in 2010.
Daewoo Cement (Shandong) Co., Ltd.	China	The Company newly acquired more than 50% of interest related to this investment in 2010.
Daewoo (China) Co., Ltd.	China	The Company newly acquired more than 50% of interest related to this investment in 2010.
PT. RISMAR Daewoo Apparel	Indonesia	The Company newly acquired more than 50% of interest related to this investment in 2010.
Daewoo Textile Fergana LLC	Uzbekistan	The Company newly acquired more than 50% of interest related to this investment in 2010.
Daewoo Textile Bukhara LLC	Uzbekistan	The Company newly acquired more than 50% of interest related to this investment in 2010.
Daewoo International Australia Holdings Pty. Ltd.	Australia	The Company newly acquired more than 50% of interest related to this investment in 2010.
Daewoo Paper Manufacturing Co., Ltd.	China	The Company newly acquired more than 50% of interest related to this investment in 2010.
POSCO Mauritius Ltd.	Mauritius	The Company made investments to establish.
POSCO (Zhangjiagang) Stainless Steel Processing Center Co., Ltd.	China	The Company made investments to establish.

DAEWOO INT L MEXICO S.A. de C.V.	Mexico	The Company newly acquired more than 50% of interest related to this investment in 2010.
Xenesys Inc.	Japan	The Company newly acquired more than 50% of interest related to this investment in 2010.

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The total assets, shareholders equity, sales, and net income of the consolidated financial statements as of and for the year ended December 31, 2010, increased by ₩8,036,337 million, ₩2,788,430 million, ₩20,626,294 million, and ₩57,043 million, respectively due to the changes in scope of consolidation.

Subsidiaries Excluded from the Consolidated Financial Statements in 2010

Investees	Location	Reason
POSCON Co., Ltd.	Pohang	Merged with POSCO ICT Co., Ltd.
POSCO Machinery Co., Ltd.	Gwangyang	Merged with POSCO Plant Engineering Co., Ltd.
Universal Studio Resort Development Co., Ltd.	Seoul	Decrease of percentage of shareholding
Zhangjiagang Posha Steel Port Co., Ltd.	China	Disposal of shares
POSCO E&C (Zhangjiagang) Co., Ltd.	China	Merged with POSCO E&C (Beijing) Co., Ltd.
&TV Communications	U.S.A.	Disposal of shares

The Effect from Adjustment of Accounting Policy in Consolidated Subsidiaries

The effects to the financial statements of consolidated subsidiaries resulting from the application of accounting principles and estimates of the controlling company to its subsidiaries as of and for the years ended December 31, 2010 and 2009 are as follows:

	2010		
Investees	Net Assets before Adjustment	Adjustment	Net Assets after Adjustment
	(In millions of Korean Won)		
POSCO P&S Co., Ltd. (formerly, Posteel Co., Ltd.)	₩ 545,411	₩ (552)	₩ 544,859
POSCO Coated Steel Co., Ltd.	255,063	(54,514)	200,549
POSCO ICT Co., Ltd.	249,207	(37,577)	211,630
POSCO Chemtech Company Ltd. (formerly, POSCO Refractories & Environment Co., Ltd.)	234,935	6,618	241,553
POSCO M-TECH Co., Ltd. (formerly, Samjung Packing & Aluminum Co., Ltd.)	154,274	4,677	158,951
POSCO Power Corp.	841,060	(68,027)	773,033
PHP Co., Ltd.	(20,579)	(26,398)	(46,977)
POSCO Asia Co., Ltd.	33,961	(4,497)	29,464
Zhangjiagang Pohang Stainless Steel Co., Ltd.	633,550	(86,440)	547,110
POSCO Investment Co., Ltd.	93,250	(6,571)	86,679
Qingdao Pohang Stainless Steel Co., Ltd.	117,970	(14,552)	103,418

POSCO-Japan Co., Ltd.	119,096	(5,403)	113,693
POSCO-Vietnam Co., Ltd.	133,803	(7,623)	126,180
POSCO-Mexico Co., Ltd.	94,149	(15,248)	78,901

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Investees	Net Assets before Adjustment	Adjustment	Net Assets after Adjustment
	2009		
	(In millions of Korean Won)		
POSCO P&S Co., Ltd. (formerly, Posteel Co., Ltd.)	475,802	(576)	475,226
POSCON Co., Ltd.	185,718	2,333	188,051
POSCO Coated Steel Co., Ltd.	250,219	(48,974)	201,245
POSCO ICT Co., Ltd.	51,672	(32,970)	18,702
POSCO Asia Co., Ltd.	31,723	(1,453)	30,270
Zhangjiagang Pohang Stainless Steel Co., Ltd.	573,888	(76,220)	497,668
POSCO Investment Co., Ltd.	88,296	(4,601)	83,695
POSCO Chemtech Company Ltd. (formerly, POSCO Refractories & Environment Co., Ltd.)	183,082	5,098	188,180
Qingdao Pohang Stainless Steel Co., Ltd.	109,070	(12,441)	96,629
POS-Qingdao Coil Center Co., Ltd.	13,595	(59)	13,536
POSCO-Japan Co., Ltd.	97,213	(4,099)	93,114
POSCO M-TECH Co., Ltd. (formerly, Samjung Packing & Aluminum Co., Ltd.)	68,616	4,598	73,214
POSCO Power Corp.	615,014	(19,147)	595,867
PHP Co., Ltd.	(5,778)	(27,081)	(32,859)
POSCO-Vietnam Co., Ltd.	213,834	(9,440)	204,394
POSCO-Mexico Co., Ltd.	103,629	(16,172)	87,457

2. Basis of Presenting Consolidated Financial Statements and Summary of Significant Accounting Policies

The Company prepares the consolidated financial statements in accordance with generally accepted accounting principles in the Republic of Korea and applied the same accounting policies that were adopted in the previous year s consolidated financial statements.

The significant accounting policies followed by the Company in the preparation of the accompanying consolidated financial statements are summarized below:

Basis of consolidated financial statements presentation

POSCO and its domestic subsidiaries maintain their accounting records in Korean won and prepare statutory financial statements in the Korean language in conformity with accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these consolidated financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying consolidated financial statements have been derived and translated into English from the Korean language consolidated financial statements. Certain information attached to the Korean language consolidated financial statement, but not required for a fair presentation of POSCO and its subsidiaries financial position, results of operations or cash flows, is not presented on the accompanying consolidated financial statements.

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Cash and cash equivalents

The Company considers short-term deposits with maturities of three months or less on the acquisition date to be cash equivalents. Government grants received before the grants are used for specific purposes from third parties are presented as a reduction of cash and cash equivalents.

Revenue recognition

The Company s revenue categories consist of goods sold, services rendered, construction contracts and other income. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing Company involvement with the goods.

Revenue from services provided is recognized based on the percentage of completion method when the amount of revenue, the costs incurred, the costs to complete and stage of completion at the end of reporting period can be reliably measured, and it is probable that future economic benefits will flow into the Company.

Revenue from construction contracts are recognized in proportion to the percentage of completion when the outcome of the contract can be reliably measured. The percentage of completion is assessed by reference to costs incurred for work performed to date to the estimated total contract costs or surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognized immediately in the consolidated statement of income.

Other income is recognized when the revenue recognition process is completed, the amount of revenue is reliably measured and it is probable that future economic benefits will flow into the Company.

Allowance for doubtful accounts

Allowance for doubtful accounts is estimated based on an analysis of individual accounts and past experience of collection and presented as a deduction from trade accounts and notes receivable.

When the terms of trade accounts and notes receivable (the principal, interest rate or term) are modified, either through a court order, such as a reorganization, or by mutual formal agreement, resulting in a reduction in the present value of the future cash flows due to the Company, the difference between the carrying value of the relevant accounts and notes receivable and the present value of the future cash flows is recognized as bad debt expense.

Inventories

The costs of inventories are determined using the moving-weighted average method while materials-in-transit are determined using the specific identification method. Amounts of inventory are written down to net realizable value due to losses occurring in the normal course of business and the allowance is reported as a contra inventory account, while the related charge is recognized in cost of goods sold. Gains and losses pertaining to physical inventory adjustments are also included in cost of goods sold.

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Investments in securities

Upon acquisition, the Company classifies debt and equity securities (excluding investments in investees and joint ventures) into the following categories: held-to-maturity, available-for-sale or trading securities. This classification is reassessed at the end of each reporting period.

Investments in debt securities which the Company has the intent and ability to hold to maturity are classified as held-to-maturity securities. Securities that are acquired principally for the purpose of selling in the short term are classified as trading securities. Investments not classified as either held-to-maturity or trading securities are classified as available-for-sale securities.

A security is recognized initially at its acquisition cost, which includes the market value of the consideration given and any other transaction costs. After initial recognition, held-to-maturity securities are accounted for at amortized costs in the consolidated statements of financial position and trading and available-for-sale securities are accounted for at their fair values, however, non-marketable securities are accounted for at their acquisition costs if their fair values cannot be reliably estimated. The fair value of marketable securities is determined using quoted market prices as of the period end.

Trading securities are subsequently carried at fair value. Gains and losses arising from changes in the fair value of trading securities are included in the consolidated statement of income in the period in which they arise. Available-for-sale securities are subsequently carried at fair value.

Cumulative unrealized gains and losses arising from changes in the fair value of available-for-sale securities are recognized as accumulated other comprehensive income (loss), net of tax, directly in equity. Held-to-maturity investments are carried at amortized cost with interest income and expense recognized in the consolidated statement of income using the effective interest method.

Management reviews investments in securities whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. Impairment losses are recognized when the estimated recoverable amounts are less than the carrying amount and it is not obviously evidenced that impairment is unnecessary.

Trading securities are presented as current assets. Available-for-sale securities, which mature within one year from the end of the reporting period or where the likelihood of disposal within one year from the end of the reporting period is probable, are presented as current assets. Held-to-maturity securities, which mature within one year from the end of the reporting period, are presented as current assets.

Equity method investments

Investments in equity securities of companies, over which the Company has the ability to exercises a significant influence, are recorded using the equity method of accounting. Under the equity method, the Company records changes in its proportionate ownership in the book value of the investee in current operations, as capital adjustments, as adjustments to retained earnings or adjustments to equity in earnings or losses of equity method accounted investees, depending on the nature of the underlying change in the book value of the investee. When the Company s share of losses in an investee equals or exceeds its interest in the investee, including preferred stock or other long term loans and receivables issued by the investees, the Company does not recognize further losses, unless it has obligations or made payments on behalf of the investees. Gains and losses on transactions between the Company and its investees are eliminated to the extent of the Company s interest in each investee.

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The excess of the acquisition cost of an investment in an investee over the Company s share of the fair value of the identifiable net assets acquired is amortized using the straight-line method over its estimated useful life, not exceeding 20 years. When acquisition cost of investments in an investee is less than the Company s interest on the fair value of the identifiable net assets acquired, such difference is recognized using the straight-line method as a gain over the weighted average period of useful lives of the depreciable and amortizable non-monetary assets. The remainder over the fair value of identifiable non-monetary assets is recognized as a gain in the period of acquisition. Also, the Company s interest on the difference between fair value and carrying value of identifiable assets and liabilities of an investee, at the time of acquisition, is depreciated or reversed in accordance with accounting policies of related assets or liabilities of an investee.

Foreign currency financial statements of equity method investees are translated into Korean won using the exchange rates in effect as of the end of the reporting period for assets and liabilities (the exchange rates on the acquisition date for capital accounts), and annual average exchange rates for income and expenses. Cumulated translation gains or losses are included in accumulated other comprehensive income, a component of shareholders equity.

The Company s proportionate unrealized profit arising from sales by the Company to equity method investees, sales by the equity method investees to the Company or sales between equity method investees are eliminated to the extent of the Controlling Company s ownership.

Natural resources exploration investments

Investment in exploration and development, including the Myanmar mining site, of natural resources such as natural gas and mineral reserves are initially accounted for at cost as part of non-current investment in the statement of financial position. When the reserves are proved to have commercially producible quantities of reserves, the exploration investment account is transferred to mining rights as an intangible asset and is amortized over its expected period of commercial production.

Borrowings that are directly attributable to exploration investments are initially accounted for as part of long-term withholdings. When the reserves are proved to have commercially producible quantities of reserves, the Company transfers such borrowings to long-term debt and recognizes the cumulative interest expense and gain and loss on translation of foreign currency from the date when such borrowings were first obtained up to the date when the reserve were proved. Conversely, in case of a failure in commercial production, the Company deducts such borrowings from the amount of exploration investment and recognizes any remaining balance as a loss in the current period.

Property, plant and equipment

Property, plant and equipment are stated at cost except for certain assets subject to upward revaluations in accordance with the Asset Revaluation Law. Assets acquired by investment in kind or gift are stated at its fair value.

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Depreciation is computed using the straight-line method or declining-balance method over the estimated useful lives of the assets, as follows:

	Estimated Useful Live
Buildings and structures	5-60 years
Machinery and equipment	2-25 years
Vehicles	2-10 years
Tools	2-10 years
Furniture and fixtures	2-10 years
Capital lease asset (*)	2-18 years

(*) Capital lease asset is depreciated over the shorter of the lease term or the estimated useful lives of the asset

The Company recognizes interest costs and other financial charges on borrowings associated with the production, acquisition, construction or development of property, plant and equipment as an expense in the period in which they are incurred.

Significant additions or improvements extending useful lives of assets are capitalized. Normal maintenance and repairs are charged to expense as incurred.

Management reviews property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized when the expected estimated undiscounted future net cash flows from the use of the asset and its eventual disposal are less than its carrying amount. However, if the recoverable amount of a tangible asset, for which impairment loss was recognized in prior periods, exceeds its carrying amount in subsequent periods, the amount of impairment loss recognized shall be reversed to the extent of an increased carrying amount of the asset that does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss was recognized in prior periods.

Leases

The Company classifies and accounts for leases as either operating or capital, depending on the terms. Leases where the Company assumes substantially all of the risks and rewards of ownership are classified as capital leases. All other leases are classified as operating leases.

Intangible assets

Intangible assets are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use. Intangible assets are stated net of accumulated amortization computed using the straight-line method and others over the estimated useful lives as described below.

	Estimated Useful Live
Goodwill	5-20 years
Negative goodwill	5-10 years
Intellectual property rights	5-10 years
Research and development cost (*1)	3-10 years
Port facilities usage rights (*2)	1-75 years
Long-term electricity supply contract rights (*3)	9-15 years
Other intangible assets	2-25 years

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(*1) The costs incurred in relation to the development of new products and new technologies, including the development cost of internally used software and related costs, are recognized as development costs only if it is probable that future economic benefits that are attributable to the asset will flow into the entity and the cost of the asset can be measured reliably. The useful life of development costs is based on its estimated useful life, not to exceed 20 years from the date when the asset is available for use.

(*2) As of December 31, 2010, port facilities usage rights are related to the quay and inventory yard donated by POSCO in April 1987 to the local bureaus of the Maritime Affairs and Fisheries in Gwangyang, Pohang, Pyoungtaek and Masan.

(*3) The Company recognized the electricity supply contract initially at fair value as an identifiable intangible asset when the Company acquired POSCO Power Corp. The electricity supply contract which was related to the existing agreement of supplying electric power to Korea Electric Power Corporation met the criteria of recognizing identifiable intangible assets at acquisition date.

Management assesses the potential impairment of intangible assets when there is evidence that events or changes in circumstances have made the recovery of an asset s carrying value to be unlikely. The carrying value of the intangible asset is reduced to the estimated realizable value, and an impairment loss is recorded as a reduction in the carrying value of the related asset and charged to current operations.

Discounts on debentures

Discounts on debentures are amortized over the term of the debenture using the effective interest rate method. Amortization of the discount is recorded as interest expense.

Accrued severance benefits

Employees and directors with at least one year of service are entitled to receive a lump-sum payment upon termination of their employment, based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment as of the end of the reporting period. POSCO and its domestic subsidiaries have partially funded the accrued severance benefits through group severance insurance and the amounts funded under these insurance deposits are classified as a deduction from the accrued severance benefits liability. The Company made deposits to the National Pension Service in accordance with the National Pension Act of the Republic of Korea. Accordingly, accrued severance benefits in the accompanying consolidated statement of financial position are presented net of this deposit.

Restructuring of receivables

When the difference between the carrying value of receivables and the present value of future cash flows is material arising from variation of the terms of receivables (the principle, interest rate or term), either through a court order, such as a reorganization, or by mutual agreement, future cash flows expected to be earned are valued at their present value using an appropriate discount rate. The present value discounts are recovered using the effective interest rate method and are recognized as interest income.

Foreign currency transactions and translation

Monetary assets and liabilities denominated in foreign currencies are re-measured into Korean won at the exchange rates in effect at the end of the reporting period, and resulting translation gains and losses are recognized in the statement of income.

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Derivative financial instruments

All derivative financial instruments are accounted for at their fair value according to the rights and obligations associated with the contracts. The resulting changes in fair value of derivative financial instruments are recognized either in the statement of income or shareholders equity, depending on whether the derivative financial instruments qualify as cash flow hedge. The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges is recognized in shareholders equity as accumulated other comprehensive income (loss).

Fair value hedge accounting is applied to a derivative financial instrument purchased with the purpose of hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment that is attributable to a particular risk. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

An embedded derivative financial instrument is separated from the host contract and accounted for as a derivative financial instrument when the economic characteristics and risks of the embedded derivative financial instrument are not clearly and closely related to the economic characteristics and risks of the host contract.

Provisions and contingent liabilities

A provision is a liability of uncertain timing or amount and shall be recognized when all of the following conditions are met:

1) An entity has a present obligation (legal or constructive) as a result of a past event;

2) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

3) A reliable estimate can be made of the amount of the obligation

However, when such outflow is dependent upon a future event, is not certain to occur, or cannot be reliably estimated, only disclosure regarding the contingent liability is made in the notes to the consolidated financial statements.

Treasury stock

In accordance with the cost method, the acquisition cost of the Company s treasury stock is recorded as an adjustment to shareholders equity. Gain on disposal of treasury stock is recorded as other capital surplus and loss on disposal of treasury stock is first deducted from gain on disposal of treasury stock recorded in other capital surplus, with the remainder as a capital adjustment and then offset against retained earnings in accordance with the order of disposition of deficit.

Sale of receivables

The Company sells or discounts certain amounts of notes receivable to financial institutions and accounts for these transactions as a sale of the receivables if the rights and obligations relating to the receivables sold are substantially transferred to the buyers. The losses from the sale of the receivables are charged to operations as incurred.

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Income tax and deferred income tax

Income tax on the income or loss for the year comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current income tax is the expected tax payable on the taxable income for the year, using the enacted tax rates.

Deferred income tax is provided using the asset and liability method and is recognized for the future tax consequences attributable to the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The amount of deferred income tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of reporting period.

A deferred income tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the unused tax losses and credits can be utilized. Deferred income tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Use of estimates

Generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at year-end and the reported amounts of revenues and expenses during the year. Significant items subject to such estimates and assumptions include useful lives, salvage values and recovery of property, plant and equipment; recoverability of goodwill and intangible assets; valuation allowances for receivables, inventories and realization of deferred income tax assets and fair values of derivatives. Actual results could differ materially from the estimates and assumptions used.

Elimination of the investments of investing company and the shareholders equity of the investees

In eliminating the investment of the investing company and the shareholders equity of the investee, the portion of the investee s stockholders equity that belongs to non-controlling interest is separately presented. The elimination of the investments of the investing company and the stockholders equity of the investees are recorded as of the date of acquisition of controlling interest. The nearest closing date from acquisition of controlling interest is deemed to be acquisition date when acquisition date of interest of subsidiaries is different from closing date of subsidiaries.

Elimination of inter-company transactions

Inter-company transactions of the company are eliminated and related unrealized inter-company gains and losses are treated as follows:

(a) Calculation of unrealized gains and losses

Unrealized gains or losses to be eliminated with respect to Company s inventory, fixed assets and intangible assets are computed based upon average gross profit ratio of the concerned transaction. When the actual gross profit ratio is deemed materially different

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from the average gross profit ratio, the actual gross profit ratio of the concerned transaction is used.

(b) Elimination of unrealized gains and losses

Unrealized gains or losses arising from downstream intercompany transactions are fully eliminated and it is attributed to the Company s investment. Unrealized gains or losses arising from upstream transactions are fully eliminated and it is attributed to the Company s investment proportionately to the equity interest of the company and non-controlling interest.

Translation of foreign subsidiary s financial statements

In translation of subsidiary s financial statements denominated in foreign currencies, the statement of financial position items are translated at the exchange rates in effect at the end of the reporting period (but, historical exchange rates should be used for the equity items) and the profit and loss items are translated at the current year s average exchange rates. Differences arising in translation should be treated as translation gain or loss from foreign operation and it is proportionately attributed to the company s equity interest, recorded in accumulated other comprehensive income (loss), and non-controlling interest by equity interest owned. For the cash flow statement items, the beginning cash balances are translated at the exchange rates in effect at the end of the reporting period in prior year, the ending cash balances are translated at the end of the reporting period in current year and the other items are translated at the current year s average exchange rates. Differences arising when translating the cash flow items are presented as effect of changes in exchange rate on cash and cash equivalents in the face of the consolidated statements of cash flows in translation should be treated as gain or loss on foreign currency translation.

US Dollar Convenience Translation

The December 31, 2010 consolidated financial statements are expressed in Korean Won and have been translated into U.S. dollars at the rate of ₩1,138.9 to US$1, at the Seoul Money Brokerage Services, Ltd., buying exchange rate in effect on December 31, 2010, solely for the convenience of the reader. These translations should not be construed as a representation that any or all of the amounts shown could be converted into U.S. dollars at this or any other rate.

Financial Reporting after 2010

The Company has decided to report its financial statements using International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board after December 31, 2010 and the Company will discontinue the use of Korean GAAP financial reporting. Consequently, the Company s 2010 consolidated financial statements under IFRS may be materially different than the accompanying 2010 Korean GAAP consolidated financial statements.

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3. Cash, Cash Equivalents and Financial Instruments

Cash, cash equivalents and short-term and long-term financial instruments as of December 31, 2010 and 2009 are as follows:

	Annual Interest Rate (%)		2010	2009
			(In millions of Korean Won)	
Cash and cash equivalents				
Cash on hand and bank deposits	0.00 ~ 3.00	₩	592,588	165,307
Checking accounts	0.00 ~ 1.00		39,874	7,427
Corporate bank deposits	0.20 ~ 5.00		666,854	417,390
Time deposits	2.64 ~ 4.83		571,874	529,564
Time deposits in foreign currency and others	0.00 ~ 3.20		613,449	382,904
Maintained by overseas affiliates	0.00 ~ 13.40		1,115,274	696,578
			3,599,913	2,199,170
Less : Government grants			(1,091)	(2,439)
		₩	3,598,822	2,196,731
Short-term financial instruments				
Time deposits	0.50 ~ 4.96	₩	2,476,855	2,962,298
Specified money in trust			61,791	71,193
Certificates of deposit	3.01 ~ 4.80		247,600	2,405,500
Others	0.10 ~ 1.40		111,739	342,643
Maintained by overseas affiliates	0.00 ~ 14.00		56,366	38,813
		₩	2,954,351	5,820,447
Long-term financial instruments				
Installment accounts	0.50 ~ 5.08	₩	20,748	18,522
Guarantee deposits for opening accounts	0.00 ~ 1.00		96	112
Maintained by overseas affiliates	0.36 ~ 1.44		1,904	
			22,748	18,634

The financial assets pledged as collateral include short-term financial instruments amounting to ₩28,811 million and ₩22,343 million as of December 31, 2010 and 2009, respectively, in relation to performance guarantee deposits, short-term borrowings, long-term debts and others; short-term financial instruments amounting to ₩14,101 million and ₩10,667 million as of December 31, 2010 and 2009, respectively, in relation to government-appropriated projects; and long-term financial instruments amounting to ₩96 million and ₩112 million as of December 31, 2010 and 2009, respectively, in relation to maintaining deposits for opening checking accounts.

4. Trading Securities

Trading securities as of December 31, 2010 and 2009 are as follows:

	2010				2009
	Acquisition Cost		Fair Value	Book Value	Book Value
	(In millions of Korean Won)				
Beneficiary certificates and others	₩	182,071	183,953	183,953	505,811

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5. Accounts and Notes Receivable and Others

(a) Accounts and notes receivable, and their allowance for doubtful accounts and present value discounts as of December 31, 2010 and 2009 are as follows:

		2010	2009
		(In millions of Korean Won)	
Trade accounts and notes receivable	₩	8,236,522	5,344,442
Less: Allowance for doubtful accounts		(234,596)	(199,318)
Less: Present value discount		(6,277)	(102)
	₩	7,995,649	5,145,022
Other accounts and notes receivable	₩	738,184	470,701
Less: Allowance for doubtful accounts		(53,115)	(23,008)
		685,069	447,693
Long-term trade accounts and notes receivable	₩	17,033	23,142
Less: Allowance for doubtful accounts		(3,982)	(6,250)
Less: Present value discount		(422)	(1,207)
		12,629	15,685
Long-term loans receivable	₩	172,103	125,029
Less: Allowance for doubtful accounts		(31,657)	(21,395)
Less: Present value discount			(27)
		140,446	103,607

(b) Accounts stated at present value under long-term deferred payment term and others as of December 31, 2010 are as follows:

		Face Value	Present Value Discount	Book Value	Maturity	Discount Rate (%)
		(In millions of Korean Won)				
Long-term loans receivable KwangYang Enterprise	₩	209	11	198	2012	7.1

Co., Ltd.						
	₩	209	11	198		
Long-term trade accounts and notes receivable						
Essar Project [(*)]	₩	81,173	5,918	75,255	2012	7.9
Others		13,857	780	13,077	2012 ~ 2016	5.2 ~ 5.9
	₩	95,030	6,698	88,332		

(*) Discount at present value incurred from restructured receivables under work-out plans is presented as allowance for doubtful accounts.

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(c) Valuation and qualifying accounts for allowance for doubtful accounts for the years ended December 31, 2010, 2009 and 2008 are as follows:

Description	Balance at Beginning of Period	Additions: Charged to Costs and Expenses	Additions: Change in Scope of Consolidation	Deductions (*)	Balance at the End of Period
	(In millions of Korean Won)				
Year ended December 31, 2010:					
Reserves deducted in the balance sheet from the assets to which the apply:					
Allowance for doubtful accounts	₩ 284,895	₩ 87,768	₩ 86,214	₩ 73,420	₩ 385,457
Year ended December 31, 2009:					
Reserves deducted in the balance sheet from the assets to which the apply:					
Allowance for doubtful accounts	340,325	45,538	2,808	103,776	284,895
Year ended December 31, 2008:					
Reserves deducted in the balance sheet from the assets to which the apply:					
Allowance for doubtful accounts	341,766	28,186	1,072	30,699	340,325

6. Inventories

Inventories as of December 31, 2010 and 2009 are as follows:

	2010	2009
	(In millions of Korean Won)	
Finished goods	₩ 2,087,784	877,850
By-products	31,034	28,756
Semi-finished goods	2,279,766	1,585,425

Raw materials		2,503,040	1,124,060
Fuel and materials		721,266	566,344
Materials-in-transit		2,212,928	1,036,108
Others		56,315	11,186
		9,892,133	5,229,729
Less: Provision for valuation loss		(88,680)	(76,890)
	₩	9,803,453	5,152,839

Loss on valuation of inventories for the years ended December 31, 2010 and 2009 amounted to ₩88,680 million and ₩76,890 million, respectively.

7. Investment Securities

Investment securities, net of current portion, as of December 31, 2010 and 2009 are as follows:

		2010	2009
		(In millions of Korean Won)	
Available-for-sale securities	₩	6,546,061	5,292,591
Held-to-maturity securities		36,161	91,792
Equity-method investments		2,735,483	827,583
	₩	9,317,705	6,211,966

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Available-for-sale Securities

(a) Available for sale securities as of December 31, 2010 and 2009 are as follows:

		2010	2009
		(In millions of Korean Won)	
Current portion of available-for-sale securities			
Investments in bonds	₩	42,909	35,746
Available-for-sale securities			
Marketable equity securities		4,944,184	3,973,531
Non-marketable equity securities		1,547,524	1,174,866
Investments in bonds		8,025	120,048
Equity investments		46,328	24,146
		6,546,061	5,292,591
	₩	6,588,970	5,328,337

(b) Investments in marketable equity securities as of December 31, 2010 and 2009 are as follows:

Company	Number of Shares	Ownership (%)		2010 Acquisition Cost		Fair Value		Book Value (*1)		2009 Book Value
				(In millions of Korean Won)						
SK Telecom Co., Ltd. (*1)	4,452,057	5.51	₩	1,236,858	₩	809,280	₩	809,280	₩	743,845
Hana Financial Group Inc.	4,663,776	2.20		29,998		201,942		201,942		153,438
Hyundai Heavy Industries Co., Ltd.	1,477,000	1.94		343,506		654,311		654,311		256,260
Hanil Iron & Steel Co., Ltd.	206,798	10.14		2,413		3,433		3,433		2,575
HI Steel Co., Ltd.	135,357	9.95		1,609		2,132		2,132		1,895
Munbae Steel Co., Ltd.	1,849,380	9.02		3,588		4,133		4,133		5,419
Dong Yang Steel Pipe Co., Ltd.	1,564,250	1.92		3,911		1,893		1,893		1,877

Shinhan Financial Group Inc.	4,369,881	0.92	228,778	231,167	231,167	188,779
SeAH Steel Corp.	610,103	10.17	18,792	31,664	31,664	22,055
Union Steel Co., Ltd.	1,005,000	9.80	40,212	29,095	29,095	22,110
Hanjin Shipping Co., Ltd.	65,132	0.08	2,538	2,508	2,508	1,185
Hanjin Shipping Holdings Co., Ltd.	11,033	0.03	298	203	203	151
KB Financial Group Inc.	13,115,837	3.39	574,524	786,950	786,950	783,015
LG U+ (Formerly, LG Powercom Corporation)	4,452,812	0.86	37,804	31,927	31,927	36,793
OCI Company Ltd.	3,404		149	1,123	1,123	744
Korea Semiconductor System Co., Ltd.	281,924	5.25	529	1,073	1,073	671
Aromasoft Corp Co., Ltd.	150,000	1.54	143	156	156	603
i-Components Co., Ltd						277
Seoul Semiconductor Co., Ltd.	591,000	1.01	24,999	24,024	24,024	
Nippon Steel Corporation [*1]	238,352,000	3.50	719,622	972,351	972,351	1,128,734
Thainox Stainless Public Company Limited	1,200,000,000	15.39	42,301	70,724	70,724	67,658
Macarthur Coal Limited	21,215,700	7.25	420,805	314,446	314,446	249,431
PT.Krakatau Steel	236,625,000	1.50	25,385	35,948	35,948	
Murchison Metals Ltd.	60,567,000	13.91	53,120	89,164	89,164	132,139
Cockatoo Coal Ltd.	134,807,307	13.27	59,644	82,731	82,731	33,389
Sandfire Resources NL	23,696,338	16.68	43,250	222,526	222,526	73,598
Jupiter Mines Limited [*2]	327,210,775	20.28	77,694	287,952	287,952	9,531
Silicon Motion Technology Corp.	136,925	0.42	3,052	663	663	545
FuelCell Energy, Inc.	10,786,418	9.55	57,156	28,378	28,378	47,354
Others			34,534	22,287	22,287	9,460
			₩ 4,087,212	₩ 4,944,184	₩ 4,944,184	₩ 3,973,531

(*1) Certain portion of those investments has been pledged as collateral. (note 11)

(*2) This investment was not accounted for using the equity method since the percentage of its shares temporarily exceeded 20% in the process of changing shareholders.

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(c) Investments in non-marketable equity securities as of December 31, 2010 and 2009 are as follows:

Company	2010 Number of Shares	2010 Ownership (%)	2010 Acquisition Cost	2010 Book Value	2009 Book Value
			(In millions of Korean Won)		
Dongbu Metal Co., Ltd.	3,000,000	10.00	₩ 98,242	₩ 98,242	₩
Busan Gimhae Light Rail Transit Co., Ltd. (*1,2)	9,160,000	25.00	45,800	75,405	76,294
Korea Delphai Automotive Systems Corporation (*1)	1,835,520	7.70	9,178	45,431	50,805
TK Chemical Corporation (*1)	8,000,000	10.00	14,818	38,496	14,818
Sinbundang Railroad Co., Ltd. (*1)	2,061,000	5.00	10,305	17,655	17,500
Seoul Metro Line9 Corpation	4,090,985	12.25	20,455	20,455	30,444
U-Space Co., Ltd.	140,000	10.00	14,000	14,000	14,000
POSFINE Co., Ltd. (*3)	2,700,000	70.00	13,500	13,500	6,750
Dream Hub PFV Co., Ltd.	2,400,000	1.20	12,000	12,000	12,000
ENK Co., Ltd.	500,000	8.40	10,000	10,000	10,000
Busan E&E Co., Ltd. (*3)	1,917,300	70.00	9,587	9,587	
SAMWON STEEL Co., Ltd	1,786,000	19.00	8,930	8,930	8,930
Eco-Town	1,596,000	19.00	7,980	7,980	7,980
Gunsan SFC Co., Ltd. (*3)	300,000	100.00	15,036	14,854	
Poongsan Special Metal Corporation	315,790	5.00	7,657	7,657	7,657
POS Eco Housing (*3)	1,178,651	85.25	5,893	5,893	5,893
Nacional Minerios S.A. (*1)	30,784,625	6.48	668,635	534,734	535,357
The siam united steel (*1)	11,071,000	12.30	34,658	69,013	65,135
Minas de Revuboe Ltd. (*4)		7.80	21,548	21,548	21,548
POSCO-CYPC (*3,4)		100	16,100	16,100	
ACM Corporation	132	10.20	8,097	8,097	8,097
Asia Special Steel Co., Ltd.	27	18.00	7,781	7,781	4,063
Hume Coal Pty Ltd. (*3,4)		70.00	58,116	58,116	
Elkview mine (*4)		2.50	33,659	33,659	32,723
POSCO-URUGUAY S.A. (*3)	98,261,497	98.00	5,874	5,874	
POSCO SS-VINA Co., Ltd. (*3,4)		100.00	41,277	39,514	
POSCO AAPC LLC (*4)		68.00	10,284	10,284	
POSCO Maharashtra Steel Private Limited (*5)					63,872
Others			446,145	342,719	181,000

	₩	1,655,555	₩	1,547,524	₩	1,174,866

(*1) The fair values of those investments were based on the valuation report of a public rating services company. Other non-marketable investments are recorded at cost since fair value cannot be reliably measured.

(*2) This investment was not accounted for using the equity method since it is established pursuant to Private Finance Law related to social infrastructure capital and the Company does not have ability to exercise significant influence on the investee.

(*3) Those investments were not accounted for using the equity method as their total assets are less than ₩10 billion as of December 31, 2009 and they are also small-sized entities or in the middle of establishment as of December 31, 2010.

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

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(*5) This investment was reclassified to equity-method investments from available-for-sale securities since its total assets are greater than ₩10 billion as of December 31, 2009.

(d) Available-for-sale securities are stated at fair value, and the difference between the acquisition cost and fair value is accounted for in accumulated other comprehensive income. The movements of such differences for the years ended December 31, 2010 and 2009 are as follows:

Company	2010 Beginning Balance	2010 Increase (Decrease)	2010 Ending Balance	2009 Beginning Balance	2009 Increase (Decrease)	2009 Ending Balanc
	(In millions of Korean Won)					
SK Telecom Co., Ltd.	₩ (373,374)	₩ 39,862	₩ (333,512)	₩ (247,137)	₩ (126,237)	₩ (373,374)
Hana Financial Group Inc.	96,283	37,833	134,116	47,537	48,746	96,283
Hyundai Heavy Industries Co., Ltd.	(68,052)	310,480	242,428	(38,098)	(29,954)	(68,052)
Hanil Iron & Steel Co., Ltd.	(46)	842	796	(809)	763	(46)
HI Steel Co., Ltd.	223	185	408	123	100	223
Munbae Steel Co., Ltd.	1,258	(832)	426	90	1,168	1,258
Dong Yang Steel Pipe Co., Ltd.	(1,586)	12	(1,574)	(1,958)	372	(1,586)
Korea Line Corp.				4,898	(4,898)	
Shinhan Financial Group Inc.	(31,199)	33,062	1,863	(82,790)	51,591	(31,199)

SeAH Steel Corp.	2,545	7,495	10,040	3,664	(1,119)	2,545
Union Steel Co., Ltd.	(14,119)	5,447	(8,672)	(20,077)	5,958	(14,119)
Hanjin Shipping Co., Ltd.	(1,036)	1,012	(24)	(1,105)	69	(1,036)
Hanjin Shipping Holdings Co., Ltd.	10	(83)	(73)		10	10
KB Financial Group Inc.	162,624	3,068	165,692	(13,843)	176,467	162,624
LG U+ (Formerly, LG Powercom Corporation)		(2,751)	(2,751)	(161,460)	161,460	
Nippon Steel Corporation	319,107	(121,979)	197,128	190,214	128,893	319,107
Thainox Stainless Public Company Limited	19,779	2,391	22,170	(1,562)	21,341	19,779
Macarthur Coal Limited	(58,179)	50,711	(7,468)	(209,113)	150,934	(58,179)
The Siam United Steel	23,771	3,026	26,797	18,493	5,278	23,771
Nacional Minerios S.A.	(103,957)	(485)	(104,442)		(103,957)	(103,957)
Sandfire Resources NL	39,643	121,668	161,311	(4,450)	44,093	39,643
Others	73,758	54,024	127,782	21,824	51,934	73,758
	₩ 87,453	₩ 544,988	₩ 632,441	₩ (495,559)	₩ 583,012	₩ 87,453

(e) Investments in bonds as of December 31, 2010 and 2009 are as follows:

		2010		2009
			Book	Book
	Maturity	Acquisition Cost	Value	Value
		(In millions of Korean Won)		
Government bonds	Less than 1 year	₩ 537	₩ 537	₩ 568
	1-5 years	607	607	4,414
Corporate debt securities	Less than 1 year	38,081	42,371	35,178
	1-5 years	7,550	6,550	115,634
	Over than 5 years	861	869	
		47,636	50,934	155,794
Less: Current portion		(38,619)	(42,909)	(35,746)
		₩ 9,017	₩ 8,025	₩ 120,048

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(f) Equity investments as of December 31, 2010 and 2009 are as follows:

	2010		2009
	Acquisition Cost	Book Value	Book Value
	(In millions of Korean Won)		
Construction Guarantee	₩ 16,268	₩ 19,127	₩ 17,876
Others	39,311	27,201	6,270
	₩ 55,579	₩ 46,328	₩ 24,146

(g) Details of gross unrealized gains and losses on available-for-sale securities for the years ended December 31, 2010 and 2009 are as follows:

	2010				2009		
	Amortized Cost (*)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost (*)	Gross Unrealized Gains	Gross Unrealized Losses
	(In millions of Korean Won)						
s:							
d							
s	₩ 1,144	₩	₩	₩ 1,144	₩ 5,504	₩	₩ 522
	46,492	3,298		49,790	151,445		633
	47,636	3,298		50,934	156,949		1,155
ies:							
ity							
	3,990,427	1,455,519	(501,762)	4,944,184	3,744,085	948,334	(718,888)
e							
s	1,575,349	133,146	(160,970)	1,547,525	1,179,887	137,002	(142,023)

55,579		(9,251)	46,327	21,003	3,143		
5,621,355	1,588,665	(671,983)	6,538,036	4,944,975	1,088,479	(860,911)	
₩ 5,668,991	₩ 1,591,963	₩ (671,983)	₩ 6,588,970	₩ 5,101,924	₩ 1,088,479	₩ (859,756)	₩

(*) Acquisition cost less impairment loss

For the years ended December 31, 2010, 2009 and 2008, proceeds from sales of available-for-sale securities amounted to ₩316,840 million, ₩201,395 million and ₩26,752 million, respectively. Gross realized gains and losses amounted to ₩160 million and ₩72,668 million, respectively, for the years ended December 31, 2010 and 2009.

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Held-to-maturity Securities

(a) Held-to-maturity securities as of December 31, 2010 and 2009 are as follows:

	Maturity	2010 Acquisition Cost	2010 Book Value	2009 Book Value
		(In millions of Korean Won)		
Current portion of held-to-maturity securities				
Government bonds (*)	Less than 1 year	₩ 3,679	₩ 3,657	₩ 20,717
Held-to-maturity securities				
Government bonds (*)	1-5 years	36,194	36,024	91,792
	5-10 years	137	137	
		36,331	36,161	91,792
		₩ 40,010	₩ 39,818	₩ 112,509

(*) Certain portion of the government bonds has been pledged as collateral for the consolidated subsidiaries. (note 11)

Equity-method Investments

(a) Equity-method investments as of December 31, 2010 and 2009 are as follows:

Investees (*1)	Number of Shares	Ownership (%)	2010 Acquisition Cost	2010 Net Asset Value	2010 Book Value	2009 Book Value
			(In millions of Korean Won)			
eNtoB Corporation (*2)			₩	₩	₩	₩ 7,696
Midas IT Co., Ltd.	866,190	25.46	433	9,654	9,633	8,304
Songdo New City Development Inc. (*3)	1,332,344	29.90	6,674	(39,759)		
	85,306	29.90	427	11,540	11,540	7,917

Gale International Korea Inc.						
SNNC Co., Ltd.	18,130,000	49.00	90,650	168,208	145,539	93,263
Chungju Enterprise City	2,008,000	25.10	10,040	10,515	10,515	5,383
Taegisan Wind Power Corporation	2,500,000	50.00	12,500	7,244	5,836	10,955
Cheongna International Business Town Co., Ltd. (*4)	1,151,960	18.58	45,651	35,437	36,050	2,159
Garolim Tidal Power Plant Co., Ltd.	2,322,999	32.13	11,615	10,881	10,881	11,041
Posco E&C Songdo International Building (*3)	98,000	49.00	490	(6,089)		
Kyobo Life Insurance Co., Ltd. (*5)	4,920,000	24.00	1,266,900	1,092,853	1,302,989	
KOBRASCO	2,010,719,185	50.00	32,950	142,615	142,615	98,943
USS-POSCO Industries (UPI) (*6)		50.00	254,649	38,789	31,007	45,961
Poschrome (Proprietary) Limited	43,350	50.00	19,859	34,459	28,975	13,481
POSCO Bio Ventures L.P. (*2)						30,439
CAML Resources Pty. Ltd.	3,239	33.40	40,388	48,437	54,155	30,237
Nickel Mining Company SAS	3,234,698	49.00	157,585	210,914	178,866	190,149
Hubei Huaerliang POSCO Silicon Science & Technology Co., Ltd. (*7)						9,899
An Khanh New City Development Joint-Ventured Company Ltd. (*6)		50.00	20,429	2,109	2,109	12,643
United Spiral Pipe, LLC (USP) (*6)		35.00	37,450	18,031	17,908	23,984

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Investees (*1)	Number of Shares	Ownership (%)	2010 Acquisition Cost		Net Asset Value		Book Value		2009 Book Value
			(In millions of Korean Won)						
Zhongyue POSCO (Qinhuangdau) Tinplate Industrial Co., Ltd. (*6)		34.00		9,517		19,963		16,826	15,592
BX STEEL POSCO Cold Rolled Sheet Co., Ltd. (*6)		25.00		61,961		81,891		86,122	63,667
Eureka Moly LLC (*6)		20.00		121,209		25,048		109,177	113,105
POS-GSFC LLC (*6)		44.40		15,520		4,480		11,609	
NCR LLC (*6)		20.00		23,744		2,831		23,931	
AMCI (WA) Pty. Ltd.	194,772,025	49.00		213,446		(9,752)		199,881	
Myanmar Korea Timber International Ltd. (*3,5)	270	45.00				(947)			
KOREA LNG Ltd. (*5)	2,400	20.00		137,993		2,753		137,706	
DMSA, AMSA (*5,8)		4.00		100,770		54,850		100,662	
Others				60,099		69,126		60,951	32,765
			₩	2,752,949	₩	2,046,081	₩	2,735,483	₩ 827,583

(*1) Due to the difference in the closing schedule of December 31, 2010, the equity method of accounting is applied based on the most recent financial information available, which has not been audited or reviewed.

(*2) These subsidiaries are newly consolidated due to additional acquisition of shares, and others.

(*3) The equity method of accounting has been suspended for investment in Songdo New City Development Inc., PSIB Co., Ltd. and Myanmar Korea Timber International Ltd. as the Company s net investments have been reduced to zero. Unrecorded changes in equity interests in these investments in 2010 amounted to ₩9,717 million and the accumulated unrecorded changes in equity interest prior to 2010 amounted to ₩75,689 million which ₩31,097 is accounted as loss in the current year.

(*4) Those investments were accounted for using the equity method because it has more than 40% of voting rights of the investee to exercise significant influence on the investees and its percentage of shares has increased to 18.58%, according to the option contracts with foreign investors.

(*5) These subsidiaries are newly included in equity method investments as a result of acquisition of Daewoo International Corporation.

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

(*7) All of its shares are sold during the current year.

(*8) Although the Company owns less than 20% equity interest in these investees, these investments were accounted for using the equity method because they are under joint control.

(b) The movements of equity method investments as of and for the years ended December 31, 2010 and 2009 are as follows:

Investees	**Dec. 31 2008 Balance**	**Equity Method Profits (Losses)**	**Other Increase (Decrease) (*)**	**Dec. 31 2009 Balance**	**Equity Method Profits (Losses)**	**Other Increase (Decrease) (*)**	**Dec. 31 2010 Balance**
	(In millions of Korean Won)						
eNtoB Corporation	₩ 7,519	₩ 418	₩ (241)	₩ 7,696	₩ 333	₩ (8,029)	₩
Midas IT Co., Ltd.	6,926	1,229	149	8,304	1,329		9,633
Gale International Korea Inc.	6,983	5,038	(4,104)	7,917	3,623		11,540
SNNC Co., Ltd.	59,020	34,244	(1)	93,263	64,967	(12,691)	145,539
Chungju Enterprise City	7,686	(2,303)		5,383	5,132		10,515
Taegisan Wind Power Corporation	5,273	(3,722)	9,404	10,955	(5,119)		5,836
Cheongna International Business Town Co., Ltd.	3,354	(1,212)	17	2,159	(7,850)	41,741	36,050

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Investees	Dec. 31 2008 Balance	Equity Method Profits (Losses)	Other Increase (Decrease) (*)	Dec. 31 2009 Balance	Equity Method Profits (Losses)	Other Increase (Decrease) (*)	Dec. 31 2010 Balance
	(In millions of Korean Won)						
Garolim Tidal Power Plant Co., Ltd.		(208)	11,249	11,041	(160)		10,881
Kyobo Life Insurance Co., Ltd					174,879	1,128,110	1,302,989
KOBRASCO	57,656	25,611	15,676	98,943	51,378	(7,706)	142,615
USS-POSCO Industries (UPI)	51,330	(18,530)	13,161	45,961	(9,165)	(5,789)	31,007
Poschrome (Proprietary) Limited	5,004	6,237	2,240	13,481	361	15,133	28,975
POSCO Bio Ventures L.P.	39,584	(5,037)	(4,108)	30,439		(30,439)	
CAML Resources Pty. Ltd.	31,959	(6,561)	4,839	30,237	13,673	10,245	54,155
Nickel Mining Company SAS	220,553	(3,634)	(26,770)	190,149	7,744	(19,027)	178,866
Hubei Huaerliang POSCO Silicon Science & Technology Co., Ltd.	10,552	122	(775)	9,899	(852)	(9,047)	
An Khanh New City	21,184	(6,509)	(2,032)	12,643	(10,475)	(59)	2,109

Development Joint-Ventured Company Ltd.							
United Spiral Pipe LLC (USP)	32,260	(5,523)	(2,753)	23,984	(13,662)	7,586	17,908
Zhongyue POSCO (Qinhuangdau) Tinplate Industrial Co., Ltd.	16,944	(159)	(1,193)	15,592	1,146	88	16,826
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	90,776	(23,086)	(4,023)	63,667	21,739	716	86,122
Eureka Moly LLC	121,209	(305)	(7,799)	113,105	(1,165)	(2,763)	109,177
POS-GSFC LLC		(1,931)	1,931		(2,796)	14,405	11,609
NCR LLC					(40)	23,971	23,931
AMCI (WA) Pty. Ltd.					(12,459)	212,340	199,881
Myanmar Korea Timber International					(1,538)	1,538	
KOREA LNG Ltd.					15,463	122,243	137,706
DMSA, AMSA					(220)	100,882	100,662
Others	36,764	(1,059)	(2,940)	32,765	7,112	21,074	60,951
	₩ 832,536	₩ (6,880)	₩ 1,927	₩ 827,583	₩ 303,378	₩ 1,604,522	₩ 2,735,483

(*) Other increase or decrease represents the changes in investment securities due to acquisitions, disposals, dividends received, changes in capital adjustments arising from translations of financial statements of foreign investees and others.

(c) Details of differences between the initial purchase price and the Company s initial proportionate ownership in the book value of the investees for the years ended December 31, 2010 and 2009 are as follows:

Investee		Dec. 31 2008 Balance		Increase (Decrease)		Amortization		Dec. 31 2009 Balance		Increase (Decrease)		Amortization		Dec. 31 2010 Balance
								(In millions of Korean Won)						
eNtoB Corporation	₩	696	₩		₩	(183)	₩	513	₩	(513)	₩		₩	
SNNC Co., Ltd.		146				(42)		104		1		(42)		63
CAML Resources Pty. Ltd.		7,751				(5,764)		1,987				(1,987)		
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.		9,577				(2,673)		6,904		1		(2,673)		4,232
POS-GSFC LLC				1,015		(1,015)				8,545		(1,481)		7,064
AMCI (WA) Pty. Ltd.										209,634				209,634
Others		1,138		667		(956)		849		(282)		(407)		160
	₩	19,308	₩	1,682	₩	(10,633)	₩	10,357	₩	217,386	₩	(6,590)	₩	221,153

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(d) Details on the elimination of unrealized gain or loss from inter-company transactions for the years ended December 31, 2010 and 2009 are as follows:

Investee	2010 Inventories	2010 Property, Plant and Equipment and Intangible Assets	2010 Total	2009 Inventories	2009 Property, Plant and Equipment and Intangible Assets	2009 Total
	(In millions of Korean Won)					
eNtoB Corporation	₩	₩	₩	₩ 368	₩ 4	₩ 372
Midas IT Co., Ltd.		5	5		(8)	(8)
SNNC Co., Ltd.	(13,602)	1,115	(12,487)	(11,686)	1,195	(10,491)
POSCO E&C Songdo International Building	9,556		9,556	4,742		4,742
KOBRASCO				14,090		14,090
USS-POSCO Industries	(1,311)		(1,311)	2,368		2,368
Poscrome (Proprietary) Limited	(1,145)		(1,145)	9,279		9,279
Nickel Mining Company SAS	(4,825)		(4,825)	4,935		4,935
United Spiral Pipe LLC	(110)		(110)	(14)		(14)
Zhongyue POSCO (Qinhuangdau) Tinplate Industrial Co., Ltd.	(802)		(802)	(210)		(210)
POS-GSFC LLC	(7)		(7)			
Myanmar Korea Timber International Ltd.	(9)		(9)			
Others	(960)	1,411	451	(5,943)	3	(5,940)
	₩ (13,215)	₩ 2,531	₩ (10,684)	₩ 17,929	₩ 1,194	₩ 19,123

(e) Summary of financial information on equity-method investees as of and for the year ended December 31, 2010 is as follows:

Investee	Total Assets	Total Liabilities	Sales	Net Income (Loss)
	(In millions of Korean Won)			

SNNC Co., Ltd.	₩ 648,682	₩ 305,401	₩ 519,871	₩ 149,246
Garolim Tidal Power Plant Co., Ltd.	35,340	1,473		(561)
Taegisan Wind Power Corporation	81,051	66,563	9,168	(4,088)
Midas IT Co., Ltd.	61,350	23,434	40,810	5,792
Gale International Korea Inc.	59,564	20,970	36,651	12,224
Chungju Enterprise City	254,767	212,874	79,891	20,541
Cheongna International Business Town Co., Ltd.	456,044	265,318		(241)
POSCO E&C Songdo International Building	367,396	379,823	9,472	(12,074)
Songdo New City Development Inc.	2,929,925	3,062,899	748,068	81,960
Kyobo life insurance Co., Ltd.	57,322,654	52,769,099	12,053,412	758,781
Nickel Mining Company SAS	527,296	96,859	176,775	23,484
Eureka Moly LLC	207,968	82,728		(5,825)
KOBRASCO	351,211	65,981	131,859	89,254
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	1,003,494	675,931	1,421,734	97,645
USS-POSCO Industries	459,290	381,712	1,018,389	(15,709)
CAML Resources Pty. Ltd.	210,319	65,298	265,014	46,970
United Spiral Pipe LLC	177,697	126,179	20,745	(38,719)
Zhongyue POSCO (Qinhuangdau) Tinplate Industrial Co., Ltd.	150,510	91,795	165,117	5,811
Poschrome (Proprietary) Limited	76,611	7,693	69,126	6,306

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Investee	Total Assets	Total Liabilities	Sales	Net Income (Loss)
	(In millions of Korean Won)			
An Khanh New City Development Joint-Ventured Company Ltd.	194,004	189,787		(14,122)
POS-GSFC LLC	50,132	40,041	27,691	(1,837)
NCR LLC	14,379	226		(201)
AMCI (WA) Pty. Ltd.	11,521	31,424		19,754
Myanmar Korea Timber International Ltd.	9,032	11,136	10,665	(613)
KOREA LNG Ltd.	13,850	87	79,030	77,315
DMSA, AMSA	5,301,319	3,930,064		(3,857)
Others	438,844	262,708	1,053,549	22,039

8. Natural Resources Exploration Investments

As of December 31, 2010, investments in exploration and development, including the Myanmar mining site, of natural resources such as natural gas and mineral reserves are as follows:

	Book Value (In millions of Korean Won)
Myanmar A-1 Mining	624,708
Myanmar A-3 Mining	338,685
Australia Narrabri and others	116,221
Myanmar AD-7 Mining	44,499
Uzbekistan 35/36 Mining	25,349
Russia West Kamchatka Mining	9,573
Others	4,980
	1,164,015

In relation to the above investments, borrowings from Korea National Oil Corporation and others amounting to ₩153,945 million (USD145 million) are accounted as other long-term liabilities.

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9. Property, Plant and Equipment

(a) Property, plant and equipment as of December 31, 2010 and 2009 are as follows:

	2010	2009
	(In millions of Korean Won)	
Buildings and structures	₩ 10,466,444	8,511,720
Machinery and equipment	35,998,538	31,538,967
Vehicles	282,535	228,082
Tools	295,087	419,818
Furniture and fixtures	408,279	314,052
Capital lease assets	62,634	31,830
	47,513,517	41,044,469
Less: Accumulated depreciation	(28,083,031)	(25,664,723)
Less: Accumulated impairment loss	(130,563)	(156)
Less: Government grants	(4,640)	(1,605)
	19,295,283	15,377,985
Land	2,470,423	2,142,621
Construction-in-progress	3,937,242	4,319,179
Less: Accumulated impairment loss	(3,799)	
	₩ 25,699,149	21,839,785

The value of land based on the posted price issued by the Ministry of Land, Transport and Maritime Affairs amounted to ₩5,045,356 million and ₩4,358,124 million as of December 31, 2010 and 2009, respectively.

As of December 31, 2010 and 2009, property, plant and equipment are insured against fire and other casualty losses for up to ₩22,031,048 million and ₩16,946,755 million, respectively. In addition, the Company carries general insurance for vehicles and accident compensation insurance for its employees.

In accordance with the Asset Revaluation Law, POSCO and certain subsidiaries revalued a substantial portion of their property, plant and equipment, and increased the related amount of assets by ₩3,942 billion as of December 31, 2000, the latest revaluation date. The revaluation surplus amounting to ₩3,225 billion, net of related tax and transfers to capital stock, was credited to capital surplus, a component of shareholders equity.

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(b) The changes in the carrying value of property, plant and equipment for the years ended December 31, 2010 and 2009, are as follows:

	Beginning Balance	Acquisition (*1)	Disposal	Depreciation (*2)	Others (*3)	Consolidation Adjustments	End Bala
			(In millions of Korean Won)				
	₩ 2,142,621	₩ 221,158	₩ (65,568)	₩	₩ 199,357	₩ (30,945)	₩ 2,
	3,429,518	1,095,756	(115,236)	(294,081)	418,681	(90,313)	4,
s	1,648,110	650,930	(36,982)	(144,924)	73,794	(71,552)	2,
y and t	10,071,348	4,543,685	(37,947)	(2,286,476)	360,047	(224,618)	12,
	51,065	23,140	(5,077)	(18,809)	15,406	(1,583)	
	68,355	46,401	(2,616)	(29,135)	(7,529)	(33)	
and fixtures	86,024	76,389	(5,880)	(40,639)	14,030	(7,040)	
Lease assets	23,565	32,982	(573)	(11,864)	(1,035)		
ion-in-progress	4,319,179	5,591,920	(61,120)		(6,249,019)	336,282	3,
	₩ 21,839,785	₩ 12,282,361	₩ (330,999)	₩ (2,825,928)	₩ (5,176,268)	₩ (89,802)	₩ 25,

(*1) Includes assets transferred from construction-in-progress.

(*2) Includes depreciation expenses of idle property.

(*3) Includes foreign currency translation adjustments, asset transfers and adjustments resulting from the effect of changes in the scope of consolidation and others.

Beginning Balance	Acquisition	Disposal	Depreciation	Others	Consolidation Adjustments	En Ba
			(In millions of Korean Won)			

	₩ 1,861,451	₩ 153,118	₩ (26,083)	₩ -	₩ 160,305	₩ (6,170)	₩ 2
	2,855,902	876,087	(43,536)	(245,517)	155,786	(169,204)	3
	1,590,231	196,500	(10,773)	(150,340)	99,480	(76,988)	1
and	8,635,599	3,332,801	(165,204)	(2,005,954)	813,289	(539,183)	10
	33,923	56,976	(23,383)	(17,294)	1,323	(480)	
	94,396	38,580	(2,180)	(33,519)	(28,490)	(432)	
nd fixtures	90,034	36,342	(2,305)	(37,445)	3,682	(4,284)	
ease assets	10,579	3,410	(10)	(6,840)	16,426		
on-in-progress	2,896,984	5,587,395	(32,049)		(3,788,448)	(344,703)	4
	₩ 18,069,099	₩ 10,281,209	₩ (305,523)	₩ (2,496,909)	₩ (2,566,647)	₩ (1,141,444)	₩ 21

(c) The Company entered into a capital lease contract with Ilshin Shipping Co., Ltd. for a Ro-Ro (roll-on roll-off) ship for the exclusive use of transporting plates and others. As of December 31, 2010, future minimum lease payments under such a capital lease are as follows:

	Minimum Lease Payments (In millions of Korean Won)
Less 1 year	₩ 14,914
1 ~ 5 years	19,627
Over 5 years	4,138
	₩ 38,679

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10. Intangible Assets

(a) Intangible assets, net of accumulated amortization, as of December 31, 2010 and 2009 are as follows:

	2010	2009
	(In millions of Korean Won)	
Goodwill	₩ 1,465,674	₩ 272,092
Negative goodwill	(9,819)	(10,352)
Intellectual property rights	144,614	51,994
Research and development costs, net of government grants	92,865	48,496
Port facilities usage rights	107,240	99,552
Long-term electricity supply contract rights	41,795	48,483
Others (*1)	1,319,083	119,704
	₩ 3,161,452	₩ 629,696

(*1) Other intangible assets include appraisal differences of ₩927,080 million related to customer relationships when acquiring Daewoo International and ₩178,376 million related to technical skills, customer relationships and new contracts remaining during acquisition of Sungjin Geotech Co., Ltd.

(b) The changes in the carrying value of intangible assets for the year ended December 31, 2010 and 2009 are as follows:

	For the Year Ended December 31, 2010						
	Beginning Balance	Acquisition	Disposal	Recovery (Amortization)	Others (*1)	Consolidation Adjustments	Ending Balance
	(In millions of Korean Won)						
oodwill	₩ 272,092	₩ 1,267,818	₩	₩ (68,460)	₩ (5,776)	₩	₩ 1,465,674
egative goodwill	(10,352)	(2,133)		98	2,568		(9,819
tellectual roperty rights	51,994	8,496	(2,322)	(2,419)	10331	78,534	144,614
esearch and evelopment costs,	48,496	27,202	(11,392)	(16,211)	55,225	(10,455)	92,865

et of government rants (*2)							
ort facilities sage rights	99,552	28,165		(15,626)		(4,851)	107,240
ong-term ectricity supply ontract rights	48,483			(6,688)			41,795
thers	119,704	121,365	(1,470)	(98,642)	51,266	1,126,860	1,319,083
	₩ 629,969	₩ 1,450,913	₩ (15,184)	₩ (207,948)	₩ 113,614	₩ 1,190,088	₩ 3,161,452

(*1) Includes transfers of an asset, adjustments arising from foreign currency translations and changes in consolidation scope, and others.

(*2) The Company has capitalized certain costs related to the ERP system and production innovation as other intangible assets.

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	For the Year Ended December 31, 2009						
	Beginning Balance	Acquisition	Disposal	Recovery (Amortization)	Others	Consolidation Adjustments	Ending Balance
	(In millions of Korean Won)						
Goodwill	₩ 270,842	₩ 39,527	₩	₩ (38,353)	₩ 76	₩	₩ 272,092
Negative goodwill	(575)	(11,468)		1,766	(75)		(10,352)
Intellectual property rights	18,266	40,917	(2,420)	(5,340)	571		51,994
Research and development costs, net of government grants	82,221	37,013	(8,535)	(14,302)	(47,689)	(212)	48,496
Port facilities usage rights	116,078	1,680		(18,090)		(116)	99,552
Long-term electricity supply contract rights	55,170			(6,687)			48,483
Others	181,765	29,113	(1,518)	(70,661)	(14,436)	(4,559)	119,704
	₩ 723,767	₩ 136,782	₩ (12,473)	₩ (151,667)	₩ (61,553)	₩ (4,887)	₩ 629,969

(c) The amortization expenses for the years ended December 31, 2010 and 2009 were allocated as follows:

	2010	2009
	(In millions of Korean Won)	
Cost of goods sold	₩ 45,762	72,028
Selling and administrative expenses	162,186	79,639
	₩ 207,948	151,667

(d) Details of significant goodwill are as follows:

	Description	2010	2009	Remaining Useful Life
		(In millions of Korean Won)		
Goodwill	Excess investment amount over fair value in Daewoo International Corporation	₩ 1,145,477	₩	19 years
	Excess investment amount over fair value in Posco Power Corp.		26,471	
	Excess investment amount over fair value in Daewoo Engineering Company	187,699	198,580	17 years
	Excess investment amount over fair value in Sungjin Geotec Co., Ltd.	78,742		4 years
	Excess investment amount over fair value in POSCO VST Co., Ltd.	29,036	36,955	4 years
		1,440,954	262,006	

(e) Research and development costs incurred for the years ended December 31, 2010 and 2009 were ₩537,025 million and ₩452,589 million, respectively. Research and development costs amounting to ₩395,238 million and ₩368,207 million were classified to cost of goods sold, while ₩141,787 million and ₩84,382 million were classified to selling and administrative expenses for the years ended December 31, 2010 and 2009, respectively.

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(f) The estimated aggregated amortization expenses for each of the next five fiscal years are as follows:

Period		Amount (In millions of Korean Won)
2011	₩	121,195
2012		117,377
2013		113,614
2014		110,265
2015		93,365
	₩	555,816

11. Pledged Assets

(a) Details of assets pledged as collateral for short-term borrowings and long-term debts, as well as for performance guarantee, as of December 31, 2010 and 2009 are as follows:

	Beneficiaries		2010		2009
			(In millions of Korean Won)		
Inventories	The Export-Import Bank of Korea	₩	27,000	₩	
Land	Mizuho Bank and others		223,873		220,732
Buildings and structures	Korea Development Bank and others		65,820		105,465
Machinery and equipment	Kookmin Bank and others		159,549		387,828
Short-term financial instruments	Korea Development Bank		900		2,000
Trade accounts and notes receivable	Mizuho Bank and others		41,711		53,898
Available-for-sale securities (*1)	Exchangeable bond holder and others		973,797		1,233,523
Held-to-maturity securities (*2)	Gyeongsangbuk-do provincial office		31,908		31,675
Equity method investments	Related creditors		410,203		15,793
		₩	1,934,761	₩	2,050,914

(*1) As of December 31, 2010, 2,110,486 shares, equivalent to 18,994,379 American Depository Receipts (ADRs) of SK Telecom Co., Ltd. have been pledged as collateral for the exchangeable bonds issued (note 14) and 103,951,000 shares of Nippon Steel Corporation have been pledged as collateral for the 1st samuri bonds issued.

(*2) As of December 31, 2010, government bonds and bonds issued by Seoul Metropolitan Rapid Transit Corp., amounting to ₩29,830 million and ₩1,978 million, respectively, were provided as collateral to the Gyeongsangbuk-do Provincial Office as guarantee for environmental remediation of POSCO No. 4 disposal site.

(b) Details of loans from foreign financial institutions guaranteed by Korea Development Bank as of December 31, 2010 and 2009 are as follows:

	2010				2009			
Financial Institution	**Foreign Currency**		**Won Equivalent**		**Foreign Currency**		**Won Equivalent**	
			(In millions of Korean Won)					
Korea Development Bank	EUR	3,327,892	₩	5,037	EUR	3,964,242	₩	6,637

(c) As of December 31, 2010, POSCO and its subsidiaries were provided with guarantees amounting to ₩1,593,649 million from Korea Exchange Bank and others for their contract commitments.

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12. Other Assets

Other assets as of December 31, 2010 and 2009 are as follows:

		2010	2009
		(In millions of Korean Won)	
Other current assets			
Short-term loans receivable	₩	282,206	163,932
Accrued income		51,600	64,370
Prepaid		65,339	45,140
Others		221,439	76,233
		620,584	349,675
Less: Allowance for doubtful accounts		(58,150)	(33,286)
	₩	562,434	316.389
Other long-term assets			
Other investment assets	₩	767,274	513,878
Less: Allowance for doubtful accounts		(3,957)	(1,636)
	₩	763,317	512,242

13. Short-term Borrowings and Current Portion of Long-term Debt

(a) Short-term borrowings as of December 31, 2010 and 2009 are as follows:

Financial Institutions	Annual Interest Rate (%)		2010			2009		
			(In millions of Korean Won)					
Won currency borrowings								
The Export-Import Bank of Korea and others	0.99 ~ 7.61	KRW	626,710	₩	626,710	733,867	₩	733,867
Foreign currency borrowings								

Bank of America	0.50 ~ 1.80	USD	163,126,018		213,295	87,641,601		104,833
		CNY	159,484,354			14,629,409		
Shinhan Bank and others	0.71 ~ 17.00	USD	3,241,259,377		4,998,365	1,192,237,238		2,387,101
		JPY	46,424,820,531			40,030,261,210		
		CNY	2,031,945,272			1,876,379,123		
		MYR	229,446,223			171,400,734		
		VND	875,990,790,739			252,735,770,675		
		AUD	102,604,949			50,000,000		
		THB	820,000,000			1,170,000,000		
		MMK	400,000,000			1,184,424,000		
		NTD	85,814,000			40,000,000		
		EUR	1,562,970					
		PLN	8,068					
		INR	312,328,428					
					5,211,660			2,491,934
				₩	5,838,370		₩	3,225,801

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(b) Current portion of long-term debt as of December 31, 2010 and 2009 are as follows:

Financial Institutions	Annual Interest Rate (%)		2010		2009	
			(In millions of Korean Won)			
Debentures						
Domestic and foreign debentures	1.55 ~ 7.51	KRW	1,180,000	₩ 2,941,300	212,000	317,084
		USD	543,100,000		90,000,000	
		JPY	79,000,000,000			
Less: Discount on debentures issued				(58,930)		(219)
				42,024		
Add: Premium on debenture redemption				2,924,394		316,865
Won currency borrowings						
National Agricutural Cooperative Federation and others	1.00 ~ 8.21	KRW	195,179	195,179	226,622	226,622
Foreign currency borrowings						
The Export-Import Bank of Korea and others	0.55 ~ 13.20	USD	51,362,344	307,375	138,000,000	242,335
		JPY	4,067,628,600		10,401,835,976	
		VND			2,443,430,595	
		MYR	5,409,167		9,680,526	
		CNY	1,059,632,000			
		EUR	4,567,379			
		PLN	768,000			
Add: Premium on debentures issued				2,651		
				505,205		468,957
Loans from foreign financial institutions						
NATIXIS	2.00	EUR	636,350	963	636,350	1,065

₩	3,430,562	786,887

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14. Long-term Debt

(a) Debentures as of December 31, 2010 and 2009 are as follow:

	Issue date	Maturity	Annual Interest Rate (%)		2010 (In millions of Korean Won)			2009
ntures [*2]	03/28/2006 ~ 12/01/2010	03/19/2010 ~ 08/27/2019	2.05~8.75	KRW	4,960,050	₩	4,960,050	3,372,050
				USD	723,100,000		862,609	340,000,000
				JPY	9,000,000,000		125,737	9,000,000,000
nds								
	06/28/2006	06/28/2013	2.05	JPY	50,000,000,000		698,540	50,000,000,000
nds								
	12/29/2008	12/29/2011	Tibor +1.6	JPY	50,000,000,000		698,540	50,000,000,000
	11/11/2008	11/11/2011	Tbor+2.6	JPY	20,000,000,000		279,416	20,000,000,000
	08/10/2006	08/10/2016	5.88	USD	300,000,000		341,670	300,000,000
onds [*1]	08/19/2008	08/19/2013		JPY	52,795,000,000		737,588	52,795,000,000
ls	03/26/2009	03/26/2014	8.75	USD	700,000,000		797,230	700,000,000
ds	10/28/2010	10/28/2020	4.25	USD	700,000,000		797,230	
							10,298,610	
on ed							6,442	
on bond							11,138	
ortion							(2,941,300)	
on ed							(64,930)	
						₩	7,309,960	

(*1) On August 19, 2008, the Company issued exchangeable bonds, which are exchangeable with 18,994,379 SK Telecom Co., Ltd. ADRs. Details of exchangeable bonds are as follows:

Issuance date:	August 19, 2008
Maturity date:	August 19, 2013
Rate:	Interest rate of zero percent
Face value:	JPY 52,795,000,000
Issuance price:	JPY 52,424,224,136

Premium on bond redemption	JPY 797,204,500 (redeemed on put date or maturity date)
Exchangeable price:	JPY 2,999.11/ADR
Fair value of an exchangeable right at issuance:	JPY 2,867,605,334
Fair value of an exchangeable right as of December 31, 2009:	JPY 63,354,000
Exercise period of exchangeable right:	Commencing ten business days following the issuance date until ten business days prior to maturity date
Exercise date of put by bondholders:	August 19, 2011

(*2) One of the subsidiaries, Daewoo International Corporation issued the convertible bonds with a face value of USD300 million at 100% of face value on July 6, 2009. The convertible bonds will be redeemed at 111.27% of the face value at the maturity date on July 6, 2014 (guaranteed yield to maturity: 5.25%), unless redeemed or

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converted early. The convertible bonds may be early redeemed on July 6, 2011 at the option of the bondholders at 104.16% of the face value and as a result, they were classified as current portion of long-term debt during the current year. Furthermore, the convertible bonds may be early redeemed at the option of the bondholders in certain events such as the change of the parties controlling Daewoo International Corporation. Also, at Daewoo International Corporation s option, the convertible bonds may be early redeemed on or after July 6, 2012, provided that the market price of Daewoo International Corporation s common stock is above 130% of the conversion price for at least 20 consecutive trading days. On the other hand, the convertible bonds can be converted into 1 common shares per the face value of ₩31,450 from July 6, 2010 to June 23, 2014.

(b) Long-term debt as of December 31, 2010 and 2009 are as follows:

Financial Institutions	Annual Interest Rate (%)		2010		2009	
			(In millions of Korean Won)			
Won currency						
The Korea Resources Corporation	Representative Borrowing Rate (*1) - 2.25	KRW	55,114	₩ 55,114	55,114	₩ 55,114
Woori Bank	Representative Borrowing Rate (*1) - 1.25	KRW	35,488	35,488	20,405	20,405
National Forestry Corporative Federation	1.50	KRW	746	746		
The Korea Development Bank and others	1.00 ~ 10.48	KRW	1,536,887	1,536,887	537,418	537,418
Less: Current portion				(195,179)		(226,622)
				1,433,056		386,315
Foreign currency						
Korea National Oil Corporation (*2)	Representative Borrowing Rate (*1) - 2.25	USD	7,027,711	8,429	4,549,590	5,578
The Export-Import Bank of Korea (*3)	4.09 ~ 4.50	USD	323,800,000	368,776		
The Korea Development Bank and others	0.55 ~ 8.00	USD	457,426,838	1,813,840	618,377,590	1,219,739
		JPY	38,557,601,262		18,409,435,976	
		CNY	2,583,696,500		1,307,960,156	
		MYR	49,409,167		149,680,526	

	VND	2,338,613,695		2,443,430,595
	EUR	77,580,568		
	INR	3,373,240,000		
	AUD	69,358,457		
	PLN	2,059,356		
	CAD	12,276,632		
Less: Current portion			(307,375)	(242,335)
Less: Present value discount			(22,176)	
			1,861,494	982,982
			3,294,550	1,369,297

(*1) The average yield of a 3-year government bond is utilized for the annual interest rate calculation. The average yield of a 3-year government bond is rounded off to the nearest 0.25%.

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(*2) The borrowing is related to the exploration of gas fields in the Aral Sea and Namangan-Chust in Uzbekistan with Korea National Oil Corporation (KNOC) (note 17).

(*3) The borrowing is related to the API iron ore, mine and other development work in Australia.

(c) Loans from foreign financial institutions as of December 31, 2010 and 2009 are as follows:

	Annual Interest Rate (%)	2010		2009	
		(In millions of Korean won)			
NATIXIS	2.00	EUR 3,327,892	5,037	3,964,241	6,637
Less: Current portion			(963)		(1,065)
			4,074		5,572

(d) Aggregate maturities of long-term debt as of December 31, 2010 are as follows:

Period	Debentures (*)	Borrowings	Foreign Currency Borrowings	Loans from Foreign Financial Institutions	Total
	(In millions of Korean Won)				
2011	₩ 2,983,324	₩ 195,179	₩ 307,375	₩ 963	₩ 3,486,841
2012	790,050	425,137	590,788	963	1,806,938
2013	2,582,268	309,291	483,958	963	3,376,480
2014	1,357,230	120,676	229,568	963	1,708,437
Thereafter	2,638,900	577,952	579,356	1,185	3,797,393
	₩ 10,351,772	₩ 1,628,235	₩ 2,191,045	₩ 5,037	₩ 14,176,089

(*) The amount includes a premium on bond redemption.

15. Provision for Severance Benefits

The changes in accrued severance benefits for the years ended December 31, 2010 and 2009 are as follows:

		2010	2009
		(In millions of Korean Won)	
Estimated severance benefits at the beginning of period	₩	1,112,963	1,176,070
Provision for severance benefits		376,970	79,186
Payment		(114,020)	(144,007)
Others (*)		58,180	1,714
Estimated severance benefits at the end of period	₩	1,434,093	1,112,963
Transferred to National Pension Fund		(1,579)	(1,751)
Deposits for severance benefits trust		(993,412)	(810,791)
Net balance at the end of period	₩	439,102	300,421

(*) Includes foreign currency adjustments, changes in consolidation scope and others.

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(b) The Company expects to pay the following future benefits to its employees upon their normal retirement age:

Period		Amount (In millions of Korean Won)
2011	₩	48,518
2012		80,769
2013		71,371
2014		101,543
2015 ~ 2020		824,632
	₩	1,126,833

The above amounts were determined based on the employee current salary rates and the number of service years that will be accumulated upon their retirement date. These amounts do not include amounts that might be paid to employees that will cease working with the Company before their normal retirement age.

16. Other Liabilities

Other liabilities as of December 31, 2010 and 2009 are as follows:

		2010	2009
		(In millions of Korean Won)	
Other current liabilities			
Unearned revenue	₩	7,745	2,355
Derivatives liabilities		88,571	35,678
Others		328,607	96,149
	₩	424,923	134,182
Other long-term liabilities			
Reserve for allowance	₩	113,975	40,718
Derivatives liabilities		11,925	8,831
Liability related to stock appreciation rights		30,057	54,272
Deposit received		664,004	152,386
Others		242,250	54,280
	₩	1,062,211	310,487

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17. Commitments and Contingencies

(a) As of December 31, 2010, contingent liabilities on outstanding guarantees provided for the repayment of loans of affiliated companies are as follows:

Grantors	Entity Being Guaranteed	Financial Institution		Amount	Won Equivalent
		(In millions of Korean Won)			
POSCO	POSCO Investment Co., Ltd.	HSBC and others	USD	477,000,000	₩ 543,255
			MYR	240,000,000	88,644
			CNY	630,000,000	108,675
	POSCO-Vietnam Co., Ltd.	The Export-Import Bank and others	USD	230,000,000	261,947
			JPY	4,806,750,000	67,154
	POSCO Maharashtra Steel Private Limited.	The Export-Import Bank	USD	69,000,000	78,584
	BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	Bank of China and others	USD	11,760,000	13,394
			CNY	48,744,470	8,408
	United Spiral Pipe, LLC	Comerica Bank	USD	25,000,000	28,473
POSCO E&C Co., Ltd.	Taegisan Wind Power Corporation	Korea Development Bank	KRW	7,500	7,500
	International Business Center Corporation	The Export-Import Bank	USD	20,000,000	22,778
	POSCO E&C Vietnam Co., Ltd. (formerly, POSLILAMA E&C Co., Ltd.)	The Export-Import Bank and others	USD	75,500,000	85,987
	POSCO E&C Songdo International Building	Hana Bank and others	KRW	360,000	360,000
	Chungju Enterprise City Development Co., Ltd.	NH Bank	KRW	28,226	28,226
	Daewoo Engineering Company		USD	445,400,000	507,266
POSCO P&S Co., Ltd.	POSCO Canada Ltd.	Hana Bank	USD	12,484,500	14,219
POSCO Investment Co., Ltd.	POSCO MPC S.A. de C.V.	BOTM	USD	70,600,000	80,406
	POSCO-Malaysia SDN BHD	HSBC and others	MYR	115,011,101	42,479

	POSCO-Mexico Co., Ltd.	HSBC	USD	170,000,000	193,613
	POSCO-Poland Wroclaw Steel Processing Center Co., Ltd.	HSBC	EUR	10,600,000	16,044
	Qingdao Pohang Stainless Steel Co., Ltd.	Standard Chartered	USD	42,000,000	47,834
	Zhangjiagang Pohang Stainless Steel Co., Ltd.	Bank of China and others	CNY	630,000,000	108,675
			USD	295,000,000	335,976
POSCO-Japan Co., Ltd.	POSCO-JKPC Co., Ltd.	Mizuho Bank and others	JPY	2,297,600,000	32,099
	POSCO-JNPC Co., Ltd.	Mizuho Bank and others	JPY	3,390,000,000	47,361
	POSCO-JOPC Co., Ltd.	Mizuho Bank and others	JPY	2,922,500,000	40,830
	POSCO-JYPC Co., Ltd.	Mizuho Bank and others	JPY	2,907,150,190	40,615
POSCOAST Co., Ltd.	DaiMyung TMS Co., Ltd.	Woori Bank and others	KRW	27,500	27,500

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Grantors	Entity Being Guaranteed	Financial Institution		Amount	Won Equivalent
		(In millions of Korean Won)			
Daewoo International Corporation	DMSA, AMSA	The Export-Import Bank and others	USD	121,340,000	138,194
	POSCO-Indonesia Jakarta Processing Center, PT	POSCO Investment	USD	1,000,000	1,139
	Daewoo International (America) Corp.	Korea Exchange Bank New York and others	USD	5,105,000	5,814
	Daewoo International Deutschland GmbH	SHB	EUR	890,300	1,348
	Daewoo International Japan Corp.	SBJ and others	JPY	2,450,000,000	34,228
	Daewoo International Singapore Pte. Ltd.	SCB and others	USD	14,495,000	16,508
	Daewoo Cement (Shandong) Co., Ltd.	Credit Agricole	EUR	27,989,750	42,365
		The Export-Import Bank	USD	34,804,477	39,639
		China Construction Bank and others	CNY	80,000,000	13,801
	Daewoo Textile Bukhara LLC	The Export-Import Bank	USD	33,250,000	37,868
	Daewoo Paper Manufacturing Co., Ltd.	Hana Bank (China)	USD	2,800,000	3,189
POSCO China Holding Corp.	POSCO SeAH Steel Wire (Nantong) Co., Ltd.	POSCO Investment Co., Ltd.	USD	1,875,000	2,135
Daewoo (China) Co., Ltd.	Shanghai Lansheng Daewoo Corporation	Bank of Communications	USD	12,500,000	14,236
Daewoo Textile Fergana LLC	Daewoo Textile Bukhara LLC	NBU	UZS	6,519,620	5
					₩ 3,588,411

As of December 31, 2009, contingent liabilities on outstanding guarantees provided for the repayment of loans of affiliated companies amounted to ₩2,103,286 million.

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(b) As of December 31, 2010, contingent liabilities on outstanding guarantees provided to non-affiliated companies for the repayment of loans are as follows:

Grantors	Entity Being Guaranteed	Financial Institution	Amount Guaranteed			Won Equivalent
		(In millions of Korean Won)				
POSCO	Zeus (Cayman) Ltd.	Related creditors	JPY	52,795,000,000	₩	737,588
POSCO E&C Co., Ltd.	The first district of Minrak, Busan	Kookmin Bank	KRW	34,781		34,781
	Association of the 4th district of Yongsan	NH Bank	KRW	3,000		3,000
POSCO P&S Co., Ltd. (formerly, Posteel Co., Ltd.)	GIPI	Qatar National Bank and others	USD	12,000,000		13,667
	Asia Speciality Steel Co., Ltd.	Yamaguchi Bank and others	JPY	2,700,000,000		37,721
	Sebang Steel	The Bank of Fukuoka, Ltd.	JPY	245,000,000		3,423
POSCO Plant Engineering Co., Ltd.	Halla Precision Eng. Co., Ltd. and others	Shinhan Bank and others	KRW	112,970		112,970
POSCO ICT Co., Ltd.	Jeonnong schoo keeper co. and others	Industrial Bank of Korea and others	KRW	1,338,175		1,338,175
POSCO M-TECH Co., Ltd. (formerly, Samjung Packing & Aluminum Co., Ltd.)	Pyungsan Si Co., Ltd.	Seoul Guarantee Insurance Company	KRW	748		748
PHP Co., Ltd.	Expo apartment	Kookmin Bank	KRW	387,849		387,849
Daewoo Engineering Company	Sen Structural Engineers Co., Ltd.	Youngdong Construction Co,. Ltd. and others	KRW	117		117
	Hyundai ENG Co., Ltd.	Samsung C&T Corporation and others	KRW	63,636		63,636
	Samjin Solar Light Energy Co., Ltd.	Hana Bank	KRW	81,393		81,393

	and others					
Daewoo International Corporation	Sherritt International Corporation	The Export-Import Bank of Korea	USD	5,995,539		6,828
	Ambatovy Project Investments Ltd.	The Export-Import Bank of Korea	USD	40,279,361		45,874
					₩	2,867,770

As of December 31, 2009, the Company had outstanding payment guarantees for non-affiliated companies and others amounting to ₩984,063 million.

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(c) As of December 31, 2010, the Company and certain subsidiaries acquired certain tools and equipment under operating lease agreements with Macquarie Capital Korea Co., Ltd. and others. The Company s lease expenses, with respect to the above lease agreements, amounted to ₩12,116 million for the year ended December 31, 2010. Future lease payments under the above lease agreements are as follows:

Period	Amount (In millions of Korean Won)	
2011	₩	10,552
2012		6,919
2013		3,886
2014		317
2015		71
Thereafter		1
	₩	21,746

(d) As of December 31, 2010, the Company and certain subsidiaries are defendants in legal actions arising from the normal course of business. Details are as follows:

Company	Plaintiff	Amount (In millions of Korean Won)	Description
POSCO	Retired Employees and others	8,035	12 lawsuits including claim for recapture of treasury stock by retirees
POSCO E&C Co., Ltd.	Korea Development Financing Corporation and others	73,205	47 lawsuits including claim for surety obligations of Korea Development Financing Corporation
POSCO P&S Co., Ltd. (formerly, Posteel Co., Ltd.)	Samjin Line Co., Ltd. and others	1,817	3 lawsuits including claims for damages related to import and export business
POSCO ICT Co., Ltd.	NRT Korea Co., Ltd.	1,324	6 lawsuits including litigation on subcontract service fees
POSCO Plant Engineering Co., Ltd.	Taeyang Precision Enterprose Co., Ltd. and others	488	2 lawsuits including litigation on construction project payments
Daewoo Engineering Company	Hanjin Heavy Industries & Construction Co., Ltd.	5,494	8 lawsuits including claims for damage of fishing business related to construction
Sungjin Geotec Co., Ltd	Vision Machinery Co., Ltd.	332	Lawsuit against claim for insurance payment

Daewoo International Corporation	Industrial Development Bank of India and others	1,274	12 lawsuits including claim for surety obligations
POSCO NST Co., Ltd.	Jungwoo Machinary Co., Ltd.	285	Lawsuit on the claim for payment of suppling facilities
POSEC Hawaii Inc.	Resident committee of membership resort	900	Lawsuit on the claim for compensation and defect-repair
POSCO E&C (Beijing) Co., Ltd.	Beijing Lantian Jianzhu Gongcheng Youxiangongsi and others	654	Lawsuit against proving the truth about the evidence of subconstractor payment

Although the outcome of these matters is uncertain, the impacts of these matters are not expected to be material on the Company.

(e) POSCO entered into long-term contracts to purchase iron ore, coal, nickel, chrome and stainless steel scrap. These contracts generally have terms of more than three years and provide for

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periodic price adjustments to the market price. As of December 31, 2010, 308 million tons of iron ore and 52 million tons of coal remained to be purchased under such long-term contracts.

(f) On August 1, 2005, 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. Purchase price is subject to change, following change of monthly standard oil price (JCC) and also price of ceiling is applicable.

(g) POSCO entered into commitments with Korea National Oil Corporation of foreign currency long-term borrowings, which are limited up to the amount of USD6.86 million and USD3.54 million. The borrowings are related to the exploration of gas hydrates in Aral Sea, Uzbekistan and the exploration of gas hydrates in Namangan-Chust, respectively. The repayment of borrowings depends on the success of the project. POSCO is not liable for the repayment of full or part of money borrowed if the project fails and also POSCO has agreed to pay a certain portion of its profits under certain conditions as defined by borrowing agreements.

(h) As of December 31, 2010, commitments and other contingencies provided to non-affiliated companies are as follows:

1) As of December 31, 2010, POSCO has bank overdraft agreements of up to ₩200,000 million with Woori Bank and six other banks. In addition, POSCO entered into a credit purchase loan agreement with Industrial Bank of Korea and four other banks for credit lines of up to ₩770,000 million and a short-term borrowing agreement of up to ₩150,000 million with Woori Bank. POSCO has an agreement with Woori Bank and others to open letters of credit, documents against acceptance and documents against payment amounting to USD1,000 million and to borrow USD1,300 million in foreign short-term borrowings. The accounts receivables in foreign currency sold to financial institutions and outstanding as of December 31, 2010, amount to USD194 million for which POSCO is contingently liable upon the issuers default.

2) POSCO E&C Co., Ltd. has provided the completion guarantees for Samsung Corporation and Namkwang Engineering & Construction Co., Ltd. amounting to ₩3,688,900 million while Samsung Corporation and SK Engineering & Construction Co., Ltd. provides the completion guarantees and payment guarantees on customers borrowings on behalf of POSCO E&C Co., Ltd. amounting to ₩1,743,914 million as of December 31, 2010. Also, POSCO E&C Co., Ltd. has loan agreements of up to ₩260,000 million, USD308 million with Woori Bank and ₩53,000 million with Korea Exchange Bank.

3) As of December 31, 2010, POSCO E&C Co., Ltd. has provided eleven blank promissory notes, eleven blank checks and six other notes, approximately amounting to ₩61,704 million, to Korea Housing Guarantee Co., Ltd. and other financial institutions as collateral for agreements and outstanding loans. In addition, POSCO E&C Co., Ltd. has entered into a contract to guarantee the borrowings of subcontractors amounting to ₩1,136,938 million with financial institutions and also has entered into contracts to guarantee borrowings related to redevelopment project costs, civil engineering and SOC projects amounting to ₩70,464 million. POSCO E&C Co., Ltd. has provided supplementary funding agreements to subcontractors to make stable progress in the operation and guaranteed the borrowings related to intermediate payment of buyers amounting to ₩36,856 million.

4) As of December 31, 2010, POSCO E&C Co., Ltd. has given the call option as a construction investor of the Cheongna International Business Town Co., Ltd. according to

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shareholders agreement and the foreign investors and financial investors have the put option to be able to sell its equity to the construction investors under certain conditions. POSCO E&C treated this option contract as a financing arrangement with security collateral as construction investors have the risk and benefit of the equity held by Pangaea Bluehil B.V and Standard Chartered First Bank (the financial investors). Accordingly, POSCO E&C recorded ₩41,741 million of equity method investment and debt and ₩4,944 million of interest expense for the year ended December 31, 2010.

5) As of December 31, 2010, POSCO P&S Co., Ltd. (formerly, Posteel Co.,Ltd.) has entered into local and foreign credit agreements, of up to ₩635,210 million with Hana Bank and other banks of which ₩283,644 million remains unused.

6) As of December 31, 2010, Pohang Coated Steel Co., Ltd. has local credit loan agreements, credit purchase loan agreements and letters of credit in relation to trade of up to ₩102,900 million and USD50 million with Shinhan Bank and other banks of which ₩75,000 million and USD0.5 million remains unused.

7) As of December 31, 2010, POSCO ICT Co., Ltd. entered into payment guarantees of up to USD28 million with Korea Exchange Bank and USD30 million with NH Bank related with opening L/C. In addition, POSCO ICT Co., Ltd. has corporate card credit lines of up to ₩1,500 million with Korea Exchange Bank.

8) As of December 31, 2010, POSCO Specialty Steel Co., Ltd. has a loan agreement, secured by trade accounts receivable, of up to ₩230,000 million with Woori Bank and others. POSCO Specialty Steel Co., Ltd. has used ₩141,388 million of this loan agreement. In addition, POSCO Specialty Steel Co., Ltd. has agreements with Woori Bank and seven other banks for opening letters of credit of up to USD55 million, and for a loan of up to ₩165,000 million and POSCO Specialty Steel Co., Ltd. has used USD3.8 million.

9) As of December 31, 2010, POSCO Power Corp. has a loan agreement up to ₩89,008 million and USD70 million with Kookmin Bank and three other banks and has used ₩39,397 million and USD21 million. In addition, a request for repayment of the convertible and redeemable preferred stock issued by POSCO Power Corp. is available from the next day after seven years of the issue date. When the request occurs, the principal amounting to ₩200,000 million and the compounded interest rate of 4.89 percent should be paid within 60 days after the request.

As of December 31, 2010, POSCO Power Corp. provides its whole capacity of Combined Thermal Power Cycle 1~4 to Korea Electric Power Corp. in accordance with a long-term contract. The price of electric power provided by POSCO Power Corp. is decided using the method of compensating fixed payments and expenses for the cost of production and the investment on electric power production equipment based on the contract. In addition, the Company has been provided with a payment guarantee of ₩40,673 million from Seoul Guarantee Insurance as electric power supply collateral to Korea Electric Power Corp.

10) As of December 31, 2010, POSCO TMC Co., Ltd. has credit purchase loan agreements of up to ₩65,000 million with Kookmin Bank and three other banks. In addition, POSCO TMC Co., Ltd. has loan agreements, secured by trade accounts receivable, of up to ₩6,100 million with Hana Bank and two other banks.

11) As of December 31, 2010, Daewoo Engineering Company entered into a loan agreement up to ₩40,000 million and credit purchase loan agreement up to ₩60,000 million

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with Citibank and others. In addition, Daewoo Engineering Company entered into a loan agreement of up to ₩600,000 million with Korea Exchange Bank in relation to foreign guarantees, forward exchange and opening letters of credit. Also, Daewoo Engineering Company has foreign guarantees provided of up to USD8.9 million with Woori Bank.

12) As of December 31, 2010, POSCO AST Co., Ltd. has outstanding balance of accounts receivables sold to financial institutions in the amount of USD951,478 and ₩2,229 million, for which POSCOAST Co., Ltd. is contingently liable upon the issuers default. In addition, POSCOAST Co., Ltd. has a loan agreement and an agreement related to opening letters of credit of up to ₩141,000 million and USD10 million with Korea Exchange Bank and others.

13) As of December 31, 2010, Sungjin Geotec Co., Ltd. has a collateral agreement amounting to ₩53,822 million secured by the export objects and future trade accounts receivable with the Export-Import Bank of Korea within the amount of debt and payment guarantees. In addition, Sungjin Geotec Co., Ltd. gives its plate raw materials as additional collateral for this.

As of December 31, 2010, Sungjin Geotec Co., Ltd. has loan agreements of up to ₩463,594 million, a guarantee agreement up to ₩393,181 million, a loan agreement, secured by trade accounts receivable, of up to ₩36,000 million and agreement to draw commercial papers up to ₩40,000 million with Shinhan Bank and others. In addition, Sungjin Geotec Co., Ltd. has derivative limit agreement up to ₩113,387 million with Shinhan Bank.

14) On July 22, 2000, Daewoo Corporation s stockholders approved the spin-off Plan for its business activities, and based on the approval, on December 27, 2000, Daewoo International Corporation, an international trading division and Daewoo Engineering & Construction Co., Ltd. (Daewoo E&C), a construction division, were newly established. In the spin-off plan, it specifies that newly established two companies will not be responsible for any liability which was not transferred at the time of spin-off.

Prior to the spin-off Daewoo Corporation, Daewoo Corporation informed creditors to object if they do not agree to the spin-off plan. For creditors and guarantees who have not agreed the spin-off, portion of the liabilities and grantees were transferred to Daewoo International Corporation and Daewoo E&C without complete agreements. Therefore, based on the possibilities of contingent liabilities attributable to the objection, proposed agreements and information available to the management, as of December 31, 2010, Daewoo International Corporation estimates the total contingent liabilities amounting to ₩77,337 million and recorded as other non-current liabilities on their financial statements.

Daewoo International Corporation has bank overdraft agreements of up to ₩10,100 million with Woori Bank and others, and there is no balance in the accounts as of December 31, 2010. Meanwhile, Daewoo International Corporation has an agreement with Woori Bank and others to open letters of credit etc. amounting to USD4,188 million as of December 31, 2010.

Daewoo International Corporation has pledged 51 blank promissory notes as collateral for contract performance guarantees to Korea National Oil Corporation (KNOC) as of December 31, 2010.

15) As of December 31, 2010, POSCO America Corporation has loan agreements of up to USD140 million with Bank of America and others and has used USD111 million.

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16) As of December 31, 2010, POSCO Asia Co., Ltd. has agreements with Bank of America, Citibank, HSBC and others for trade financing of up to USD410 million and has used USD295 million.

17) As of December 31, 2010, Zhangjiagang Pohang Stainless Steel Co., Ltd. has loan agreements of up to CNY7,446 million and USD335 million with Bank of China and others.

18) As of December 31, 2010, Qingdao Pohang Stainless Steel Co., Ltd. has loan agreements of up to CNY450 million and USD40 million with China Agriculture Bank and others, and has used USD19 million.

19) As of December 31, 2010, POSCO (Suzhou) Automotive Processing Center Co., Ltd. has loan agreements of up to USD91.7 million with Industrial and Commercial Bank of China and others and has used USD57 million.

20) As of December 31, 2010, POSCO-Japan Co., Ltd. has bank overdraft agreements for working capital of up to JPY65,800 million with MIZUHO bank and others and has used JPY44,375 million.

21) As of December 31, 2010, POSCO-Foshan Steel Processing Center Co., Ltd. has a loan agreement of up to USD170 million and has used USD32 million.

22) As of December 31, 2010, VSC POSCO Steel Corporation has a loan agreement of up to USD77 million with Standard Chartered and others and has used USD15 million.

23) As of December 31, 2010, POSCO-CTPC Co., Ltd. has a loan agreement of up to CNY130 million and USD12 million with HSBC and others and has used CNY65 million and USD7 million.

24) As of December 31, 2010, POSCO (Guangdong) Coated Steel Co., Ltd. has a loan agreement of up to USD137 million with HSBC and five other banks and has used USD50 million.

18. Capital Stock

Under the Articles of Incorporation, the Company is authorized to issue 200 million shares of capital stock with a par value of ₩5,000 per share. As of December 31, 2010, exclusive of retired stock, 87,186,835 shares of common stock have been issued.

The Company is authorized, with the Board of Directors approval, to retire treasury stock in accordance with applicable laws up to the maximum amount of certain undistributed earnings. The 9,293,790 shares of common stock were retired with the Board of Directors approval.

As of December 31, 2010, ending balance of capital stock amounted to ₩482,403 million; however, it is different from par value which amounted to ₩435,934 million due to retirement of treasury stock.

As of December 31, 2010, total shares of ADRs are 67,255,792 shares, equivalent to 16,813,948 of common shares.

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19. Capital Surplus

Capital surplus as of December 31, 2010 and 2009 are as follows:

	2010	2009
	(In millions of Korean Won)	
Additional paid-in capital	₩ 463,825	463,825
Revaluation surplus	3,224,770	3,224,770
Others	722,423	757,437
	₩ 4,411,018	4,446,032

20. Retained Earnings

Retained earnings as of December 31, 2010 and 2009 are as follows:

	2010	2009
	(In millions of Korean Won)	
Appropriated		
Legal reserve	₩ 241,202	241,202
Appropriated retained earnings for business rationalization	918,300	918,300
Reserve under Korean Tax Law	1,128,333	720,000
Voluntary reserve	24,953,394	22,768,724
	27,241,229	24,648,226
Unappropriated	4,154,241	3,287,500
	₩ 31,395,470	27,935,726

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

21. Dividends

(a) Details of interim and year-end dividends for the years ended December 31, 2010, 2009 and 2008 are as follows:

Interim Dividends

	2010		2009		2008	
	Dividend Ratio (%)	Dividend Amount	Dividend Ratio (%)	Dividend Amount	Dividend Ratio (%)	Dividend Amount
			(In millions of Korean Won)			
Common shares	50	₩ 192,582	30	₩ 114,855	50	₩ 188,485

Year-end Cash Dividends

	2010		2009		2008	
	Dividend Ratio (%)	Dividend Amount	Dividend Ratio (%)	Dividend Amount	Dividend Ratio (%)	Dividend Amount
			(In millions of Korean Won)			
Common shares	150	₩ 577,747	130	₩ 500,714	150	₩ 574,274

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(b) Details of the dividend payout ratios and dividend yield ratios for the years ended December 31, 2010, 2009 and 2008 are as follows:

	2010		2009		2008	
	Dividend payout Ratio (%)	Dividend yield	Dividend payout Ratio (%)	Dividend yield	Dividend payout Ratio (%)	Dividend yield
Common shares	18.42	2.05	19.13	1.29	17.42	2.63

22. Capital Adjustments

(a) Capital adjustments as of December 31, 2010 and 2009 are as follows:

		2010	2009
		(In millions of Korean Won)	
Treasury stock	₩	(2,403,263)	(2,403,263)
Others		561	(7,405)
	₩	(2,402,702)	(2,410,668)

(b) Treasury stocks which are maintained for stabilization of stock price in accordance with the decision made by the Board of Directors as of December 31, 2010 and 2009 are as follows:

	2010			2009
	Number of Shares		Book Value	Book Value
	(In millions of Korean Won, except for share data)			
Treasury stock	7,792,072	₩	1,662,068	1,662,068
Specified money in trust	2,361,885	₩	741,195	741,195
	10,153,957	₩	2,403,263	2,403,263

The voting rights of treasury stock are restricted in accordance with the Korean Commercial Code of the Republic of Korea. In addition, the Company sold 462,962 shares of its treasury on October 19, 2009, as approved by the Board of Directors on October 16, 2009, and the difference between the carrying value and the proceeds from the sale of ₩150,373 million, net of tax of ₩33,082 million was recognized as gains on disposal of treasury stock in capital surplus in equity.

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23. Stock Appreciation Rights

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

	1st Grant	2nd Grant	3rd Grant	4th Grant	5th Grant	6th Grant	Total
Before the modifications (*)							
Number of shares	498,000	60,000	22,000	141,500	218,600	90,000	1,030,100
Exercise price (per share)	₩98,400	₩135,800	₩115,600	₩102,900	₩151,700	₩194,900	
After the modifications (*)							
Grant date	July 23, 2001	April 27, 2002	September 18, 2002	April 26, 2003	July 23, 2004	April 28, 2005	
Exercise price (per share)	₩98,900	₩136,400	₩116,100	₩102,900	₩151,700	₩194,900	
Number of shares granted	453,576	55,896	20,495	135,897	214,228	90,000	970,092
Number of shares cancelled	19,409						19,409
Number of shares exercised	434,167	55,896	20,495	135,897	144,964	64,000	855,419
Number of shares outstanding					69,264	26,000	95,264
Exercise period	July 24, 2003	April 28, 2004	Sept. 19, 2004	April 27, 2005	July 24, 2006	April 29, 2007	
	July 23, 2008	April 27, 2009	Sept. 18 2009	April 26, 2010	July 23, 2011	April 28, 2012	

(*) The Company modified the number of shares granted under the stock appreciation rights and the exercise price, as presented above (1st, 2nd, 3rd, 4th and 5th), in accordance with the resolutions of the Board of Directors on

April 26, 2003, October 17, 2003 and October 22, 2004.

(b) Expenses (or income) related to stock appreciation rights granted to executives incurred for the year ended December 31, 2010 are as follows:

	1st Grant	2nd Grant	3rd Grant	4th Grant	5th Grant	6th Grant	Total
				(In millions of Korean Won)			
Prior periods	₩ 59,945	₩ 10,780	₩ 6,071	₩ 31,896	₩ 81,239	₩ 31,694	₩ 221,625
Current period				(32)	(7,533)	(2,871)	(10,436)
	₩ 59,945	₩ 10,780	₩ 6,071	₩ 31,864	₩ 73,706	₩ 28,823	₩ 211,189

(c) As of December 31, 2010 and 2009, liabilities related to stock appreciation rights which are stated as long-term accrued expenses amounted to ₩30,057 million and ₩55,141 million, respectively.

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(d) The following table summarizes information about appreciation rights granted:

Stock Appreciation Rights Outstanding	2010 Number of Stock Appreciation Rights	2010 Weighted-Average Exercise Price per Share	2009 Number of Stock Appreciation Rights	2009 Weighted-Average Exercise Price per Share	2008 Number of Stock Appreciation Rights	2008 Weighted-Average Exercise Price per Share
			(in Korean Won)			
Beginning of year	128,955	₩ 160,402	198,481	₩ 150,770	279,472	₩ 145,170
Granted						
Excercised	(33,691)	118,528	(69,526)	117,169	(80,991)	115,715
Canceled						
Forfeited						
Stock appreciation rights outstanding, end of year	95,264	163,490	128,955	160,402	198,481	150,770
Excercisable at the year end	95,264	₩ 163,490	128,955	₩ 160,402	198,481	₩ 150,770
Weighted-average fair value at grant date		₩ 164,452		₩ 143,779		₩ 140,206

(e) The following table summarizes information about stock appreciation rights outstanding at December 31, 2010:

Exercise Prices	Appreciation Rights Outstanding: Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price per Share
		(in Korean Won)	
151,700	69,264	0.56 years	151,700
194,900	26,000	1.33 years	194,900
	95,264	0.77 years	₩ 163,490

24. Derivative Financial Instruments

The Company has entered into cross currency swap agreements to reduce interest rates and currency risks and currency forward contracts with financial institutions to hedge the fluctuation risk of future cash flows. The gains and losses on currency swap and currency forward contracts for the years ended December 31, 2010 and 2009 and related contracts outstanding as of December 31, 2010 and 2009 are as follows:

ompany	Type of Transaction	Purpose of Transaction	Financial Institutions	Valuation Gain/Loss Income Statement 2010	Valuation Gain/Loss Income Statement 2009	Transaction Gain/Loss Income Statement 2010	Transaction Gain/Loss Income Statement 2009
			(In millions of Korean Won)				
OSCO	Currency forward	Trading	Woori Bank and others	₩	₩	₩ 26,737	₩ 14,177
	Embedded derivative(*)	Exchangeable Bonds	Related creditors	1,248	7,065		
OSCO &C Co., d.	Currency forward	Fair value hedge	HSBC and others	13,057	10,659	10,515	12,527
	Interest Swap	Cash flow hedge	Calyon Bank and others	(1,509)	(28,045)	(6,736)	(4,322
	Valuation of Fixed contract	Fair market value hedge		(16,385)	(34,328)		
OSCO &S Co., d. ormerly, osteel o., Ltd.)	Currency forward	Trading	SC Korea First Bank	70	23	(352)	(41

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Company	Type of Transaction	Purpose of Transaction	Financial Institutions	Valuation Gain/Loss Income Statement 2010	Valuation Gain/Loss Income Statement 2009	Transaction Gain/Loss Income Statement 2010	Transaction Gain/Loss Income Statement 2009
			(In millions of Korean Won)				
POSCO Coated & Color Steel Co., Ltd.	Currency Option	Trading	SC Korea First Bank and others		5,145	3,561	(6,935)
	Non-derivatives	Cash flow hedge	Citi Bank				2,150
POSCO Plant Engineering Co., Ltd.	Currency forward	Trading	Korea Exchange Bank and others				(1,270)
POSCO A&C Co., Ltd.	Currency forward	Trading	Korea Exchange Bank	(62)		13	
Posco Specialty Steel Co., Ltd.	Currency forward	Trading	SC Korea First Bank		6	90	211
POSCO M-TECH Co., Ltd. (formerly, Samjung Packing & Aluminum Co., Ltd.	Currency future	Trading	Woori Bank and others				969
POSCO Power Corp.	Currency forward	Trading	Nong Hyup Bank and others		5,251	(509)	
	Currency Swap	Cash flow hedge	Calyon Bank and others	10,735	(18,670)		

	Currency Swap	Trading	Mizuho Corporate Bank and others	(10,215)		3,528	
POSCO TMC Co., Ltd.	Currency forward	Trading	Nong Hyup Bank and others			(32)	
Daewoo engineering Company	Currency forward	Trading	Citibank	2,475	354	512	(7,284)
POSCO AST Co., Ltd.	Currency forward	Trading	Hana Bank	(31)		62	
DaiMyung TMS Co., Ltd.	Currency forward	Trading	Woori Bank	(8)		(31)	
Sungjin Geotec Co., Ltd.	Interest Swap	Trading	Shinhan Bank	(154)			
	Currency option	Fair market value	Woori Bank			9,810	
Daewoo International Corporation	Currency forward	Fair market value hedge	Korea Development Bank and others	8,733		1,639	
	Commodity Future	Fair market value	TOYOTA and others	(31,945)		(33,493)	
POSCO Austrailia Pty. Ltd.	Derivatives	Trading	MML		9,295		
				₩ (23,991)	₩ (43,245)	₩ 15,288	₩ 10,182

(*) POSCO applied derivative accounting on exchangeable right to investors related to exchangeable bond issued on August 19, 2008 as the exchangeable right meets certain criteria of embedded derivatives. Fair values of exchangeable right are ₩885 million (JPY63,354,000) and ₩2,133 million (JPY168,994,000) as of December 31, 2010 and 2009, respectively. This exchangeable right is included in other long-term liabilities (note 14).

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25. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2010, 2009 and 2008 are as follows:

		2010	2009	2008
		(In millions of Korean Won)		
Transportation and storage	₩	1,251,325	648,345	781,425
Salaries		532,712	280,529	256,959
Welfare		139,954	142,429	159,732
Depreciation and amortization		230,699	123,525	106,271
Fees and charges		266,787	158,158	124,123
Advertising		108,532	94,696	98,780
Research and development expense		141,787	84,382	94,571
Severance benefits		78,244	27,482	52,433
Sales commissions		149,074	80,159	83,057
Travel		53,246	24,827	30,537
Rent		62,887	30,929	24,204
Repairs		6,880	20,439	13,135
Training		33,759	18,104	24,397
Office supplies		14,100	8,378	8,482
Provision for doubtful accounts		64,326	42,020	24,033
Meetings		17,536	11,012	11,612
Taxes and public dues		43,530	24,500	29,595
Vehicle expenses		11,434	5,627	4,626
Membership fees		10,642	8,417	8,312
Sales promotions		19,489	8,186	7,638
Entertainment		20,422	11,393	12,542
Others		81,511	95,877	49,904
	₩	3,338,876	1,949,414	2,006,368

26. Income Taxes

(a) Income tax expense for the years ended December 31, 2010, 2009 and 2008 are as follows:

		2010	2009	2008
		(In millions of Korean Won)		
Current income taxes	₩	1,139,085	576,303	2,181,238
Deferred income taxes		313,835	475,187	(712,233)
Carry-forward income tax		35,291	(309,942)	(9,976)
Items charged directly to shareholders equity		(306,123)	(229,701)	303,060

Tax effect due to consolidation entries		(69,192)	24,149	(28,106)
	₩	1,112,896	535,996	1,733,983

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(b) The following table reconciles the expected amount of income tax expense based on statutory rates to the actual amount of taxes recorded by the Company for the years ended December 31, 2010, 2009 and 2008:

		2010	2009	2008
		(In millions of Korean Won)		
Net income before income tax expense	₩	5,337,686	3,739,275	6,095,639
Income tax expense computed at statutory rate		1,291,720	904,905	1,676,301
Adjustments:				
Tax credit		(295,725)	(370,958)	(167,962)
Effect of changes in tax rate		(854)	14,074	74,493
Tax payment (refund) (*1)		17,061	(140,442)	
Others, net (*2)		100,694	128,417	151,151
Income tax expense	₩	1,112,896	535,996	1,733,983
Effective rate (%)		20.8	14.3	28.4

(*1) The amount in 2009 primarily represents refunds of additional tax payments made in 2005 in accordance with a decision of Tax Tribunal that was finalized in 2009.

(*2) Consists of deferred tax assets, which have not been recognized as realization is not considered probable, of ₩120,395 million for the year ended December 31, 2010 and deferred tax assets, which have not been recognized as realization is not considered probable, of ₩49,995 million and foreign tax rate differential of ₩12,896 million for the year ended December 31, 2009 and deferred tax assets, which have not been recognized, as realization is not considered probable, of ₩119,632 million for the year ended December 31, 2008.

(c) Changes in temporary differences and deferred income taxes for the years ended December 31, 2010 and 2009 are as follows:

	Temporary Differences			Deferred Income Tax		
	Dec. 31, 2009	Inc. (dec.)	Dec. 31, 2010	Dec. 31, 2009	Inc. (dec.)	Dec. 31, 2010
	(In millions of Korean Won)					
Deductible temporary differences:						
Reserve for special repairs	₩ (173,990)	₩ 48,447	₩ (125,543)	₩ (39,500)	₩ 11,724	₩ (27,776)
Allowance for doubtful accounts	168,340	26,635	194,975	39,525	6,897	46,422

Reserve for technology developments		(835,700)		(423,750)		(1,259,450)		(184,259)		(92,882)	(277,141)
Dividend income from related companies		491,042		257,133		748,175		108,029		56,296	164,325
Depreciation expense		(364,833)		178,455		(186,378)		(83,258)		38,410	(44,848)
Valuation of equity method investments		(1,806,491)		(1,348,306)		(3,154,797)		(307,388)		(164,863)	(472,251)
Prepaid expenses		73,996		8,601		82,597		17,882		1,966	19,848
Impairment loss on property, plant and equipment		120,867		77,138		198,005		11,309		14,877	26,186
Gain/loss on foreign currency translation		238,849		244,535		483,384		51,507		55,572	107,079
Provision for severance benefits		215,942		61,627		277,569		48,620		12,459	61,079
Group severance insurance deposits		(189,739)		(47,261)		(237,000)		(42,960)		(9,180)	(52,140)
Provision for construction losses		58,280		(2,785)		55,495		14,104		(690)	13,414
Provision for construction warranty		33,170		1,288		34,458		7,464		272	7,736
Appropriated retained earnings for technological development		(1,000)		1,000				(242)		242	
Accrued income		(3,827)		(2,789)		(6,616)		(650)		(614)	(1,264)
Accrued on valuation of Inventories		34,512		30,399		64,911		8,199		7,408	15,607
Others		642,678		(84,298)		558,380		146,666		30,997	177,663
	₩	(1,297,904)	₩	(973,931)	₩	(2,271,835)	₩	(204,952)	₩	(31,109)	₩ (236,061)

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	Temporary Differences			Deferred Income Tax		
	Dec. 31, 2009	Inc. (dec.)	Dec. 31, 2010	Dec. 31, 2009	Inc. (dec.)	Dec. 31, 2010
			(In millions of Korean Won)			
Deferred income taxes recognized directly to equity:						
Capital adjustment arising from equity method investments	₩ (729,327)	₩ (777,933)	₩ (1,507,260)	₩ (160,513)	₩ (170,761)	₩ (331,274)
Gain on valuation of available-for-sale securities	(1,020,472)	(565,771)	(1,586,243)	(238,573)	(142,613)	(381,186)
Loss on valuation of available-for-sale securities	882,542	(237,930)	644,612	195,016	(51,153)	143,863
Others		(37,389)	(37,389)		(8,227)	(8,227)
	₩ (867,257)	₩ (1,619,023)	₩ (2,486,280)	₩ (204,070)	₩ (372,754)	₩ (576,824)
Deferred tax from tax credit and others:						
Tax credit				₩ 288,550	₩ (64,485)	₩ 224,065
Deficit carry-forwards				45,676	49,220	94,896
				₩ 334,226	₩ (15,265)	₩ 318,961
Tax effect on elimination of inter-company profit and others				241,640	(470,296)	(228,656)
				₩ 166,844	₩ (889,424)	₩ (722,580)
Tax effect from change of consolidation scope (*1)					609,490	
					₩ (279,934)	

(*1) Represents changes in deferred tax assets (liabilities) resulting from changes in consolidation scope which did not impact current period income tax expenses.

	Temporary Differences			Deferred Income Tax		
	Dec. 31, 2008	Inc. (dec.)	Dec. 31, 2009	Dec. 31, 2008	Inc. (dec.)	Dec. 31, 2009
	(In millions of Korean Won)					
Deductible temporary differences:						
Reserve for special repairs	₩ (281,825)	₩ 107,835	₩ (173,990)	₩ (62,422)	₩ 22,922	₩ (39,500)
Allowance for doubtful accounts	292,571	(124,231)	168,340	63,786	(24,261)	39,525
Reserve for technology developments	(9,464)	(826,236)	(835,700)	(2,150)	(182,109)	(184,259)
Dividend income from related companies	431,497	59,545	491,042	94,929	13,100	108,029
Depreciation expense	(274,668)	(90,165)	(364,833)	(60,194)	(23,064)	(83,258)
Valuation of equity method investments	(1,376,045)	(430,446)	(1,806,491)	(210,804)	(96,584)	(307,388)
Prepaid expenses	69,227	4,769	73,996	16,289	1,593	17,882
Impairment loss on property, plant and equipment	126,027	(5,160)	120,867	42,667	(31,358)	11,309
	634,028	(395,179)	238,849	140,283	(88,776)	51,507
Provision for severance benefits	175,238	40,704	215,942	39,376	9,244	48,620
Group severance insurance deposits	(114,741)	(74,998)	(189,739)	(25,921)	(17,039)	(42,960)
Provision for construction losses	36,243	22,037	58,280	8,112	5,992	14,104
Provision for construction warranty	26,595	6,575	33,170	5,852	1,612	7,464
Appropriated retained earnings for technological development	(2,000)	1,000	(1,000)	(462)	220	(242)
Accrued income	(2,744)	(1,083)	(3,827)	15	(665)	(650)
Accrued on valuation of inventories	12,121	22,391	34,512	2,944	5,255	8,199
Others	275,369	367,309	642,678	32,248	114,418	146,666
	₩ 17,429	₩ (1,315,333)	₩ (1,297,904)	₩ 84,548	₩ (289,500)	₩ (204,952)

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	Temporary Differences			Deferred Income Tax		
	Dec. 31, 2008	Inc. (dec.)	Dec. 31, 2009	Dec. 31, 2008	Inc. (dec.)	Dec. 31, 2009
	(In millions of Korean Won)					
Deferred income taxes recognized directly to equity:						
Capital adjustment arising from equity method investments	₩ (721,748)	₩ (7,579)	₩ (729,327)	₩ (159,500)	₩ (1,013)	₩ (160,513)
Gain on valuation of available-for-sale securities	(340,226)	(680,246)	(1,020,472)	(74,222)	(164,351)	(238,573)
Loss on valuation of available-for-sale securities	962,542	(80,000)	882,542	212,140	(17,124)	195,016
Others	14,618	(14,618)		3,199	(3,199)	
	₩ (84,814)	₩ (782,443)	₩ (867,257)	₩ (18,383)	₩ (185,687)	₩ (204,070)
Deferred tax from tax credit and others:						
Tax credit				₩ 16,471	₩ 272,079	₩ 288,550
Deficit carry-forwards				7,813	37,863	45,676
				₩ 24,284	₩ 309,942	₩ 334,226
Tax effect on elimination of inter-company profit				265,789	(24,149)	241,640
				₩ 356,238	₩ (189,394)	₩ 166,844

27. Earnings per Share

Basic and diluted earnings per share for the years ended December 31, 2010, 2009 and 2008 are as follows:

	2010	2009	2008
	(In millions of Korean Won, except per share information)		

Net income attributable to controlling interest	₩	4,181,285	3,218,425	4,378,751
Weighted-average number of common shares outstanding (*)		77,032,878	76,661,240	75,493,523
Basic and diluted earnings per share	₩	54,279	41,982	58,002

(*) Basic and diluted earnings per share is computed by dividing net income allocated to common stock, by the weighted-average number of common shares outstanding for the years ended December 31, 2010, 2009 and 2008:

	2010	**2009**	**2008**
Total number of common shares issued	87,186,835	87,186,835	87,186,835
Weighted-average number of treasury shares	(10,153,957)	(10,525,595)	(11,693,312)
Weighted-average number of common shares outstanding	77,032,878	76,661,240	75,493,523

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28. Comprehensive Income

Comprehensive income for the years ended December 31, 2010, 2009 and 2008 are as follows:

		2010	2009	2008
		(In millions of Korean Won)		
Net income	₩	4,217,695	3,242,311	4,350,104
Other comprehensive income (loss)				
Gain on valuation of available-for-sale securities, net		741,983	776,060	(1,714,939)
Less: tax effect		(184,995)	(181,471)	427,512
Changes in capital adjustments of equity method investments		(183,116)	34,077	48,139
Less: tax effect		148,074	(22,983)	(11,903)
Foreign currency translation adjustments		144,037	(165,124)	576,489
Less: tax effect		(42,701)	21,961	(75,291)
Gain on valuation of derivative instruments			14,541	(9,175)
Less: tax effect			(3,199)	1,868
		623,282	473,862	(757,300)
Comprehensive income	₩	4,840,977	3,716,173	3,592,804
Controlling interest	₩	4,734,913	3,695,881	3,571,832
Non-controlling interest	₩	106,064	20,292	20,972

29. Assets and Liabilities Denominated in Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies as of December 31, 2010 and 2009 are as follows:

	2010				2009			
	Foreign Currency (*2)			Won Equivalent	Foreign Currency (*2)			Won Equivalent
	(In millions of Korean Won, other currencies in thousands)							
Assets								
Cash, cash equivalents and financial instruments	USD	346,430	₩	394,549	USD	362,217	₩	422,925
	JPY	348,701		4,872	JPY	502		6
	EUR	4,011		6,071	EUR	882		1,477
		1,033,538		1,177,097		723,876		845,198

	Foreign subsidiaries			Foreign subsidiaries		
Trade accounts and notes receivable	USD	1,440,400	1,640,471	USD	448,193	523,310
	JPY	6,449,198	90,100	JPY	5,552,183	70,114
	EUR	162,932	246,614	EUR	38,941	65,198
	Foreign subsidiaries	2,240,818	2,552,067	Foreign subsidiaries	1,075,209	1,255,413
Other accounts and notes receivable	USD	99,587	113,420	USD	14,023	16,373
	JPY	11,144	156	JPY	8,879	112
	EUR	279	422			
	Foreign subsidiaries	101,415	115,501	Foreign subsidiaries	82,694	96,552

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	2010			2009		
	Foreign Currency (*2)		Won Equivalent	Foreign Currency (*2)		Won Equivalent
	(In millions of Korean Won, other currencies in thousands)					
Short-term and long-term loans receivable	USD	89,428	101,850	USD	849	991
	Foreign subsidiaries	736,056	838,294	Foreign subsidiaries	481,875	562,637
Long-term trade accounts and notes receivable	USD	8,932	10,173			
	Foreign subsidiaries	1,849	2,106	Foreign subsidiaries	71	82
Investment securities (*1)	Foreign subsidiaries	678,525	772,772	Foreign subsidiaries	405,168	473,075
Guarantee deposits	USD	1,818	2,071	USD	361	422
	EUR	135	205	EUR	135	226
	Foreign subsidiaries	8,509	9,690	Foreign subsidiaries	6,526	7,619
			₩ 8,078,501			₩ 4,341,730

(*1) Presented at face value.

(*2) Currencies other than US dollars, Japanese yen, and Euros are converted into US dollars. The amounts of foreign subsidiaries are converted into US dollars.

	2010			2009		
	Foreign Currency (*2)		Won Equivalent	Foreign Currency (*2)		Won Equivalent
	(In millions of Korean Won, other currencies in thousands)					
Liabilities						
Trade accounts and notes payable	USD	1,272,190	₩ 1,448,898	USD	357,303	₩ 417,187
	JPY	3,669,833	51,271	JPY	1,972,372	24,908
	EUR	83,306	126,092	EUR	40,581	67,944
	Foreign subsidiaries	1,945,915	2,216,202	Foreign subsidiaries	883,962	1,032,114

Other accounts and notes payable	USD	103,901	118,333	USD	45,841	53,524
	JPY	703,572	9,829	JPY	420,914	5,315
	EUR	19,585	29,644	EUR	3,396	5,686
	Foreign subsidiaries	79,576	90,630	Foreign subsidiaries	44,249	51,666
Accrued expenses	USD	10,934	12,452	USD	1,479	1,727
	JPY	198,028	2,767	JPY	137,450	1,736
	EUR	4,460	6,750	EUR		
	Foreign subsidiaries	156,473	178,208	Foreign subsidiaries	29,795	34,789
Short-term borrowings	USD	1,311,607	1,493,789	USD	435,784	508,821
	JPY	646,092	9,026	JPY		
	EUR	60,053	90,896	EUR		
	Foreign subsidiaries	3,091,405	3,520,801	Foreign subsidiaries	1,984,096	2,316,630

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	2010			2009		
	Foreign Currency (*2)		Won Equivalent	Foreign Currency (*2)		Won Equivalent
	(In millions of Korean Won, other currencies in thousands)					
Withholdings	USD	9,067	10,327	USD	39,148	45,709
	JPY			JPY	372,553	4,705
	EUR	23	34	EUR	11,827	19,802
	Foreign subsidiaries	9,101	10,365	Foreign subsidiaries	1,614	1,885
Debentures (*1)	USD	2,457,405	2,798,739	USD	1,340,000	1,564,584
	JPY	181,794,972	2,539,821	JPY	182,592,205	2,305,811
	Foreign subsidiaries			Foreign subsidiaries		
Loans from foreign financial institutions	USD	568,257	647,188	USD	64,550	75,369
	JPY	16,997,747	237,472	JPY	285,686	3,608
	EUR	85,553	129,493			
	Foreign subsidiaries	1,412,963	1,609,224	Foreign subsidiaries	1,103,630	1,288,598
Foreign currency loans	EUR	3,328	5,037	EUR	3,964	6,637
			₩ 17,393,288			₩ 9,838,755

(*1) Presented at face value.

(*2) Currencies other than US dollars, Japanese yen, and Euros are converted into US dollars. The amounts of foreign subsidiaries are converted into US dollars.

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30. Related Party Transactions

(a) As of December 31, 2010, the subsidiaries of the Company are as follows:

Domestic (37) POSCO E&C Co., Ltd., POSCO P&S Co., Ltd. (formerly, Posteel Co., Ltd.), POSCO Coated & Color Steel Co., Ltd., POSCO Plant Engineering Co., Ltd., POSCO ICT Co., Ltd., POSCO Research Institute, Seung Kwang Co., Ltd., POSCO A&C Co., Ltd., POSCO Specialty Steel Co., Ltd., POSTECH Venture Capital Corp, eNtoB Corporation, POSCO Chemtech Company Ltd., POSCO Terminal Co., Ltd., Metapolis Co., Ltd., POSMATE Co., Ltd., POSCO M-TECH Co., Ltd. (formerly, Samjung Packing & Aluminum Co., Ltd.), POSCO Power Corp., POSTECH 2006 Energy Fund, PHP Co., Ltd., POSCO TMC Co., Ltd., PNR Co., Ltd., Megaasset Co., Ltd., Daewoo engineering Company, POSCO FeulCell Co., Ltd., POSCO AST CO., LTD., DAIMYUNG TMS. CO. LTD., POS-HiMETAL CO., Ltd., POSCO E&E Co., Ltd., Gwangyang Steel Fabrication Center, 9digit Co., Ltd., Sungjin Geotec Co., Ltd., Postech Early Stage Fund, POSCO Family Strategy Fund, Daewoo International Corporation, POSCO LED Co., Ltd., POSCO NST Co., Ltd., POHANG SRDC CO., Ltd.,

Overseas (76) POSCO America Corporation, POSCO Australia Pty. Ltd., POSCO Canada Ltd., POSCAN Elkveiw Coal Ltd., POSCO Asia Co., Ltd., VSC POSCO Steel Corp., Dalian POSCO-CFM Coated Steel Co., Ltd., POSCO-CTPC Co.,Ltd., POSCO-JKPC Co.,Ltd., International Business Center Corporation, POSLILAMA E&C Co., Ltd., Zhangjiagang Pohang Stainless Steel Co., Ltd., Guangdong Pohang Coated Steel Co., Ltd., POSCO (Thailand) Co., Ltd., Myanmar POSCO Steel Co., Ltd., POSCO-JOPC Co.,Ltd., POSCO Investment Co., Ltd., POSCO-MKPC SDN BHD., Qingdao Pohang Stainless Steel Co., Ltd., POSCO (Suzhou) Automotive Processing Center Co., Ltd., POSCO Bio Ventures L.P., POSEC-Hawaii Inc., POS-Qingdao Coil Center Co., Ltd., POS-Ore Pty. Ltd., POSCO China Holding Corporation, POSCO Japan Co., Ltd., POS-CD Pty. Ltd., POS-GC Pty. Ltd.,

POSCO India Private Ltd., POS-India Pune Steel Processing Centre Pvt. Ltd., POSCO-JNPC Co., Ltd., POSCO-Foshan Steel Processing Center Co., Ltd. (POSCO-CFPC), POSCO E&C (Beijing) Co., Ltd., POSCO-MPC S.A. de C.V, Zhangjiagang Pohang Port Co., Ltd., Qingdao Pos-metal Co., Ltd., POSCO Vietnam Co., Ltd., POSCO-Mexico Co., Ltd., POSCO-India Delhi Steel Processing Centre Pvt. Ltd, POSCO-Poland Wroclaw Steel Processing Center Co., Ltd, POS-NP Pty. Ltd., POSCO-Vietnam Processing Center Co., Ltd., POSCO (Chongqing) Automotive Processing Center Co, Ltd., Suzhou POS-CORE Technology Co., Ltd., POSCO-JYPC Co.,Ltd., POSCO-Malaysia SDN BHD, POS-Minerals Corp., POSCO (Wuhu) Automotive Processing Center Co., Ltd., POSCO-Philippine Manila Processing Center Inc., POSCO-MESDC Co., Ltd., POSCO-VST Co., Ltd., POSCO Maharashtra Steel Private Limited, POSCO India Chennai Steel Processing Centre Pvt. Ltd., POSCO Turkey Nilufer Processing Center Co., Ltd.,

POSCO Vietnam Ha Noi Processing Center Co, Ltd., POSCO (Liaoning) Automotive Processing Center Ltd., POSCO-Indonesia Jakarta Processing Center, PT, POSCO China Dalian Plate Processing Center Ltd., POSCO-NCR COAL Ltd., POSCO WA Pty. Ltd., Daewoo

International (America) Corp., Daewoo International Deutschland GmbH, Daewoo International Japan Corp.,Daewoo International Singapore Pte. Ltd., Daewoo Italia S.r.l., Daewoo Cement (Shandong) Co., Ltd., Daewoo (China) Co., Ltd., PT. Rismar Daewoo Apparel, Daewoo Textile Fergana LLC, Daewoo Textile Bukhara LLC, Daewoo International Australia Holdings Pty. Ltd., Daewoo Paper Manufacturing Co., Ltd., POSCO Mauritius Ltd., POSCO (Zhangjiagang) Stainless Steel Processing Center Co., Ltd., Daewoo International Mexico, S.A. de C.V., Xenesys Inc.

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(b) Significant transactions, which occurred in the ordinary course of business, with consolidated subsidiaries for the years ended December 31, 2010, 2009 and 2008, and the related account balances as of December 31, 2010 and 2009 are as follows:

	Sales and Others (*1)			Purchase and Others (*1)		
	2010	2009	2008	2010	2009	2008
	(In millions of Korean Won)					
Subsidiaries						
POSCO E&C Co., Ltd.	₩ 7,441	4,605	13,626	₩ 2,245,401	2,546,163	1,121,335
POSCO P&S Co., Ltd. (formerly, Posteel Co., Ltd.)	1,082,903	1,167,877	1,455,354	456,045	158,260	244,908
POSCO Coated Steel Co., Ltd.	685,698	494,938	609,377	2,778	1,490	1,916
POSCO Plant Engineering Co., Ltd.	3,479	10,352	19,611	239,694	280,573	237,824
POSCO ICT Co., Ltd.	1,212	1,121	1,790	491,631	468,534	416,305
POSCO America Corporation	233,594	169,274	168,663			93
POSCO Canada Ltd.			40	170,379	84,192	289,015
POSCO Asia Co., Ltd.	1,377,802	1,093,589	951,867	148,050	76,004	215,318
POSCO-JKPC Co., Ltd.	65,938	30,088		194		
POSCO (Thailand) Co., Ltd.	123,913	70,129	91,077	88	5	
eNtoB Corporation	2			87,046	225,439	
POSCO Chemtech Company Ltd.	142,677	87,121	57,189	571,755	475,269	350,153
POSCO-MKPC SDN BHD	64,136	54,766				
Qingdao Pohang Stainless Steel Co., Ltd.	78,064	185,002	93,232			
POSCO (Suzhou) Automotive Processing Center Co., Ltd.	113,416	113,392				
	1,161,919	690,289	1,191,222	267,058	84,112	23,233

POSCO Japan Co., Ltd.						
POSCO M-TECH Co., Ltd. (formerly, Samjung Packing & Aluminum Co., Ltd.)	29,083	18,945	25,115	255,514	203,179	268,044
POS-India Pune Steel Processing Centre Pvt. Ltd.	164,628	110,901	66,931			
POSCO-Foshan Steel Processing Center Co., Ltd.	71,640	58,413				
POSCO-MPC S.A. de C.V.	125,768	98,476		151		
POSCO Vietnam Co., Ltd.	188,595	117,296	1,026			
POSCO-Mexico Co., Ltd.	273,241	125,057		7		
POSCO-India Delhi Steel Processing Centre Pvt. Ltd.	90,871	76,997		76	511	
POSCO TMC Co., Ltd.	151,323	130,964	131,497	86	39	176
POSCO-JYPC Co., Ltd.	67,213					
POSCO (Wuhu) Automotive Processing Center Co., Ltd.	101,710	83,526				
POSCO AST Co., Ltd.	267,323	83,245		54,969	20,938	
Daewoo International Corporation	867,916			2,710		
Others	380,549	226,793	347,681	214,361	122,585	125,627
	₩ 7,922,054	5,303,156	5,225,298	₩ 5,207,993	4,747,293	3,293,947

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	Receivables (*2)		Payables (*2)	
	2010	2009	2010	2009
	(In millions of Korean Won)			
Subsidiaries				
POSCO E&C Co., Ltd.	₩ 133,793	142,813	₩ 230,830	536,857
POSCO P&S Co., Ltd. (formerly, Posteel Co., Ltd.)	129,028	114,697	5,439	3,494
POSCO Coated Steel Co., Ltd.	104,663	109,616	337	199
POSCO Plant Engineering Co., Ltd.	28,262	4,683	60,052	59,984
POSCO ICT Co., Ltd.	21,031	40,458	94,145	111,186
POSCO America Corporation	12,027	6,163		
POSCO Canada Ltd.				
POSCO Asia Co., Ltd.	120,658	40,548	3,767	1,170
POSCO-JKPC Co., Ltd.	1,496	33		
POSCO (Thailand) Co., Ltd.	26,163	19,835		
eNtoB Corporation			2,000	6,561
POSCO Chemtech Company Ltd.	33,832	6,879	63,090	68,529
POSCO-MKPC SDN BHD		437		
Qingdao Pohang Stainless Steel Co., Ltd.	13,836	24,205		
POSCO (Suzhou) Automotive Processing Center Co., Ltd.				
POSCO Japan Co., Ltd.	23,921	25,637	8,112	8,949
POSCO M-TECH Co., Ltd. (formerly, Samjung Packing & Aluminum Co., Ltd.)	3,260	1,472	31,685	24,942
POS-India Pune Steel Processing Centre Pvt. Ltd.	10,412	12,356		
POSCO-Foshan Steel Processing Center Co., Ltd.				
POSCO-MPC S.A. de C.V.				
POSCO Vietnam Co., Ltd.	665	95,518		
POSCO-Mexico Co., Ltd.	80,309	16,247		
POSCO-India Delhi Steel Processing Centre Pvt. Ltd.		13		
POSCO TMC Co., Ltd.	11,823	11,678	12	24
POSCO-JYPC Co., Ltd.				
POSCO (Wuhu) Automotive Processing Center Co., Ltd.				
POSCO AST Co., Ltd.	19,031	17,492	8,255	7,572
Daewoo International Corporation	138,975			
Others	35,740	26,867	37,707	19,237
	₩ 948,925	717,647	₩ 545,431	848,704

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(c) Significant transactions, which occurred in the ordinary course of business, with equity-method investees for the years ended December 31, 2010 and 2009, 2008 and the related account balances as of December 31, 2010 and 2009 are as follows:

		Sales and Others (*1)				Purchases and Others (*1)		
		2010	2009	2008		2010	2009	2008
		(In millions of Korean Won)						
Equity method investees								
USS-POSCO Industries (UPI)		308,998	241,921	428,092		185	58	
Poschrome (Proprietary) Ltd.				98		82,170	53,711	91,467
SNNC Co., Ltd.		1,763	1,437	2,245		519,871	368,742	33,867
Others		11,890	5,973	26,677		159	3,018	352,572
	₩	322,651	249,331	457,112	₩	602,385	425,529	477,906

		Receivables (*2)			Payables (*2)	
		2010	2009		2008	2007
		(In millions of Korean Won)				
Equity method investees						
USS-POSCO Industries (UPI)		58,347	39,052			
Poschrome (Proprietary) Ltd.			176			
SNNC Co., Ltd.		182	1,974		57,512	26,963
Others					33,962	34,040
	₩	58,529	41,202	₩	91,474	61,003

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

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

(d) Eliminations of inter-company revenues and expenses for the year ended December 31, 2010, 2009 and 2008, and receivables and payables as of December 31, 2010, 2009 and 2008 are as follows:

	Sales and Others (*1)	Purchase and Others (*1)	Payables (*2)	Receivables (*2)
	(In millions of Korean Won)			
Subsidiaries				
POSCO	₩ 7,922,054	₩ 5,207,993	₩ 948,925	₩ 545,431
POSCO E&C Co., Ltd.	3,096,242	355,502	339,041	234,633
POSCO P&S Co., Ltd. (formerly, Posteel Co., Ltd.)	800,535	1,464,917	94,063	143,683
POSCO Coated Steel Co., Ltd.	148,207	756,164	17,117	121,002
POSCO Plant Engineering Co., Ltd.	317,579	17,927	84,037	55,505
POSCO ICT Co., Ltd.	592,701	12,120	118,382	44,369
POSCO Specialty Steel Co., Ltd.	120,934	85,003	27,844	14,863
eNtoB Corporation	124,655	276	21,411	
POSCO Chemtech Company Ltd.	622,916	152,698	76,991	44,572
Metapolis Co., Ltd.		123,283		25,041

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	Sales and Others (*1)	Purchase and Others (*1)	Payables (*2)	Receivables (*2)
	(In millions of Korean Won)			
POSCO M-TECH Co., Ltd. (formerly, Samjung Packing & Aluminum Co., Ltd.)	273,441	33,225	35,920	3,595
POSCO Power Corp.	1,259	598,825	5,051	10,504
POSCO TMC Co., Ltd.	10,183	153,391	955	11,823
Daewoo engineering Company	131,472	31,173	40,363	12,629
POSCO AST Co., Ltd.	71,937	278,987	29,759	20,639
Daewoo International Corporation	2,864,387	1,539,569	793,029	183,752
POSCO America Corporation	45,844	280,798	3,068	12,428
POSCO Australia Pty. Ltd.	4,191	22,901	62,255	104,150
POSCO Canada Ltd.	170,379			
POSCO Asia Co., Ltd.	1,445,804	1,584,930	353,369	134,578
POSCO-CTPC Co., Ltd.	38	123,139		31,054
Zhangjiagang Pohang Stainless Steel Co., Ltd.	670,765	86,469	89,571	17,880
Guangdong Pohang Coated Steel Co., Ltd.	16,763	194,259	917	39,229
POSCO (Thailand) Co., Ltd.	88	181,097		60,178
POSCO Investment Co., Ltd.	3,698		453,360	
POSCO-MKPC SDN BHD		104,634		3,789
Qingdao Pohang Stainless Steel Co., Ltd.	251,177	488,661	23,041	68,848
POSCO (Suzhou) Automotive Processing Center Co., Ltd.	72	307,399	15	66,781
POS-Qingdao Coil Center Co., Ltd.	49	146,527	106	27,315
POSCO Japan Co., Ltd.	501,416	1,216,883	103,659	27,703
POS-India Pune Steel Processing Centre Pvt. Ltd.	468	184,760	747	24,860
POSCO-JNPC Co., Ltd.	18,875	198,205	1,883	73,772
POSCO-Foshan Steel Processing Center Co., Ltd. (POSCO-CFPC)	1,222	504,221		82,002
POSCO-MPC S.A. de C.V.	511	211,443	67	22,301
POSCO Vietnam Co., Ltd.	274,671	752,472	11,684	243,374
POSCO-Mexico Co., Ltd.	78,491	292,878	10,776	142,839
POSCO (Wuhu) Automotive Processing Center Co., Ltd.	556	107,571	22	7,341
Daewoo International (America) Corp.	47,288	627,635	9,587	219,195
Daewoo International Deutschland GmbH	50,427	437,571	614	92,249
Daewoo International Japan Corp.	112,108	551,745	3,326	97,273

Daewoo International Singapore Pte. Ltd.		238,094		742,779		3,733		63,628
Daewoo Italia S.r.l		815		212,617		1,475		16,686
Others		651,438		1,311,103		191,542		806,211
2010	₩	21,683,750	₩	21,683,750	₩	3,957,705	₩	3,957,705
2009		12,990,672		12,990,672		2,653,865		2,653,865
2008		11,440,682		11,440,682		2,458,650		2,458,650

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

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

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(e) For the years ended December 31, 2010 and 2009, details of compensation to key management officers excluding stock appreciation rights are as follows:

		2010	2009
		(In millions of Korean Won)	
Salaries	₩	52,494	43,608
Severance benefits		17,159	15,216
Management achievement awards and others		43,011	34,455
Total	₩	112,664	93,279

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 which were decreased by ₩10,436 million, and increased by ₩36,100 million for the year ended December 31, 2010 and 2009, respectively.

31. Segment and Regional Information

Our operating businesses are organized based on the nature of markets and customers. We have four reportable operating segments the steel segment, the engineering and construction segment, the trading segment and a segment that contains operations of all other entities which fall below the reporting thresholds. The steel segment includes production of steel products and sale 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.

The segment results are measured based on sales and operating income in accordance with Korean GAAP without any adjustment for corporate allocations. The segment assets are measured based on total assets in accordance with Korean GAAP without any adjustment for corporate allocations.

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(a) The following table provides information on the significant financial status of each operating segment of the consolidated subsidiaries as of and for the year ended December 31, 2010:

		Steel	Engineering and Construction	Trading	Others	Consolidation Adjustment		Consolidated
				(In millions of Korean Won)				
Sales								
Total sales	₩	43,805,940	7,580,791	25,038,557	5,868,985	(21,656,413)	₩	60,637,860
Inter-company sales		(9,725,797)	(3,364,293)	(6,158,977)	(2,407,346)	21,656,413		
Net sales	₩	34,080,143	4,216,498	18,879,580	3,461,639		₩	60,637,860
Operating income	₩	5,300,081	319,052	234,788	396,595	(512,207)	₩	5,738,309
Inventories	₩	7,770,426	634,456	1,122,533	348,675	(72,637)		9,803,453
Investments (non-current)		16,500,546	995,211	3,013,674	1,841,940	(11,581,930)	₩	10,769,441
Equity method investments		11,365,052	638,589	2,183,696	842,176	(12,294,030)		2,735,483
Property, plant and equipment		22,142,843	1,126,165	463,013	3,512,104	(1,544,976)		25,699,149
Intangible assets (*1)		296,152	12,294	48,803	202,455	2,601,748		3,161,452
Goodwill		47,513	187,192	1,145,477	85,492			1,465,674
Total Assets	₩	56,903,869	7,045,398	8,028,890	9,260,698	(13,292,922)	₩	67,945,933
Depreciation and amortization	₩	2,641,203	47,430	10,789	212,498	39,748	₩	2,951,668
Capital expenditure		4,699,869	151,615	49,784	947,569	47,123		5,895,960
Stock compensation expenses								

The following table provides information on the significant financial status of each operating segment of the consolidated subsidiaries as of and for the year ended December 31, 2009:

		Steel	Engineering and Construction	Trading	Others	Consolidation Adjustment		Consolidated
				(In millions of Korean Won)				
Sales								
Total sales	₩	34,503,317	7,760,374	4,120,088	3,420,139	(12,948,917)	₩	36,855,001
Inter-company sales		(6,090,338)	(3,852,222)	(1,137,776)	(1,868,581)	12,948,917		
Net sales	₩	28,412,979	3,908,152	2,982,312	1,551,558		₩	36,855,001

Operating income	₩	3,217,117	345,647	32,795	268,027	4,576	₩	3,868,162
Inventories	₩	4,208,446	718,815	156,083	157,836	(88,341)	₩	5,152,839
Investments (non-current)		10,319,818	888,745	594,174	1,241,058	(6,572,796)		6,470,999
Equity method investments		5,712,306	496,807	536,999	546,857	(6,465,386)		827,583
Property, plant and equipment		19,694,065	1,143,885	220,729	2,087,110	(1,306,004)		21,839,785
Intangible assets (*1)		198,763	20,042	1,646	101,972	307,546		629,969
Goodwill		46,968	198,580		26,544			272,092
Total Assets	₩	46,249,396	6,080,744	1,808,745	5,539,673	(9,366,810)	₩	50,311,748
Depreciation and amortization	₩	2,368,575	25,363	5,564	205,800	(52,220)	₩	2,553,082
Capital expenditure	₩	4,802,933	207,588	1,435	830,126	564,421		6,406,503
Stock compensation expenses		36,100						36,100

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The following table provides information on the significant financial status of each operating segment of the consolidated subsidiaries as of and for the year ended December 31, 2008:

		Steel	Engineering and Construction	Trading	Others	Consolidation Adjustment		Consolidated
				(In millions of Korean Won)				
Sales								
Total sales	₩	38,448,113	5,528,105	5,656,959	3,749,459	(11,640,000)	₩	41,742,636
Inter-company sales		(6,547,017)	(1,855,696)	(1,392,356)	(1,844,931)	11,640,000		
Net sales	₩	31,901,096	3,672,409	4,264,603	1,904,528		₩	41,742,636
Operating income	₩	6,628,789	283,973	49,117	488,078	(276,028)	₩	7,173,929
Inventories	₩	7,569,508	847,481	323,164	219,574	(298,006)	₩	8,661,721
Investments (non-current)		8,722,560	1,067,694	603,289	1,027,891	(6,143,269)		5,278,165
Equity method investments		5,094,239	659,363	537,533	688,493	(6,147,092)		832,536
Property, plant and equipment		17,393,603	614,477	231,164	1,637,042	(1,807,187)		18,069,099
Intangible assets (*1)		223,177	21,825	957	157,206	320,602		723,767
Goodwill		13,698	209,461		47,683			270,842
Total Assets	₩	42,884,329	6,324,810	1,976,797	4,916,085	(9,140,739)	₩	46,961,282
Depreciation and amortization	₩	2,171,387	17,710	5,660	150,177	35,124	₩	2,380,058
Capital expenditure		3,922,096	289,775	88,405	320,417	(527,380)		4,093,313
Stock compensation expenses								

(*1) Includes goodwill.

The following table provides reconciliation from the total segment operating profit to the Company s income before income taxes and net income (loss) of consolidated subsidiaries before acquisition for the years ended December 31, 2010, 2009 and 2008 are as follows:

		2010	2009	2008
			(In millions of Korean Won)	
Total of segment results	₩	6,250,516	3,863,586	7,449,957
Consolidation adjustment (*1)		(512,207)	4,576	(276,028)
Non-operating expense, net (*2)		(400,623)	(128,887)	(1,078,290)

Net income before income tax expenses	₩	5,337,686	3,739,275	6,095,639

(*1) Consolidated adjustments consist primarily of the elimination of intersegment transactions.

(*2) See the Consolidated Statements of Income for details of non-operating income and expense items.

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(b) Net sales for the years ended December 31, 2010, 2009 and 2008, and long-lived assets by geographic location as of December 31, 2010 and 2009, are as follows:

	Sales (*1) 2010	Sales (*1) 2009	Sales (*1) 2008	Property, Plant and Equipment 2010	Property, Plant and Equipment 2009
	(In millions of Korean Won)				
Customer Location					
Korea	₩ 30,728,032	₩ 22,528,633	₩ 26,886,852	22,627,930	₩ 19,384,333
Japan	2,803,875	1,387,095	2,043,819	289,421	266,515
China	8,088,644	5,049,354	4,875,784	1,301,638	1,030,625
Asia/Pacific, excluding Japan and China	9,021,234	2,898,798	3,138,884	797,412	687,234
North America	2,346,516	751,983	800,817	1,232	18,984
Others	7,649,559	4,239,138	3,996,480	681,516	452,094
	₩ 60,637,860	₩ 36,855,001	₩ 41,742,636	₩ 25,699,149	₩ 21,839,785

(*1) Represents revenues, net of consolidation adjustments, incurred based on customers locations instead of the Company and subsidiaries locations.

(c) Condensed consolidated statements of financial position as of December 31, 2010 and 2009 categorized by type of business are as follows:

	Non-financial Institution 2010	Non-financial Institution 2009	Financial Institution 2010	Financial Institution 2009
	(In millions of Korean Won)			
Assets				
Current assets	₩ 26,820,378	20,233,636	₩ 286,745	400,514
Non-current assets	40,783,859	29,535,124	54,951	142,474
Investment assets	10,718,547	6,332,198	50,894	138,801
Property, plant and equipment	25,699,045	21,839,775	104	10
Intangible assets	3,161,418	629,918	34	51
Other non-current assets	1,204,850	733,233	3,919	3,612
Total assets	67,604,237	49,768,760	341,696	542,988
Liabilities				

Current liabilities	16,505,851	8,878,677	587,376	396,141
Non-current liabilities	13,650,383	9,371,979	902	637
Total liabilities	₩ 30,156,234	18,250,656	₩ 588,278	396,778

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(d) Condensed consolidated statements of income for the years ended December 31, 2010 and 2009 categorized by type of business are as follows:

	Non-financial Institution			Financial Institution		
	2010	2009		2010	2009	
	(In millions of Korean Won)					
Sales	₩	60,629,216	36,836,780	₩	8,644	18,221
Cost of goods sold		51,556,696	31,032,184		3,979	5,241
Selling and administrative expenses		3,334,786	1,944,829		4,090	4,585
Operating income		5,737,734	3,859,767		575	8,395
Non-operating income		2,855,257	2,361,475		1,505	918
Non-operating expenses		3,256,020	2,481,060		1,365	10,220
Net income before income tax expense		5,336,971	3,740,182		715	(907)
Income tax expense (benefit)		1,112,852	536,068		44	(72)
Net income (loss) of subsidiaries before acquisition		7,095	(39,032)			
Net income (loss)	₩	4,217,024	3,243,146	₩	671	(835)
Controlling interest	₩	4,180,614	3,219,260	₩	671	(835)
Non-controlling interest	₩	36,410	23,886	₩		

32. Significant Differences between Korean GAAP and U.S. GAAP

Reconciliation to U.S. Generally Accepted Accounting Principles

The consolidated financial statements of the Company are prepared in accordance with generally accepted accounting principles in the Republic of Korea (Korean GAAP), which differs in certain significant respects from generally accepted accounting principles in the United States of America (U.S. GAAP). Application of U.S. GAAP would have affected the consolidated financial position of POSCO as of December 31, 2010 and 2009 and the related consolidated net income for the three years ended December 31, 2010, 2009 and 2008 to the extent described below.

A description of the significant differences between Korean GAAP and U.S. GAAP as they relate to the Company is discussed in detail below.

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(a) Reconciliation of Net Income from Korean GAAP to U.S. GAAP

	Adjustments Before Deferred Income Tax	Deferred Income Tax Effect	Net Adjustments to Net Income
	(In millions of Korean Won, except share information)		
For the year ended December 31, 2010			
Net income attributable to controlling interest under Korean GAAP			₩ 4,181,285
Net income attributable to non-controlling interest under Korean GAAP			36,410
Net income under Korean GAAP			4,217,695
Adjustments:			
Fixed asset revaluation	₩ 9,049	₩ (1,991)	₩ 7,058
Capitalized costs	148,205	(32,605)	115,600
Investment securities	(12,867)	2,831	(10,036)
Business combination	(8,800)		(8,800)
Goodwill	78,867	(17,351)	61,516
Derivatives	29,748	(6,545)	23,203
Fair value option	(2,029)	446	(1,583)
Others, net	(25,296)	5,566	(19,730)
	₩ 216,877	₩ (49,649)	₩ 167,228
Tax effects resulting from intercompany transactions			(8,373)
			₩ 158,855
Net income in accordance with U.S. GAAP			₩ 4,376,550
Net income attributable to non-controlling interest in accordance with U.S. GAAP			36,312
Net income attributable to controlling interest in accordance with U.S. GAAP			4,340,238
Basic and diluted earnings per share in accordance with U.S. GAAP			₩ 56,343
Weighted-average shares outstanding			77,032,878

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	Adjustments Before Deferred Income Tax	Deferred Income Tax Effect	Net Adjustments to Net Income
	(In millions of Korean Won, except share information)		
For the year ended December 31, 2009			
Net income attributable to controlling interest under Korean GAAP			₩ 3,218,425
Net income attributable to non-controlling interest under Korean GAAP			23,886
Net income under Korean GAAP			3,242,311
Adjustments:			
Fixed asset revaluation	₩ 10,361	₩ (2,280)	₩ 8,081
Capitalized costs	131,843	(29,005)	102,838
Investment securities	210,762	(46,368)	164,394
Goodwill	56,433	(12,414)	44,019
Derivatives	90,846	(22,446)	68,400
Others, net	576	(128)	448
	₩ 500,821	₩ (112,641)	₩ 388,180
Tax effects resulting from intercompany transactions			(21,680)
			₩ 366,500
Net income in accordance with U.S. GAAP			₩ 3,608,811
Net income attributable to non-controlling interest in accordance with U.S. GAAP			41,462
Net income attributable to controlling interest in accordance with U.S. GAAP			3,567,349
Basic and diluted earnings per share in accordance with U.S. GAAP			₩ 46,534
Weighted-average shares outstanding			76,661,240

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	Adjustments Before Deferred Income Tax	Deferred Income Tax Effect	Net Adjustments to Net Income
	(In millions of Korean Won, except share information)		
For the year ended December 31, 2008			
Net income attributable to controlling interest under Korean GAAP			₩ 4,378,751
Net income attributable to non-controlling interest under Korean GAAP			(28,647)
Net income under Korean GAAP			4,350,104
Adjustments:			
Fixed asset revaluation	₩ 12,046	₩ (2,650)	₩ 9,396
Capitalized costs	29,517	(6,494)	23,023
Investment securities	(444,834)	97,863	(346,971)
Goodwill	41,248	(9,074)	32,174
Derivatives	(72,981)	21,517	(51,466)
Others, net	(17,310)	(1,652)	(18,962)
	₩ (452,314)	₩ 99,510	₩ (352,806)
Effects of changes in tax rates			13,216
Tax effects resulting from intercompany transactions			73,300
			₩ (266,290)
Net income in accordance with U.S. GAAP			₩ 4,083,814
Net income attributable to non-controlling interest in accordance with U.S. GAAP			(22,076)
Net income attributable to controlling interest in accordance with U.S. GAAP			4,105,890
Basic and diluted earnings per share in accordance with U.S. GAAP			₩ 54,387
Weighted-average shares outstanding			75,493,523

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(b) Reconciliation of Total Equity from Korean GAAP to U.S. GAAP

	Adjustments Before Deferred Income Tax Effect	Deferred Income Tax Effect	Net Adjustments to Equity
	(In millions of Korean Won)		
As of December 31, 2010			
Controlling interest			₩ 34,895,288
Non controlling interest			2,306,133
Total equity under Korean GAAP			37,201,421
Adjustments:			
Fixed asset revaluation	₩ (113,891)	₩ 5,807	₩ (108,084)
Capitalized costs	627,731	(138,101)	489,630
Investment securities	(8,796)	1,935	(6,861)
Business combination	140,092		140,092
Goodwill	239,904	(52,779)	187,125
Derivatives	(23,399)	5,147	(18,252)
Fair value option	8,859	(1,949)	6,910
Others, net	(34,792)	7,656	(27,136)
Tax effects resulting from intercompany transactions		43,247	43,247
	₩ 835,708	₩ (129,037)	₩ 706,671
Total equity in accordance with U.S. GAAP			₩ 37,908,092
Non-controlling interest in accordance with U.S. GAAP			2,449,867
Shareholders equity attributable to controlling interest in accordance with U.S. GAAP			35,458,225

	Adjustments Before Deferred Income Tax Effect	Deferred Income Tax Effect	Net Adjustments to Equity
	(In millions of Korean Won)		

As of December 31, 2009						
Controlling interest					₩	30,908,964
Non controlling interest						755,350
Total equity under Korean GAAP						31,664,314
Adjustments:						
Fixed asset revaluation	₩	(122,940)	₩	7,798	₩	(115,142)
Capitalized costs		479,526		(105,496)		374,030
Investment securities		6,449		(1,419)		5,030
Goodwill		161,037		(35,428)		125,609
Derivatives		(53,147)		11,692		(41,455)
Others, net		(9,496)		2,090		(7,406)
Tax effects resulting from intercompany transactions				51,620		51,620
	₩	461,429	₩	(69,143)	₩	392,286
Total equity in accordance with U.S. GAAP					₩	32,056,600
Non-controlling interest in accordance with U.S. GAAP						747,460
Shareholders equity attributable to controlling interest in accordance with U.S. GAAP						31,309,140

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(c) Fixed Asset Revaluation

Under Korean GAAP, certain fixed assets were subject to upward revaluations in accordance with the Asset Revaluation Law, with the revaluation increment credited to capital surplus. As a result of this revaluation, depreciation expenses on these assets were adjusted to reflect the increased basis. Under U.S. GAAP, such a revaluation is not permitted and depreciation expense should be based on historical cost. As a result, the gain or loss on sale of fixed assets determined in accordance with U.S. GAAP is different from the amount determined under Korean GAAP.

(d) Capitalized Costs

Under Korean GAAP, the Company capitalizes certain foreign exchange gains and losses on borrowings associated with property, plant and equipment during the construction period. Under U.S. GAAP, all foreign exchange gains and losses are included in the results of operations for the current period. No foreign exchange gains and losses have been capitalized for the years ended December 31, 2010, 2009 and 2008 under Korean GAAP. Depreciation of net capitalized foreign exchange gains and losses carried forward from prior periods amounted to nil, ₩(135) million and ₩841 million for the years ended December 31, 2010, 2009 and 2008, respectively.

In addition, effective from the period beginning after December 31, 2002, under Korean GAAP, interest costs that would have been theoretically avoided had expenditures not been made for assets which require a period of time to prepare them for their intended use are generally expensed as incurred, except when certain criteria are met for capitalization. The Company has adopted this application and expensed financing costs. Under U.S. GAAP, the Company is required to capitalize such amount. Capital projects that have had their progress halted would suspend the capitalization of interest.

Capitalized interests for the years ended December 31, 2010, 2009 and 2008 are as follows:

		2010	2009	2008
		(In millions of Korean Won)		
Capitalized interest	₩	251,948	184,955	96,980
Depreciation of capitalized interest etc.		(111,220)	(98,328)	(90,113)
Net income impact	₩	140,728	86,627	6,867

Under Korean GAAP, research and development costs and internal use software costs have been recorded as intangible assets and amortized over a period not exceeding 20 years. Under U.S. GAAP, organization costs as well as research and developments costs are generally expensed as incurred. In addition, certain costs incurred for software developed for internal use, U.S. GAAP requires that costs incurred in the preliminary project stage be expensed as incurred. External direct costs such as material and service, payroll or payroll related costs for employees who are directly associated with the project, and interest costs incurred when developing computer software for internal use, are capitalized and amortized on a straight-line method over the estimated useful life. Training costs, data conversion costs and general administrative costs are expensed as incurred.

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U.S. GAAP reconciliation adjustments for the capitalization and amortization of intangible assets, which arose mostly from capitalized research and development costs, for the years ended December 31, 2010, 2009 and 2008, are as follows:

		2010	2009	2008
		(In millions of Korean Won)		
Net income impact	₩	7,477	45,351	21,809

(e) Investment Securities

The differences in accounting for investment securities between Korean GAAP and U.S. GAAP relate to (i) recognition of impairment losses, (ii) recognition of gain or loss on disposal of investments due to different classifications and (iii) classification of and accounting for certain non-marketable equity securities.

(i) Recognition of an impairment loss

Under Korean GAAP, investment securities are evaluated at each balance sheet date to determine whether there is any objective evidence of indicating an impairment loss. A significant deterioration in financial position of the issuer, such as bankruptcy, liquidation, negative net asset values and cessation of operations, would be the type of objective evidence that indicates an impairment loss. When any such objective evidence exists, unless there is a clear counter-evidence that recognition of impairment is unnecessary, management estimates the recoverable amount of the impaired security and recognizes any impairment loss in current operations. A significant or prolonged decline in the fair value of a marketable equity security below its carrying value would not be an indicator of an impairment loss unless there is also objective evidence that the financial position of the issuer has also deteriorated as described above.

The amount of impairment loss of a non-marketable equity security, measured as the difference between the estimated recoverable amount and its carrying amount, is charged to current operations by a write-down of the carrying amount of the investment. For available-for-sale marketable equity securities carried at fair value, the impairment loss is charged to current operations by reversing the unrealized loss recorded in accumulated other comprehensive (loss) income. If the fair value of the impaired investment security subsequently recovers, a gain is recognized up to the amount of previously recognized impairment loss.

Under U.S. GAAP, a significant and prolonged decline in fair value of an equity investment below its cost would result in an impairment loss if the decline in value is determined to be other-than-temporary. The impairment loss is charged to current operations and a new cost basis is established. Any subsequent reversal of previously recognized impairment losses is prohibited.

The reconciliation of net income determined in accordance with Korean GAAP and U.S. GAAP for the year ended December 31, 2008 included other-than-temporary impairment losses amounting to ₩442,840 million recognized under U.S. GAAP but not under Korean GAAP for certain available-for-sale marketable equity securities. The aggregate acquisition cost and fair value of these available-for-sales marketable equity securities were

₩937,929 million and ₩225,646 million, respectively, at December 31, 2008 under Korean GAAP and U.S. GAAP, both of which are recorded at fair value. Under Korean GAAP, the unrealized losses recorded in accumulated comprehensive (loss) income related to these securities amounted to ₩615,498 million at December 31, 2008. There was no unrealized loss for U.S. GAAP purposes related to these securities due to the

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other-than-temporary impairment losses of ₩442,840 million recorded in 2008 and the impairment losses recorded in the prior years of ₩172,658 million.

Included in other-than-temporary impairment losses recorded under U.S. GAAP in 2008 is an impairment loss of ₩364,878 million related to the Company s available-for-sale investment in MacArthur Coal Limited. The Company acquired a 10% equity interest in MacArthur Coal Limited on July 22, 2008 for ₩420,805 million. For Korean GAAP purposes, the Company recognized the excess of the acquisition cost of this investment over its fair value at the acquisition date as an impairment loss amounting to ₩96,785 million (note 7(b)). As of December 31, 2008, the fair value of this investment was ₩55,927 million, which was significantly lower than the Company s acquisition cost. No additional impairment loss was recognized in the statement of income under Korean GAAP as management, based on its assessment, concluded no objective evidence existed that would indicate a significant deterioration in the financial position of MacArthur Coal Limited. For U.S. GAAP purposes, management determined that the decline in fair value of this investment is other-than-temporary and as a result, an impairment loss amounting to ₩364,878 million was recorded in earnings resulting in an additional impairment loss of ₩268,093 million.

The reconciliation of net income determined in accordance with Korean GAAP and U.S. GAAP for the year ended December 31, 2009 included impairment losses amounting to ₩207,000 million recognized under Korean GAAP but not under U.S. GAAP for LG Powercom. Under Korean GAAP, the Company recorded an impairment loss in 2009 because in 2009, LG Powercom & LG Telecom announced their decision to exchange shares in 2010. The Company considered the announcement as objective evidence of indicating an impairment loss since the Company would have loss upon the disposal of those shares and accordingly, the differences between the fair values and the acquisition costs were recognized as impairment losses while the Company had recorded other-than-temporary impairment losses prior to 2009 under U.S. GAAP.

The reconciliation of net income determined in accordance with Korean GAAP and U.S. GAAP for the year ended December 31, 2010 included other-than-temporary impairment losses amounting to ₩12,970 million recognized under U.S. GAAP but not under Korean GAAP for certain available-for-sale equity securities. The aggregate acquisition cost and fair value of these available-for-sales equity securities were ₩33,007 million and ₩8,571 million, respectively, at December 31, 2010 under U.S. GAAP. There was no unrealized loss for U.S. GAAP purposes related to these securities due to the other-than-temporary impairment losses of ₩15,071 million recorded in 2010 and the impairment losses recorded in the prior years of ₩9,365 million. Under Korean GAAP, the accumulated impairment losses and the unrealized losses recorded in accumulated comprehensive (loss) income related to these securities amounted to ₩4,626 million and ₩2,426 million, respectively, at December 31, 2010.

(ii) Recognition of gain on disposal of available for sale investments

The Company disposed certain securities that had been previously impaired under U.S. GAAP purposes. The fair value of these securities subsequently recovered resulting in the reversal of the impairment under Korean GAAP. As a result, the Company s cost basis relating to those securities was higher under Korean GAAP than under U.S. GAAP. This difference in cost basis resulted in a gain of ₩103 million under U.S. GAAP upon disposal for the year ended December 31, 2010.

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A summary of the U.S. GAAP adjustments relating to investment securities for the years ended December 31, 2010, 2009 and 2008 are as follows:

		2010	2009	2008
		(In millions of Korean Won)		
Impairment loss	₩	(12,970)	207,000	(445,225)
Recognition of gains on disposal		103	3,762	391
Net income impact	₩	(12,867)	210,762	(444,834)

(iii) Classification of and accounting for certain non-marketable equity securities

Under Korean GAAP, a non-marketable equity security with no quoted price is classified as available-for-sale if a reasonable estimate of its fair value can be made without incurring excessive costs. Such investments in non-marketable equity securities are carried at fair value, with any unrealized gain or loss recorded as a component accumulated other comprehensive (loss) income. When a reasonable estimate of fair value cannot be made without incurring excessive costs, the investment is carried at cost within the available-for-sale securities category. Under U.S. GAAP, investments in non-marketable equity securities for which the fair value is not readily determinable are accounted for using the cost method and classified as other investment securities.

The Company recorded an adjustment to cancel net unrealized loss amounting to ₩52,614 million which recorded as a component accumulated other comprehensive loss or gain under Korean GAAP related with non-marketable securities including Nacional Minerios S.A. (formerly, Big Jump Energy Participacoes S.A) as of December 31, 2010.

Information with respect to available-for-sale debt and equity securities as of December 31, 2010 and 2009 is as follows:

Available-for-Sale Securities and Other Investments Securities:

		2010	2009
		(In millions of Korean Won)	
Available-for-Sale Securities under Korean GAAP			
Marketable Securities	₩	4,944,184	3,973,531
Non-marketable Securities		1,644,786	1,354,806
	₩	6,588,970	5,328,337
Available-for-Sale Securities and Other Investment Securities under U.S. GAAP			

Available-for-Sale Securities	₩	4,944,184	3,973,531
Other Investment Securities		1,644,786	1,354,806
Accumulated impairment loss added (deducted) under U.S. GAAP		(8,796)	6,449
		1,635,990	1,361,255
	₩	6,580,174	5,334,786

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Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2010 were as follows:

	Less than 12 Months		12 Months or More		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
	(In millions of Korean Won)					
Available-for-Sale Securities:						
Equity securities	₩ 6,186	₩ 60,042	₩ 121,571	₩ 443,161	₩ 127,757	₩ 503,203

(f) Business Combination

POSCO acquired a 68.15% controlling financial interest in Daewoo International Corporation, a Korean Company listed on the Korean Securities Exchange (Daewoo International), ~~for~~ W3,371,481 million in cash in 2010. The acquisition was consummated on September 30, 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.

In 2010, the Company incurred ₩11,064 million of acquisition-related cost. These expenses are included in general and administrative expense in the Company s consolidated statement of income for the year ended December 31, 2010.

Goodwill of ₩1,385,356 million arising from the acquisition consists of the assembled workforce of the acquired business and the synergies expected from combining the operations of the Company and Daewoo International. All of the goodwill was assigned to the Company s trading segment.

None of the goodwill recognized is expected to be deductible for income tax purposes.

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The following table summarizes the consideration transferred to acquire Daewoo International and the amounts of identified assets acquired and liabilities assumed at the acquisition date, as well as the fair value of the non-controlling interest in Daewoo International at the acquisition date under U.S. GAAP.

		2010 (In millions of Korean Won)
Fair Value of Consideration Transferred:		
Cash	₩	3,371,481
Recognised amounts of identifiable assets acquired and liabilities assumed:		
Current assets		3,991,610
Non-current assets		4,904,398
Current liabilities		4,211,376
Non-current liabilities		1,509,762
Total identifiable net assets		3,174,870
Fair value of the non controlling interest in Daewoo International		1,188,745
Goodwill	₩	1,385,356

The fair value of the non-controlling interest in Daewoo International of ₩1,188,745 million was determined on the basis of the closing market price of Daewoo International s common shares on the acquisition date.

Among the liabilities assumed, the fair value of convertible bonds of ₩479,651 million is determined based on quoted market price in Singapore Stock Exchange on the acquisition date.

Under U.S. GAAP, acquisition-related costs are expensed as incurred. Under Korean GAAP, these costs are considered as part of the consideration transferred. In addition, the non-controlling interest in the acquiree is required to be recognized and measured at fair value under U.S. GAAP, however it is recorded at present ownership instruments proportionate share in the recognized amounts of the acquiree s identifiable net assets under Korean GAAP. There are also differences between Korean GAAP and U.S. GAAP in the fair value of net identifiable assets acquired such as convertible bonds. Under Korean GAAP, the fair value for conversion rights should be separated and accounted for as capital surplus in equity, while U.S. GAAP, it is accounted for as part of the fair value of liability assumed for which fair value option is applied in accordance with ASC 825-10.

As a result, the Company s goodwill is higher under U.S. GAAP than under Korean GAAP amounting to ₩225,379 million and the impact for the each specific items are as follows.

2010

		(In millions of Korean Won)
Convertible bonds	₩	111,982
Deferred income taxes		(27,071)
Acquisition-related costs		(11,064)
Fair value of non-controlling interest		148,892
Others		2,640
		225,379

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U.S. GAAP Pro Forma Information (unaudited)

The following summarized pro forma consolidated income statement information assumes that the Daewoo International Corporation acquisition occurred as of January 1, 2009. The unaudited pro forma results reflect certain adjustments related to the acquisition, such as increased depreciation and amortization expense on assets acquired from Daewoo International resulting from the fair valuation of assets acquired in place on acquisition date, i.e. September 30, 2010. The pro forma results do not include any anticipated cost synergies or other effects of the planned integration of Daewoo International Corporation. These pro forma results are for comparative purposes only and may not be indicative of the results that would have occurred if the Company had completed these acquisitions as of the periods shown below or the results that will be attained in the future.

The unaudited pro forma results of operations are as follows:

	Year Ended December 31, 2010	Year Ended December 31, 2009
	(In millions of Korean Won)	
Revenue	₩ 58,879,294	₩ 46,278,788
Net income	4,352,057	3,147,234

Under Korean GAAP, the results of operations are consolidated in their entirety into each line items of consolidated statement of income as if the acquisition has occurred on January 1, with the pre-acquisition net earnings deducted in determining consolidated net income while the results of operations after acquisition date are consolidated in consolidated statement of income under U.S. GAAP.

The amounts of revenue and net income of the acquiree since the acquisition date amounted to ₩3,389,025 million and ₩96,259 million, respectively.

(g) Goodwill

Under Korean GAAP, goodwill is amortized over the useful life during which future economic benefits are expected to flow to the enterprise, not exceeding twenty years using straight-line method. Under U.S. GAAP, goodwill is not subject to amortization rather an impairment test is required at least annually.

Goodwill is tested annually for impairment and whenever events or circumstances indicate that the carrying value may not be recoverable. The evaluation of impairment involves comparing the current fair value of each of the Company s reporting units to their recorded value, including goodwill. The Company uses a discounted cash flow model (DCF model) to determine the current fair value of its reporting units. Based on its assessment, management concluded that goodwill was not impaired as of December 31, 2010.

Under U.S. GAAP, total goodwill as of December 31, 2010 and 2009 amounted to ₩1,882,136 million and ₩389,174 million, respectively. Goodwill allocated to the steel segment, engineering and construction segment, trading segment and others segment as of December 31, 2010 amounted to ₩69,694 million, ₩217,193 million, ₩1,385,356 million and ₩209,893 million, respectively. Goodwill allocated to the steel segment, engineering and construction segment and others segment as of December 31, 2009 amounted to ₩56,711 million, ₩217,622 million and ₩114,841 million, respectively.

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(h) Hedge Accounting

According to the Implementation Guidance [2008-2] issued by KASB, effective January 1, 2008, the Company could change the designation of hedging prospectively when the contracts meet conditions of firm commitment whereas U.S. GAAP does not permit the prospective approach and therefore it s not accounted for as derivative. The impact resulting from this GAAP difference is increase to net income of ₩23,203 million (net of income tax effect of ₩6,545 million) under U.S. GAAP for the year ended December 31, 2010.

(i) Fair value Option

The FASB issued ASC 825 The Fair Value Option for Financial Assets and Financial Liabilities , which provides an option under which a company may irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and financial liabilities. This fair value option is available on a contract-by-contract basis with changes in fair value recognized in earnings as those changes occur.

The Fair value option exists for U.S. GAAP entities under ASC 825, Financial Instruments, wherein the option is unrestricted. Therefore, any investor s equity method investments are eligible for the fair value option. However, Korean GAAP permits venture capital organizations, mutual funds, and unit trusts as well as similar entities, which have investments in associates to carry those investments at fair value, with changes in fair value reported in earnings in lieu of applying equity-method accounting.

Also, financial liabilities would be recognized at fair value with fair value changes recognized in the income statement under U.S. GAAP. However, under Korean GAAP, financial liabilities are not permitted to be measured at fair value.

The Company elected fair value option for the convertible bonds and equity method investments of Kyobo Life Insurance, while under Korean GAAP, such election is not allowed.

The impact resulting from this GAAP difference is increase to net income of ₩30,393 million for the convertible bonds and decrease to net income of ₩(32,422) million for equity method investments under U.S. GAAP for the year ended December 31, 2010.

(j) Guarantees

Under Korean GAAP, the guarantor is required to disclose guarantees, including indirect guarantees of indebtedness of others. Under U.S. GAAP, the guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. As of December 31, 2010, the aggregate initial amount of outstanding guarantees provided by the Company for the repayment of loans was ₩1,642,067 million, excluding guarantees issued either between parents and their subsidiaries or between corporations under common control (note 17). Upon initial recognition of the liability for the fair value of the obligation undertaken in issuing the guarantee, the corresponding amount is recorded in selling and administrative expenses in the statement of income as such obligation is undertaken on a stand alone basis for no consideration. Subsequent to initial recognition, the Company s release from the risk of guarantee is recognized as the fair value of obligation changes. The changes in fair value are recognized in the statement of income. The Company has recognized guarantee expense amounting to ₩21,662 million and ₩837 million and ₩3,260 million for the years ended December 31, 2010, 2009 and 2008,

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respectively. This adjustment is included in others, net in the reconciliation of net income and equity from Korean GAAP to U.S. GAAP.

(k) Stock Appreciation Rights

Under Korean GAAP, the Company accounted for stock-based compensation in accordance with the intrinsic value method for awards that call for settlement in cash, shares, or a combination of both measures. Stock compensation liabilities at the end of each period are determined as the amount by which the moving weighted average of quoted market value of the shares of the enterprise s stock covered by a grant exceeds the option price. The moving weighted average of quoted market value is calculated based on the weighted average market price of last one week, last one month and last two months of each period.

Under U.S. GAAP, Accounting Standards Codification (ASC) Topic 718, Compensation Stock Compensation (Statement of Financial Accounting Standards (SFAS) No. 123(R)) is effective as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. The Company adopted ASC Topic 718 (FAS 123(R)) on January 1, 2006 using the modified prospective method, under which a grant-date fair value approach is applied to all awards granted after the effective date and to awards modified, repurchased or cancelled after effective date. The cumulative effect of initially applying this statement is recognized as of the required effective date. The compensation expense for the portion of the awards that are outstanding at December 31, 2005 for which the requisite service period has not been rendered was determined based on its fair value on the adoption date, and any difference to be reflected as the cumulative effect of change in accounting principle, net of any related tax effect. Also, reflected in the cumulative effect of change in accounting principle is the net cumulative impact of estimating future forfeitures in the determination of periodic expense, rather than recording forfeitures when they occur as previously permitted. Prior to adoption of ASC Topic 718 (FAS 123(R)), the Company applied the intrinsic value approached under APB 25 and recorded stock-based compensation liabilities using the quoted market value of the shares of the Company s stock in excess of option price.

The Company remeasured the value of its stock appreciation rights as of January 1, 2006 and applied the estimated future forfeitures, which resulted in a cumulative effect of change in accounting principle, net of tax, totaling ₩(2,970) million.

All the stock appreciation rights will be settled in cash upon vesting under service condition, therefore, stock appreciation right is classified as liability awards, and the fair value of stock options granted was remeasured as of the reporting date using a Black-Scholes option-pricing model with the following assumptions:

	2010
Dividend yield range	2.05%
Expected volatility range	23.69 ~ 27.55%
Risk-free interest rate range	2.81 ~ 2.85%

Expected lives (in years)	0.34 ~ 0.80

The percentage of the fair value of the awards that is accrued as compensation cost at the end of each period equals the percentage of the requisite service that has been rendered at that date. Changes in the fair value of the liability that occur after the end of the requisite service period are recorded as compensation cost of the period in which the changes occur.

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U.S. GAAP reconciliation adjustments for stock appreciation rights granted to employees and executives recognized for the years ended December 31, 2010, 2009 and 2008 are included in others, net and are as follows:

		2010	2009	2008
		(In millions of Korean Won)		
Net income impact	₩	2,239	1,969	(13,056)

The total stock compensation expenses, in accordance with U.S. GAAP, for the years ended December 31, 2010, 2009 and 2008 amount to ₩(12,675) million, ₩34,131 million and ₩(42,099) million, respectively.

(l) Capitalized Repairs

Under Korean GAAP, major repair costs associated with the Company s furnaces had been expensed as incurred, regardless of the nature of the expenditure until 2001. U.S. GAAP requires that repairs which extend an asset s useful life or significantly increase its value be capitalized when incurred. Routine maintenance and repairs are expensed as incurred. Depreciation of capitalized repairs carried forward from prior periods has been recorded.

(m) Derecognition of a financial asset

Under Korean GAAP, the Company sells or discounts certain accounts or notes receivable to financial institutions and accounts for these transactions as sale of the receivables if the rights and obligations relating to the receivables sold are substantially transferred to the buyers. In general, the recourse right of the transferee is not considered when determining whether certain accounts or notes receivable are transferred or not.

Under U.S. GAAP, transferred financial assets are derecognized when the transferor surrenders control over those assets. If the entity does not meet the derecognition criteria under U.S. GAAP, the transaction is accounted for as a secured borrowing with pledge of collateral, if applicable.

As of December 31, 2010, the outstanding balance of receivables derecognized under Korean GAAP was ₩1,396,777 million which has to be canceled under U.S. GAAP. The Company has canceled loss on the disposal of receivables amounting to ₩5,870 million for the year ended December 31, 2010. This adjustment is included in others, net in the reconciliation of net income and equity from Korean GAAP to U.S. GAAP.

(n) Deferred Income Taxes

In general, accounting for deferred income taxes is substantially the same between Korean GAAP and U.S. GAAP. The Company is also required to recognize the additional deferred tax effects resulting from differences between the reported Korean GAAP and U.S. GAAP amounts.

Under Korean GAAP, the elimination of the net tax effect of an intercompany transaction is recorded at the tax rate of the purchaser as a deferred tax asset that is subject to changes in tax rates or laws. Under U.S. GAAP, such net tax effect arising in the seller s jurisdiction is recorded as a deferred charge, not as a deferred tax asset, and the tax effects of changes in tax rates or laws are included in income from continuing operations in the period that includes the enactment date. The impact resulting from this GAAP difference in applicable tax rate in elimination of the net tax effect of an intercompany transaction is a decrease to net income of ₩8,373 million, ₩21,680 million and an

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increase to net income of ₩73,300 million under U.S. GAAP for the years ended December 31, 2010, 2009 and 2008, respectively. In addition, such net tax effect arising in the seller s jurisdiction which is recorded as a deferred charge amounted to ₩308,840 million, ₩293,260 million and ₩339,089 million under U.S. GAAP as of December 31, 2010, 2009 and 2008, respectively while the corresponding amounts are recorded as deferred income taxes under Korean GAAP.

Under Korean GAAP, a deferred tax asset is recognized only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and tax loss and credit carryforwards can be utilized. Under U.S. GAAP, deferred tax assets are recognized and then reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

(o) Accounting for Uncertainty in Income Taxes

In July 2006, the FASB issued ASC Subtopic 740-10, Income Taxes Overall (FASB Interpretation No. 48 (FIN 48) Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109,) which set outs a consistent framework to use to determine the appropriate level of liability for unrecognized tax benefits. This interpretation uses a two-step approach wherein a tax benefit is recognized if a position is more likely than not to be sustained based on the tax technical merits upon examination. A recognized tax position is then measured at the largest amount that is greater than 50% likely of being realized. The difference between the benefit recognized for a position in accordance with ASC Subtopic 740-10 (FIN 48) and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit.

For the years ended December 31, 2008, 2009 and 2010, the Company did not have any unrecognized tax benefits and thus, no interest and penalties related to unrecognized tax benefits were accrued. The Company s policy is to record interest and penalties related to unrecognized tax benefits as components of income tax expense in the consolidated statements of income.

The Company s major tax jurisdiction is the Republic of Korea. With few exceptions, the tax year 2010 remain open to tax examination by the local tax authority for POSCO and its Korean subsidiaries.

The Company does not believe that it is reasonably possible that the amount of unrecognized tax benefits will significantly change within 12 months after December 31, 2010.

(p) Extractive Activities Oil and Gas

Under U.S. GAAP, only exploration and development costs that relate directly to specific oil and gas reserves are capitalized; costs that do not relate directly to specific reserves are charged to expense for property, plant, and equipment in the oil and gas industry. Costs of topographical, geological, and geophysical studies, rights of access to properties to conduct those studies, and salaries and other expenses of geologists, geophysical crews, and others conducting those studies, which are referred to as geological and geophysical costs, are included in the exploration costs. In addition, geological and geophysical costs incurred in an entity s oil- and gas-producing activities which do not result in acquisition of an asset shall be charged to expense.

Under Korean GAAP, expenditures including the geological and geophysical (G&G) costs are recognized as assets in practice.

The Company follows the successful efforts method of accounting for oil and gas exploration and development expenditures. Under this method, costs of successful exploratory projects and all

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development projects are capitalized. Costs to drill exploratory projects that do not result in proved reserves are expensed.

The following table indicates the changes to the Company s suspended exploratory costs for the three years ended December 31, 2010:

		2010	2009	2008
		(In millions of Korean Won)		
Beginning balance at January 1	₩	11,247	6,637	1,856
Additions to capitalized exploratory costs pending the determination of proved reserves (*1)		76,302	4,610	4,781
Ending balance at December 31	₩	87,549	11,247	6,637

(*1) In 2010, the amounts of Daewoo International s projects after the acquisition date are included.

The following table provides an aging of capitalized costs and the number of projects for which exploratory costs have been capitalized for a period greater than one year since the completion of drilling.

		2010	2009	2008
		(In millions of Korean Won)		
Exploratory costs capitalized for a period of one year or less	₩		10,632	
Exploratory costs capitalized for a period greater than one year		87,549	615	6,637
Balance at December 31	₩	87,549	11,247	6,637
Number of projects with exploratory costs that have been capitalized for a period greater than one year		6	2	1

The tables below contain the aging of these costs on a project basis:

	Amount	Number of projects
	(In millions of Korean Won)	

2007	2008	₩	6,637	1
2009	2010		87,549	5
Total		₩	87,549	6

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(q) Income Taxes and Deferred Income Taxes in accordance with U.S. GAAP

Net income before income tax expense and income tax expense are as follows:

		2010	2009	2008
		(In millions of Korean Won)		
Net income before income tax expense:				
POSCO and domestic subsidiaries	₩	5,217,935	4,236,360	5,496,976
Foreign subsidiaries		287,297	48,777	131,135
		5,505,232	4,285,137	5,628,111
Current:				
POSCO and domestic subsidiaries	₩	1,034,754	540,138	2,035,904
Foreign subsidiaries		104,331	36,165	145,334
		1,139,085	576,303	2,181,238
Deferred:				
POSCO and domestic subsidiaries	₩	(15,463)	96,182	(635,043)
Foreign subsidiaries		5,060	3,841	(1,898)
		(10,403)	100,023	(636,941)
Income tax expense	₩	1,128,682	676,326	1,544,297

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2010 and 2009 under U.S. GAAP are as follows:

		2010	2009
		(In millions of Korean Won)	
Deferred tax assets:			
Fixed asset revaluation	₩	5,807	7,798
Impairment loss on property, plant and equipment		58,440	40,464
Investment securities		145,798	272,833
Allowance for doubtful accounts		46,580	40,966
Allowance for severance benefits		28,174	5,660
Derivatives		12,977	11,692
Gain/Loss on foreign currency translation		107,184	51,823

Tax credit carryforwards		251,115	303,144
Tax loss carryforwards		244,715	141,269
Adjustment account for conversion rights		22,439	
Others		221,097	47,192
Total gross deferred tax assets		1,144,326	922,841
Less: Valuation allowance		(274,770)	(154,375)
Net deferred tax assets	₩	869,556	768,466

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		2010	2009
		(In millions of Korean Won)	
Deferred tax liabilities:			
Equity in earnings of equity method investments and subsidiaries		756,309	395,300
Reserve for repairs		27,776	39,500
Reserve for technology developments		277,141	184,501
Intangible asset		306,010	
Capitalized repairs			5
Accrued income		1,266	650
Capitalized costs		138,101	105,496
Gain on available-for-sale securities		381,186	238,573
Invested amount of developing natual resources		105,806	
Other		36,418	
Total deferred tax liabilities	₩	2,030,013	964,025
Net deferred tax assets (liabilities)	₩	(1,160,457)	(195,559)

Current and non-current deferred tax assets and deferred tax liabilities as of December 31, 2010 and 2009 are as follows:

		2010	2009
		(In millions of Korean Won)	
Current deferred tax assets	₩	56,208	334,385
Current deferred tax liabilities		4,313	
Non-current deferred tax assets		830,981	208,014
Non-current deferred tax liabilities		2,043,333	737,958

The beginning of the year balance of valuation allowance was increased because of change in circumstances that caused a change in judgment regarding the realization of the related deferred tax assets in future years. Such amounts were ₩274,770 million, ₩154,375 million and ₩104,380 million as of December 31, 2010, 2009 and 2008, respectively, and is primarily attributable to the uncertainty regarding the realization of a portion of tax loss carryfowards and tax credit carryforwards.

In assessing the realization of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred income tax liabilities and projected future taxable income in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred income tax assets are deductible or utilized, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the valuation allowance recorded at December 31, 2010 and 2009. The amount of the deferred income tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

As of December 31, 2010, the Company has available unused tax loss carryforwards of ₩767,007 million and investment tax credit carryforwards of ₩251,115 million. The amounts of tax loss carryforwards will expire if not used by the end of 2011, 2012, 2013, 2014 and 2015 and afterwards are ₩139,341 million, ₩73,638 million, ₩73,650 million, ₩90,716 million and ₩389,662 million, respectively. The amounts of investment tax credit carryforwards will expire if not

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used by the end of 2011, 2012, 2013, 2014 and 2015 and afterwards are ₩589 million, ₩190 million, ₩109 million, ₩51,234 million and ₩198,993 million, respectively.

(r) Comprehensive Income

Under U.S. GAAP, comprehensive income and its components are required to be presented under the provisions of ASC Topic 220, Comprehensive income, (SFAS No. 130), Reporting Comprehensive Income. Comprehensive income includes all changes in equity during the period except those resulting from investments by, or distributions to owners, including certain items not included in the current year s results of operations. Comprehensive income for the years ended December 31, 2010, 2009 and 2008 is summarized as follows:

		2010	2009	2008
		(In millions of Korean Won)		
Net income in accordance with U.S. GAAP	₩	4,376,550	3,608,811	4,083,814
Other comprehensive income, net of tax				
Foreign currency translation adjustments		101,337	(143,163)	501,199
Change in fair value of a derivative instrument			11,342	(7,308)
Unrealized gains (losses) on investments		520,248	562,544	(931,373)
Reclassification adjustment for losses (gains) included in income		(158)	(5,408)	4
Comprehensive income, in accordance with U.S. GAAP	₩	4,997,977	4,034,126	3,646,336
Less: Non-controlling interest		(106,075)	(33,765)	(74,558)
Comprehensive income attributable to controlling interest as adjusted in accordance with U.S. GAAP	₩	4,891,902	4,000,361	3,571,778

Accumulated other comprehensive income, net of tax benefit (expense) as of December 31, 2010, 2009 and 2008 is summarized as follows:

		Foreign Currency Translation Adjustments	Change in Fair Value of a Derivative Instrument	Unrealized Gains (Losses) in Investment Securities	Accumulated Other Comprehensive Income
		(In millions of Korean Won)			
Balance, December 31, 2007	₩	29,523	(4,034)	1,184,990	1,210,479

Foreign currency translation adjustment, net of tax ₩(190,110) million	501,199			501,199
Change in fair value of a derivative instrument, net of tax ₩2,772 million		(7,308)		(7,308)
Unrealized (losses) on investments, net of tax ₩353,279 million			(931,373)	(931,373)
Less: Reclassification adjustment for net realized losses included in income, net of tax ₩(1) million			4	4
Current period change	501,199	(7,308)	(931,369)	(437,478)
Balance, December 31, 2008	530,722	(11,342)	253,621	773,001

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		Foreign Currency Translation Adjustments	Change in Fair Value of a Derivative Instrument	Unrealized Gains (Losses) in Investment Securities	Accumulated Other Comprehensive Income
		(In millions of Korean Won)			
Balance, December 31, 2008	₩	530,722	(11,342)	253,621	773,001
Foreign currency translation adjustment, net of tax ₩48,425 million		(143,163)			(143,163)
Change in fair value of a derivative instrument, net of tax ₩(4,302) million			11,342		11,342
Unrealized gains on investments, net of tax ₩(213,509) million				562,544	562,544
Less: Reclassification adjustment for net realized losses included in income, net of tax ₩2,051 million				(5,408)	(5,408)
Current period change		(143,163)	11,342	557,136	425,315
Balance, December 31, 2009		387,559		810,757	1,198,316
Balance, December 31, 2009	₩	387,559		810,757	1,198,316
Foreign currency translation adjustment, net of tax ₩(42,701) million		101,337			101,337
Unrealized gains on investments, net of tax ₩(36,398) million				520,248	520,248
Less: Reclassification adjustment for net realized losses included in income, net of tax ₩45 million				(158)	(158)
Current period change		101,337		520,090	621,427
Balance, December 31, 2010	₩	488,896		1,330,847	1,819,743

(s) Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

(i) Cash and cash equivalents, short-term financial instruments, trading securities, trade accounts and notes receivable, loans receivable, trade accounts and notes payable, and short-term borrowings

The carrying amount approximates fair value due to the short-term nature of those instruments.

(ii) Investment securities

The fair value of market-traded investments such as listed company s stocks, public bonds and other marketable securities are based on quoted market prices for those investments.

(iii) Derivative financial instruments

All derivatives are recognized on the consolidated balance sheets at fair value based on quoted market prices, dealer or counterparty quotes, where available. If quoted market prices are not available, pricing or valuation models are applied to current market information to estimate fair value.

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(iv) Long-term loans and trade accounts and notes receivable

Long-term loans and trade accounts and notes receivable are reported net of specific and general provisions for impairment as well as present value discount factor. As a result, the fair values of long-term loans and trade accounts and notes receivable approximate their carrying values.

(v) Long-term debts

The fair value of long-term debts is based on quoted market prices, where available. The fair value of convertible bonds was determined based on quoted market prices in Singapore Stock Exchange. For those notes where quoted market prices are not obtainable, a discounted cash flow model is used based on the current rates for issues with similar maturities.

The estimated fair values of the Company s financial instruments stated under U.S. GAAP as of December 31, 2010 and 2009 are summarized as follows:

	2010				2009	
		Carrying Amount		Fair Value	Carrying Amount	Fair Value
	(In millions of Korean Won)					
Cash and cash equivalents	₩	3,598,822	₩	3,598,822	2,196,731	2,196,731
Short-term financial instruments		2,954,351		2,954,351	5,820,447	5,820,447
Trading securities		183,953		183,953	505,811	505,811
Trade accounts and notes receivable and others		9,107,263		9,107,263	5,874,364	5,874,364
Investments Securities, including current portion						
Marketable securities		4,944,184		4,944,184	3,973,531	3,973,531
Other investment securities		1,279,200		1,279,200		
Not practicable		3,108,302			2,301,347	
Short-term borrowings		7,234,532		7,234,532	3,225,801	3,225,801
Long-term debt, including current portion		14,273,415		14,451,354	9,016,668	9,144,532

(t) Fair Value of Assets and Liabilities

The Company s financial assets and liabilities are valued utilizing the market approach to measure fair value. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. ASC Topic 820, Fair Value Measurements and Disclosures (SFAS 157, Fair value measurements), describes a fair value hierarchy based on three levels of inputs that may be used to measure fair value which are the following:

Level 1 Quoted prices in active exchange markets involving identical assets or liabilities.

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs for the asset or liability, either directly or indirectly, and management assessments and inputs using a binomial lattice model as the valuation technique.

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The following table summarizes the Company s financial assets and liabilities measured at fair value on a recurring basis in accordance with FAS 157 as of December 31, 2010:

	Level 1	Level 2	Level 3	Total
		(In millions of Korean Won)		
Assets				
Trading securities	₩ 183,953	₩	₩	₩ 183,953
Investments Securities	4,944,184			4,944,184
Derivatives		139,462		139,462
Equity method investments		1,279,200		1,279,200
Liabilities				
Derivatives		100,497		100,497
Convertible Bonds	447,308			447,308

(u) Classification Differences in the Consolidated Statements of Income

Certain income and expense items in the Company s consolidated statements of income including: (i) gains and losses on disposal of property, plant and equipment; (ii) impairment of property, plant and equipment; (iii) gains on recovery of allowance for doubtful accounts; (iv) other bad debt expenses; (v) reversal of stock compensation expense; (vi) donations; (vii) impairment of intangible assets; (viii) and provision for early retirement benefits have been classified as non-operating under Korean GAAP and excluded from the determination of operating income. Under U.S. GAAP, the above noted income and expense items would be included in the determination of operating income. After reclassification of those items, operating income under U.S. GAAP would be ₩5,510,252 million and ₩3,664,219 million and ₩7,092,851 million for the years ended December 31, 2010, 2009 and 2008, respectively.

(v) Consolidated Statement of Cash Flows

Under both Korean GAAP and U.S. GAAP, cash flows are classified under operating activities, investing activities and financing activities.

Under U.S. GAAP, cash flows related to purchases and sales of trading securities and payments and collections of guarantee deposits are classified as cash flows from operating activities. However, under Korean GAAP, they are classified as cash flows from investing activities. Net cash flows from purchases and sales of trading securities and payments and collections of guarantee deposits are ₩270,506 million, ₩777,847 million and ₩(55,125) million for the years ended December 31, 2010, 2009 and 2008, respectively.

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Components of Others Financing Activities

Others financing activities disclosed within the Korean GAAP Consolidated Statements of cash flows are comprised of the following:

		2010	2009	2008
		(In millions of Korean Won)		
Dividends paid by subsidiaries	₩	(20,660)	(16,915)	(21,936)
Issuance of new shares by subsidiaries		328,708	58,593	71,448
Additional acquisition of interest of subsidiaries (*)		(20,076)	(117,458)	(302,319)
Proceeds from disposal of interest of subsidiaries				
Government grants received		3,236	3,031	
Total	₩	291,208	(72,749)	(252,807)

(*) Additional acquisition of non-controlling interests in a subsidiary is classified as investing activities under U.S. GAAP, while it is required to be classified as financing activities under Korean GAAP.

(w) Significant Risks and Uncertainties

Recent difficulties affecting global financial sectors, adverse conditions and volatility in worldwide credit and financial markets and general weakness of global economy have increased the uncertainty of global economic prospects in general and have adversely affected the global and Korean economies. Accordingly, the conditions of major Korean steel consuming industries, such as automobile and shipbuilding and construction, could have adverse effect on the Company s results of operation as domestic sales are approximately 51% of total sales of the Company.

Also, fluctuation of foreign exchange rate on foreign currency denominated liabilities of the Company, such as debentures and long-term borrowings, could affect the financial condition and results of operation of the Company.

(x) Additional Segment Information and Enterprise-Wide Information

The segment information that is compiled for Korean GAAP purposes is also used by the Company s chief operating decision maker. Therefore, there is no difference between Korean GAAP and the management approach under U.S. GAAP with respect to how the Company has identified its operating segments and measures segment results and assets for U.S. GAAP reporting purposes. While segment assets include all long-lived assets and investments in equity method investees, the determination of segment operating income does not include impairment charges for these assets nor does it include the equity in the earnings (losses) of equity method investees.

A substantial portion of the Company s consolidated sales is from the production of steel products, which consists of hot rolled products, plates, wire rods, cold rolled products, silicon steel sheets, stainless steel products and others. The Company does not maintain consolidated sales information of each steel product line category.

(y) Recently adopted U.S. GAAP

In December 2007, the FASB issued ASC Topic 805, Business Combinations, (SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R)). ASC Topic 805 establishes principles and requirements for how the acquirer in business combinations should recognize and measure identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree.

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ASC Topic 805 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. There were no significant business combinations during 2009. The provisions of ASC Topic 805 were applied to the Company s acquisition of Daewoo International. See Note 32(f).

(z) Subsequent Events

On March 11, 2011, the northeast coast of Japan experienced a severe earthquake followed by a tsunami, with continuing aftershocks. These geological events have caused significant damage in the region, including severe damage to nuclear power plants, and have impacted Japan s power and other infrastructure. The total assets of the Company s Japanese subsidiaries are not significant and management is not aware of any physical property damage there. A number of suppliers of the Company s manufacturing equipment are located in Japan. Some of these suppliers were affected by the March 2011 earthquake and tsunami and some continue to be affected by unreliable power, shipping constraints and issues with their suppliers.

The Company s major Japanese customer accounted for approximately 2.49% of the Company s consolidated total sales for the year ended December 31, 2010. Management has been informed that this customer has not experienced any significant physical property damage or production disruptions to date. Management continues to monitor the situation and Company s potential exposure.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

POSCO
(Registrant)

/s/ Chung, Joon-Yang

Name: Chung, Joon-Yang
Title: Chief Executive Officer and Representative Director
Date: June 24, 2011

Exhibit Index

1.1	Articles of incorporation of POSCO (English translation)
2.1	Form of Common Stock Certificate (including English translation) (incorporated by reference to Exhibit 4.3 to the Registrant s Registration Statement No. 33-81554)*
2.2	Form of Deposit Agreement (including Form of American Depositary Receipts) (incorporated by reference to the Registrant s Registration Statement (File No. 33-84318) on Form F-6)*
2.3	Letter from ADR Depositary to the Registrant relating to the Pre-release of American Depositary Receipts (incorporated by reference to the Registrant s Registration Statement (File No. 33-84318) on Form F-6)*
8.1	List of consolidated subsidiaries
12.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed previously