POSCO
Form 20-F
April 29, 2013
Table of Contents

As filed with the Securities and Exchange Commission on April 29, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2012

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report ______

For the transition period from ______ to ______

Commission file number 1-13368

POSCO

(Exact name of Registrant as specified in its charter)

POSCO	**The Republic of Korea**
(Translation of Registrant s name into English)	*(Jurisdiction of incorporation or organization)*

POSCO Center, 892 Daechi-4-dong, Gangnam-gu

Seoul, Korea 135-777

(Address of principal executive offices)

Lee, Sang Gyun

POSCO Center, 892 Daechi-4-dong, Gangnam-gu,

Seoul, Korea 135-777

Telephone: +82-2-3457-1085; E-mail: sg.lee@posco.com; Facsimile: +82-2-3457-1982 *(Name, telephone, e-mail and/or facsimile number and address of company contact person)*

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of Each Class	Name of Each Exchange on Which Registered
American Depositary Shares, each representing one-fourth of one share of common stock	New York Stock Exchange, Inc.
Common Stock, par value Won 5,000 per share *	New York Stock Exchange, Inc. *

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

As of December 31, 2012, there were 77,244,244 shares of common stock, par value Won 5,000 per share, outstanding (not including 9,942,391 shares of common stock held by the company as treasury shares)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. **Yes** x **No** ¨

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. **Yes** ¨ **No** x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes** x **No** ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **Yes** ¨ **No** ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x **Accelerated filer** ¨ **Non-accelerated filer** ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing. **U.S. GAAP** ¨ **IFRS** x **Other** ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. **Item 17** ¨ **Item 18** ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). **Yes** ¨ **No** x

* Not for trading, but only in connection with the registration of the American Depositary Shares.

Table of Contents

TABLE OF CONTENTS

Table of Contents

Table of Contents

GLOSSARY

ADR	American Depositary Receipt evidencing ADSs.
ADR depositary	The Bank of New York Mellon.
ADS	American Depositary Share representing one-fourth of one share of Common Stock.
Australian Dollar or A$	The currency of the Commonwealth of Australia.
Commercial Code	Commercial Code of the Republic of Korea.
common stock	Common stock, par value Won 5,000 per share, of POSCO.
deposit agreement	Deposit Agreement, dated as of September 26, 1994, among POSCO, the ADR Depositary and all holders and beneficial owners from time to time of ADRs issued thereunder, as amended by amendment no. 1 thereto dated June 25, 1997.
Dollars, $ or US$	The currency of the United States of America.
FSCMA	Financial Investment Services and Capital Markets Act of the Republic of Korea.
Government	The government of the Republic of Korea.
IASB	International Accounting Standards Board.
IFRS	International Financial Reporting Standards.
Yen or JPY	The currency of Japan.
Korea	The Republic of Korea.
Korean GAAP	Generally accepted accounting principles in the Republic of Korea.
Gwangyang Works	Gwangyang Steel Works.
We	POSCO and its consolidated subsidiaries.
Pohang Works	Pohang Steel Works.
POSCO Group	POSCO and its consolidated subsidiaries.
Renminbi	The currency of the People s Republic of China.
Securities Act	The United States Securities Act of 1933, as amended.
Securities Exchange Act	The United States Securities Exchange Act of 1934, as amended.
SEC	The United States Securities and Exchange Commission.
tons	Metric tons (1,000 kilograms), equal to 2,204.6 pounds.
U.S. GAAP	Generally accepted accounting principles in the United States of America.
Won or	The currency of the Republic of Korea.

Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

Table of Contents

PART I

Item 1. ***Identity of Directors, Senior Managers and Advisers***

Item 1.A. ***Directors and Senior Management***

Not applicable

Item 1.B. ***Advisers***

Not applicable

Item 1.C. ***Auditors***

Not applicable

Item 2. ***Offer Statistics and Expected Timetable***

Not applicable

Item 2.A. ***Offer Statistics***

Not applicable

Item 2.B. ***Method and Expected Timetable***

Not applicable

Item 3. ***Key Information***

Item 3.A. ***Selected Financial Data***

The selected financial data presented below should be read in conjunction with our Consolidated Financial Statements and related notes thereto and Item 5. Operating and Financial Review and Prospects included elsewhere in this annual report. The selected financial data in Won as of December 31, 2010, 2011, and 2012 and for each of the years in the three-year period ended December 31, 2012 were derived from our Consolidated Financial Statements included elsewhere in this annual report. Our Consolidated Financial Statements are prepared in accordance with IFRS as issued by the IASB.

In addition to preparing financial statements in accordance with IFRS as issued by the IASB included in this annual report, we also prepare financial statements in accordance with Korean International Financial Reporting Standards (K-IFRS) as adopted by the Korean Accounting Standards Board (the KASB), which we are required to file with the Financial Services Commission and the Korea Exchange under the Financial Investment Services and Capital Markets Act of Korea. English translations of such financial statements are furnished to the Securities and Exchange Commission under Form 6-K. Beginning with our financial statements prepared in accordance with K-IFRS as of and for the year ended December 31, 2012, we are required to adopt certain amendments to K-IFRS No. 1001, Presentation of Financial Statements, as adopted by the KASB in 2012, pursuant to which we present operating profit or loss as an amount of revenue less cost of sales and selling and administrative expenses. In our consolidated statements of comprehensive income prepared in accordance with IFRS as issued by the IASB included in this annual report, such changes in presentation were not adopted. See Item 5.a. Operating Results Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS.

Table of Contents

The information set forth below is not necessarily indicative of the results of future operations and should be read in conjunction with Item 5. Operating and Financial Review and Prospects and our consolidated financial statements and related notes included in this annual report.

	For the Year Ended December 31,			
	2010	2011	2012	2012
	(In billions of Won and millions of Dollars, except per share data)			
Revenue [1]	47,887	68,939	63,604	US$ 59,382
Cost of sales [2]	39,722	59,824	56,143	52,416
Gross profit	8,165	9,115	7,461	6,966
Administrative expenses	1,492	2,035	2,129	1,988
Selling expenses	1,120	1,612	1,679	1,568
Other operating income	223	307	448	418
Other operating expenses	342	367	809	755
Operating profit	5,434	5,408	3,292	3,073
Share of profit (loss) of equity-accounted investees	183	51	(23)	(21)
Finance income	1,739	3,190	2,897	2,705
Finance costs	2,088	3,867	2,798	2,612
Profit before income tax	5,267	4,782	3,368	3,144
Income tax expense	1,081	1,068	983	918
Profit for the period	4,186	3,714	2,386	2,227
Total comprehensive income for the period	4,765	2,442	1,748	1,632
Profit (loss) for the period attributable to:				
Owners of the controlling company	4,106	3,648	2,462	2,298
Non-controlling interests	80	66	(76)	(71)
Total comprehensive income (loss) attributable to:				
Owners of the controlling company	4,640	2,530	1,912	1,785
Non-controlling interests	126	(88)	(164)	(153)
Basic and diluted earnings per share [3]	53,297	47,224	31,874	29,758
Dividends per share of common stock	10,000	10,000	8,000	
Dividends per share of common stock (in Dollars) [4]	US$ 8.78	US$ 8.67	US$ 7.47	

Selected consolidated statements of financial position data

	As of December 31,			
	2010	2011	2012	2012
	(In billions of Won and millions of Dollars)			
Working capital [5]	9,395	13,952	11,791	US$ 11,008
Total current assets	27,672	33,557	31,566	29,471
Property, plant and equipment, net	25,438	28,453	32,276	30,134
Total non-current assets	41,746	44,852	47,700	44,534
Total assets	69,418	78,409	79,266	74,004
Short-term borrowings and current installments of long-term borrowings	10,476	10,792	10,509	9,812
Long-term borrowings, excluding current installments	10,664	16,020	14,412	13,455
Total liabilities	30,881	37,679	36,836	34,391
Share capital	482	482	482	450
Total equity	38,537	40,730	42,429	39,613

Table of Contents

Selected consolidated statements of cash flows data

	For the Year Ended December 31,			
	2010	2011	2012	2012
	(In billions of Won and millions of Dollars)			
Net cash provided by operating activities	3,582	1,692	7,319	US$ 6,833
Net cash used in investing activities	(6,915)	(5,517)	(6,169)	(5,759)
Net cash provided by (used in) financing activities	4,588	4,900	(908)	(848)
Net increase in cash and cash equivalents	1,248	1,078	82	77
Cash and cash equivalents at beginning of the year	2,273	3,521	4,599	4,294
Cash and cash equivalents at end of the year	3,521	4,599	4,681	4,370

(1) Includes sales by our consolidated subsidiaries of steel products purchased by such subsidiaries from third parties, including trading companies to which we sell steel products.

(2) Includes purchases of steel products by our consolidated subsidiaries from third parties, including trading companies to which we sell steel products.

(3) See Note 31 of Notes to Consolidated Financial Statements for method of calculation. The weighted average number of common shares outstanding used to calculate basic and diluted earnings per share was 77,032,878 shares as of December 31, 2010, 77,251,818 shares as of December 31, 2011 and 77,244,444 shares as of December 31, 2012.

(4) Translated into Dollars by applying the exchange rate at the end of the applicable year as announced by Seoul Money Brokerage Services, Ltd.

(5) Working capital means current assets minus current liabilities.

EXCHANGE RATE INFORMATION

The following table sets out information concerning the market average exchange rate for the periods and dates indicated.

Period	At End of Period	Average Rate (1)	High	Low
		(Per US$1.00)		
2008	1,257.5	1,102.6	1,509.0	934.5
2009	1,167.6	1,276.4	1,573.6	1,152.8
2010	1,138.9	1,156.3	1,261.5	1,104.0
2011	1,153.3	1,108.1	1,199.5	1,049.5
2012	1,071.1	1,126.9	1,181.8	1,071.1
October	1,094.1	1,106.9	1,115.4	1,094.1
November	1,084.7	1,087.5	1,091.7	1,083.0
December	1,071.1	1,077.0	1,083.7	1,071.1
2013 (through April 26)	1,113.9	1,093.7	1,138.9	1,055.4
January	1,082.7	1,065.4	1,088.0	1,055.4
February	1,085.4	1,086.7	1,094.2	1,077.8
March	1,112.1	1,102.2	1,117.5	1,081.9
April (through April 26)	1,113.9	1,123.2	1,138.9	1,112.5

Source: Seoul Money Brokerage Services, Ltd.

(1) The average rate for each year is calculated as the average of the market average exchange rates on the last business day of each month during the relevant year (or portion thereof). The average rate for a month is calculated as the average of the market average exchange rates on each business day during the relevant month (or portion thereof).

Item 3.B. ***Capitalization and Indebtedness***

Not applicable

Item 3.C. ***Reasons for Offer and Use of Proceeds***

Not applicable

Table of Contents

Item 3.D. ***Risk Factors***

You should carefully consider the risks described below.

The global economic downturn may adversely affect our business and performance. While the rate of deterioration of the global economy slowed in the second half of 2009 and the global economy showed some signs of stabilization and improvement in recent years, there can be no assurance that such recovery will continue.

Difficulties affecting the European Union and global financial sectors, adverse conditions and volatility in the European Union and worldwide credit and financial markets, fluctuations in oil and commodity prices and the general weakness of the European Union and global economy have increased the uncertainty of global economic prospects in general and have adversely affected the global and Korean economies. The global economic downturn in recent years had a pronounced negative effect on the global demand for steel products and their prices in 2008 and 2009. In addition, the level of trading activities between Korea and other countries tends to fluctuate based on general conditions in the Korean and global economies. While the rate of deterioration of the global economy slowed in the second half of 2009 and the global economy showed some signs of stabilization and improvement in recent years, the overall prospects for the Korean and global economy in 2013 and beyond remain uncertain.

In response to sluggish demand from our customers in industries adversely impacted by the deteriorating global economic conditions in the second half of 2008, such as the 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. Our crude steel production decreased from 34.7 million tons in 2008 to 31.1 million tons in 2009, but rebounded to 35.4 million tons in 2010, 39.1 million tons in 2011 and 39.7 million tons in 2012. Prices of our steel products gradually recovered starting in the third quarter of 2009, but our export prices fell substantially in the second half of 2011 and decreased further in 2012 due to uncertainties in the global economy caused by financial difficulties affecting European countries including Greece, Spain, Portugal and Italy. Our domestic sales prices remained relatively stable in the second half of 2011 but decreased in 2012.

We believe that global demand for steel products will remain relatively weak in 2013, and we plan to decrease our steel production to approximately 37 million tons in 2013. We may decide to further adjust our future crude steel production or our 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. In addition, economic downturns in the Korean and global economies could result in market conditions characterized by weaker demand and falling prices for export and import products and reduced trade levels. Deterioration of market conditions may result in changes in assumptions underlying the carrying value of certain assets, which in turn could result in impairment of such assets, including intangible assets such as goodwill. We expect fluctuation in demand for our steel products and trading services to continue to prevail at least in the near future, which may adversely affect our business, results of operations or financial condition.

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.

We are incorporated in Korea, and a substantial portion of our operations and assets are located in Korea. Korea is our most important market, accounting for 52.0% of our total revenue from steel products produced and sold by us in 2012. Domestic demand for our products is affected by the

Table of Contents

condition of major steel consuming industries, such as construction, shipbuilding, automotive, electrical appliances and downstream steel processors, and the Korean economy in general. In addition, the trading operations of Daewoo International Corporation (Daewoo International), our consolidated subsidiary in which we hold a 60.3% interest, are affected by the general level of trade between Korea and other countries, which in turn tends to fluctuate based on general conditions in the Korean and global economies. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea.

The economic indicators in Korea in recent years have shown mixed signs, and future growth of the Korean economy is subject to many factors beyond our control, including developments in the global economy.

Due to recent liquidity and credit concerns and volatility in the global financial markets, the value of the Won relative to the Dollar and the stock prices of Korean companies have fluctuated significantly in recent years. In particular, there has been increased volatility following the downgrading by Standard & Poor s Rating Services of the long-term sovereign credit rating of the United States to AA+ from AAA in August 2011 as well as increasing financial difficulties affecting European countries including Greece, Spain, Portugal and Italy, and the overall prospects for the Korean and global economies in 2013 and beyond remain uncertain. Any future deterioration of the Korean and global economies could adversely affect our business, results of operations and financial condition.

Developments that could have an adverse impact on Korea s economy include:

- difficulties in the financial sectors in Europe and elsewhere and increased sovereign default risks in select countries and the resulting adverse effects on the global financial markets;

- declines in consumer confidence and a slowdown in consumer spending;

- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the Dollar, the Euro or the Yen exchange rates or revaluation of the Renminbi), interest rates, inflation rates or stock markets;

- continuing adverse conditions in the economies of countries and regions that are important export markets for Korea, such as the United States, Europe, Japan and China, or in emerging market economies in Asia or elsewhere;

- increasing delinquencies and credit defaults by retail and small- and medium-sized enterprise borrowers;

- the continued emergence of the Chinese economy, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and the relocation of the manufacturing base from Korea to China);

- the economic impact of any pending or future free trade agreements;

- social and labor unrest;

- substantial decreases in the market prices of Korean real estate;

a decrease in tax revenues and a substantial increase in the Government s expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that, together, would lead to an increased government budget deficit;

financial problems or lack of progress in the restructuring of Korean conglomerates, other large troubled companies, their suppliers or the financial sector;

loss of investor confidence arising from corporate accounting irregularities and corporate governance issues concerning certain Korean conglomerates;

6

Table of Contents

- geo-political uncertainty and risk of further attacks by terrorist groups around the world;
- the occurrence of severe health epidemics in Korea and other parts of the world;
- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from trade disputes or disagreements in foreign policy;
- political uncertainty or increasing strife among or within political parties in Korea;
- hostilities or political or social tensions involving oil producing countries in the Middle East and North Africa and any material disruption in the global supply of oil or increase in the price of oil;
- the occurrence of severe earthquakes, tsunamis and other natural disasters in Korea and other parts of the world, particularly in trading partners (such as the March 2011 earthquake in Japan, which also resulted in the release of radioactive materials from a nuclear plant that had been damaged by the earthquake); and
- an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States.

We rely on export sales for a significant portion of our total sales. Adverse economic and financial developments in Asia in the future may have an adverse effect on demand for our products in Asia and increase our foreign exchange risks.

Our export sales and overseas sales to customers abroad accounted for 48.0% of our total revenue from steel products produced and sold by us in 2012. Our export sales volume to customers in Asia, including China, Japan, Indonesia, Thailand and Malaysia, accounted for 69.7% of our total export sales revenue from steel products produced and exported by us in 2012, and we expect our sales to these countries, especially to China, to remain important in the future. Accordingly, adverse economic and financial developments in these countries may have an adverse effect on demand for our products. Economic weakness in Asia may also adversely affect our sales to the Korean companies that export to the region, especially companies in the construction, shipbuilding, automotive, electrical appliances and downstream steel processing industries. Weaker demand in these countries, combined with addition of new steel production capacity, particularly in China, may also reduce export prices in Dollar terms of our principal products. We attempt to maintain and expand our export sales to generate foreign currency receipts to cover our foreign currency purchases and debt service requirements. Consequently, any decrease in our export sales could also increase our foreign exchange risks.

Depreciation of the value of the Won against the Dollar and other major foreign currencies may have a material adverse effect on the results of our operations and on the price of the ADSs.

Our consolidated financial statements are prepared from our local currency denominated financial results, assets and liabilities and our subsidiaries around the world, which are then translated into Won. A substantial proportion of our consolidated financial results is accounted for in currencies other than the Won. Accordingly, our consolidated financial results and assets and liabilities may be materially affected by changes in the exchange rates of foreign currencies. In 2012, 48.0% of our total revenue from steel products produced and sold by us was in overseas markets outside of Korea. To the extent that we incur costs in one currency and make sales in another, our profit margins may be affected by changes in the exchange rates between the two currencies. Since the currency in which sales are recorded may not be the same as the currency in which expenses are incurred, foreign exchange rate fluctuations may materially affect our results of operations. 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;

Table of Contents

- 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 primarily in Dollars; and

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

Appreciation of the Won against major currencies, on the other hand, causes:

- our export products to be less competitive by raising our prices in Dollar, Yen and Renminbi terms; and

- a reduction in net sales and accounts receivables in Won from export sales, which are primarily denominated in Dollars and to a lesser extent in Yen and Renminbi.

We strive to naturally offset our foreign exchange risk by matching foreign currency receivables with our foreign currency payables and our overseas subsidiaries have sought to further mitigate the adverse impact of exchange rate fluctuations by conducting business transactions in the local currency of the respective market in which the transactions occur. In particular, Daewoo International s exposure to fluctuations in exchange rates, including the Won/Dollar exchange rate, is limited because trading transactions typically involve matched purchase and sale contracts, which result in limited settlement exposure, and because Daewoo International s contracts with domestic suppliers of products for export and with domestic purchasers of imported products are generally denominated in Dollars. Although the impact of exchange rate fluctuations is partially mitigated by such strategies, we and our subsidiaries, particularly Daewoo International and POSCO Engineering & Construction Co., Ltd. (POSCO E&C) also periodically enter into derivative contracts, primarily foreign currency swaps and forward exchange contracts, to further hedge our foreign exchange risks. However, our results of operations have historically been affected by exchange rate fluctuations and there can be no assurance that such strategies will be sufficient to reduce or eliminate the adverse impact of such fluctuations in the future. 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), depreciation of the Won generally has a negative impact on our results of operations.

Fluctuations in the exchange rate between the Won and the Dollar will also affect the Dollar equivalent of the Won price of the shares of our common stock on the KRX KOSPI Market and, as a result, will likely affect the market price of the ADSs. These fluctuations will also affect the Dollar conversion by the depositary for the ADRs of cash dividends, if any, paid in Won on shares of common stock represented by the ADSs.

We are dependent on imported raw materials, and significant increases in market prices of essential raw materials could adversely affect our margins and profits.

We purchase substantially all of the principal raw materials we use from sources outside Korea, including iron ore and coal. POSCO imported approximately 51.0 million dry metric tons of iron ore and 27.4 million wet metric tons of coal in 2012. Iron ore is imported primarily from Australia, Brazil and South Africa. Coal is imported primarily from Australia, Canada and the United States. Although we have not experienced significant unanticipated supply disruptions in the past, supply disruptions, which could be caused by political or other events in the countries from which we import these materials, could adversely affect our operations.

In addition, we are particularly exposed to increases in the prices of coal, iron ore and nickel, which represent the largest components of our cost of goods sold. The prices of our key raw materials have fluctuated significantly in recent years. For example, the average market price of coal per wet metric ton (benchmark free on board price of Australian premium hard coking coal) was US$191 in 2010, US$289 in 2011 and US$209 in 2012. The average market price of iron ore per dry metric ton

Table of Contents

(free on board price of Platts Iron Ore index with iron (Fe) 62% content) was US$135 in 2010, US$160 in 2011 and US$122 in 2012. Our long-term supply contracts generally have terms of three to ten years and provide for periodic price adjustments to the then-market prices. We typically adjust the prices on a quarterly basis and maintain approximately one month of inventory of raw materials. 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 price formula that reflects the spot market price as well as the quality of iron ore and transportation expense. As of December 31, 2012, 217 million tons of iron ore and 27 million tons of coal remained to be purchased under long-term supply contracts. Future 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. Increased prices may also cause potential customers to defer purchase of steel products, which would have an adverse effect on our business, financial condition and results of operations.

We operate in the highly competitive steel, trading and constructing industries, and our failure to successfully compete would adversely affect our market position and business.

Steel. The markets for our steel products are highly competitive and we face intense global competition. In recent years, driven in part by strong growth in steel consumption in the developing world, particularly in China, the global steel industry has experienced renewed interest in expansion of steel production capacity. China is the largest steel producing country in the world by a significant margin, with the balance between its domestic production and demand being an important factor in the determination of global steel prices. In addition, the global steel industry has experienced consolidation in recent years, including through the merger of Mittal and Arcelor in 2006 that created a company with approximately 10% of global steel production capacity. Competition from global steel manufacturers with expanded production capacity such as ArcelorMittal S.A. and new market entrants, especially from China and India, have resulted in significant price competition and may result in declining margins and reductions in revenue. Our larger competitors may use their resources, which may be greater than ours, against us in a variety of ways, including by making additional acquisitions, investing more aggressively in product development and capacity and displacing demand for our export products.

The increased production capacity, combined with a decrease in demand due to the recent slowdown of the global economy, has resulted in production over-capacity in the global steel industry. Production over-capacity in the global steel industry may intensify if the slowdown of the global economy is prolonged or demand from developing countries that have experienced significant growth in the past several years does not meet the recent growth in production capacity. Production over-capacity in the global steel industry is likely to:

- reduce export prices in Dollar terms of our principal products, which in turn may reduce our sales prices in Korea;
- increase competition in the Korean market as foreign producers seek to export steel products to Korea as other markets experience a slowdown;
- negatively affect demand for our products abroad and our ability to expand export sales; and
- affect our ability to increase steel production in general.

Steel also competes with other natural and synthetic materials that may be used as steel substitutes, such as aluminum, cement, composites, glass, plastic and wood. Government regulatory

Table of Contents

initiatives mandating the use of such materials instead of steel, whether for environmental or other reasons, as well as the development of attractive alternative substitutes for steel products, may reduce demand for steel products and increase competition in the global steel industry.

As part of our strategy to compete in this challenging landscape, we will continue to invest in developing innovative products that offer the greatest potential returns and enhance the overall quality of our products, as well as make additional investments in the development of new manufacturing technologies. However, there is no assurance that we will be able to continue to compete successfully in this economic environment or that the prolonged slowdown of the global economy or production over-capacity will not have a material adverse effect on our business, results of operations or financial condition.

Trading. Daewoo International competes principally with six other Korean general trading companies, each of which is affiliated with a major domestic business group, as well as global trading companies based in other countries. In the domestic market, competition for export transactions on behalf of domestic suppliers and import transactions on behalf of domestic purchasers was limited, as most affiliated general trading companies of large Korean business groups generally relied on affiliate transactions for the bulk of their trading business. However, in recent years, many of these Korean general trading companies have reduced their reliance on their affiliated business group and transactions carried out on behalf of their member companies and instead have generally evolved to focus on segments of the import and export markets in which they have a competitive advantage. As a result, competition among Korean general trading companies in the area of traditional trade has become more intense.

The overseas trading markets in which Daewoo International operates are also highly competitive. Daewoo International s principal competitors in the overseas trading markets include Korean trading companies that operate in various international markets, as well as foreign trading companies, particularly those based in Japan. As Daewoo International diversifies into businesses other than traditional trading such as natural resources development, it also increasingly competes with other Korean and international companies involved in these businesses. Some of Daewoo International s competitors may be more experienced and have greater financial resources and pricing flexibility than Daewoo International, as well as more extensive global networks and wider access to customers. There is no assurance that Daewoo International will be able to continue to compete successfully in this economic environment or that the prolonged slowdown of the global economy will not have a material adverse effect on its business, results of operations or financial condition.

Construction. POSCO E&C, our consolidated subsidiary in which we hold an 89.5% interest, operates in the highly competitive construction industry. Competition is based primarily on price, reputation for quality, reliability, punctuality and financial strength of contractors. Intense competition among construction companies may result in, among other things, a decrease in the price POSCO E&C can charge for its services, difficulty in winning bids for construction projects, an increase in construction costs and difficulty in obtaining high-quality contractors and qualified employees.

In Korea, POSCO E&C s main competition in the construction of residential and non-residential buildings, EPC (or engineering, procurement and construction) projects, urban planning and development projects and civil works projects consists of approximately ten major domestic construction companies, all of which are member companies of other large business groups in Korea and are capable of undertaking larger-scale, higher-value-added projects that offer greater potential returns. A series of measures introduced by the Government over the past few years to regulate housing prices in Korea, as well as an increasing popularity of low-bid contracts in civil works project mandates, have contributed to increased competition in the Korean construction industry in recent years.

Competition for new project awards in overseas markets is also intense. In these markets, POSCO E&C faces competition from local construction companies, as well as international construction companies from other countries, including other major Korean construction companies with overseas operations. Construction companies from developed countries may be more

Table of Contents

experienced, have greater financial resources and possess more sophisticated technology than POSCO E&C, while construction companies from developing countries often have the advantage of lower wage costs. Some of these competitors have achieved higher market penetration than POSCO E&C has in specific markets in which it competes, and POSCO E&C may need to accept lower margins in order for it to compete successfully against them. POSCO E&C s failure to successfully compete in the domestic or overseas construction markets could adversely affect its market position and its results of operations and financial condition.

We may not be able to successfully execute our diversification strategy.

In part to prepare for the eventual maturation of the Korean steel market, our overall strategy includes securing new growth engines by diversifying into new businesses related to our steel operations that we believe will offer greater potential returns, such as participation in EPC projects in the steel sector and natural resources development, as well as entering into new businesses not related to our steel operations such as power generation and alternative energy solutions, production of comprehensive materials such as lithium, silicon, carbon and magnesium, information and technology consulting services, and automation and system integration engineering services. From time to time, we may selectively acquire or invest in companies to pursue such diversification strategy. For example, on September 20, 2010, we acquired a controlling interest in Daewoo International for Won 3.37 trillion. Daewoo International is a global trading company that primarily engages in trading of steel and raw materials as well as investing in energy and mineral development projects. It also manufactures and sells textiles, operates a department store in Korea.

The success of the overall diversification strategy will depend, in part, on our ability to realize the growth opportunities and anticipated synergies. The realization of the anticipated benefits depends on numerous factors, some of which are outside our control, including the availability of qualified personnel, establishment of new relationships and expansion of existing relationships with various customers and suppliers, procurement of necessary technology and know-how to engage in such businesses and access to investment capital at reasonable costs. The realization of the anticipated benefits may be impeded, delayed or reduced as a result of numerous factors, some of which are outside our control. These factors include:

- difficulties in integrating the operations of the acquired business, including information and accounting systems, personnel, policies and procedures, and in reorganizing or reducing overlapping operations, marketing networks and administrative functions, which may require significant amounts of time, financial resources and management attention;

- unforeseen contingent risks or latent liabilities relating to the acquisition that may become apparent in the future;

- difficulties in managing a larger business; and

- loss of key management personnel or customers.

Accordingly, we cannot assure you that our diversification strategy can be completed profitably or that the diversification efforts will not adversely affect our combined business, financial condition and results of operations.

Expansion of our production operations abroad is important to our long-term success, and our limited experience in the operation of our business outside Korea increases the risk that our international expansion efforts will not be successful.

We conduct international trading and construction operations abroad, and our business relies on a global trading network comprised of overseas subsidiaries, branches and representative offices. Although many of our subsidiaries and overseas branches are located in developed countries, we also operate in numerous countries with developing economies. In addition, we intend to continue to expand our steel production operations internationally by carefully seeking out promising investment opportunities, particularly in China, India, Southeast Asia and Latin America, in part to prepare for the eventual maturation of the Korean steel market. We may enter into joint ventures with foreign steel producers that would enable us to rely on these businesses to conduct our operations, establish local networks and coordinate our sales and marketing efforts abroad. To the extent that we enter into these arrangements, our success will depend in part on the willingness of our partner companies to dedicate sufficient resources to their partnership with us.

In other situations, we may decide to establish manufacturing facilities by ourselves instead of relying on partners. The demand and market acceptance for our products produced abroad are subject to a high level of uncertainty and are substantially dependent upon the market condition of the global steel industry. We cannot assure you that our international expansion plan will be profitable or that we can recoup the costs related to such investments.

Expansion of our trading, construction and production operations abroad requires management attention and resources. In addition, we face additional risks associated with our expansion outside Korea, including:

- challenges caused by distance, language and cultural differences;
- higher costs associated with doing business internationally;
- legal and regulatory restrictions, including foreign exchange controls that might prevent us from repatriating cash earned in countries outside Korea;
- longer payment cycles in some countries;
- credit risk and higher levels of payment fraud;
- currency exchange risks;
- potentially adverse tax consequences;
- political and economic instability; and
- seasonal reductions in business activity during the summer months in some countries.

We may from time to time engage in acquisitions for which we may be required to seek additional sources of capital.

From time to time, we may selectively acquire or invest in companies or businesses that may complement our business. In order to finance these acquisitions, we intend to use cash on hand, funds from operations, issuances of equity and debt securities, and, if necessary, financings from banks and other sources as well as entering into consortiums with financial investors. However, no assurance can be given that we will be able to obtain sufficient financing for such acquisitions or investments on terms commercially acceptable to us or at all. We also cannot assure you that such financings and related debt payment obligations will not have a material adverse impact on our financial condition, results of operations or cash flow.

Further increases in, or new impositions of, anti-dumping or countervailing duty proceedings may have an adverse impact on our export sales.

We are subject to a number of anti-dumping duties in India, Russia, Indonesia, Australia and Malaysia and a number of anti-dumping investigations in Brazil, Australia, Thailand, Mexico and Taiwan. Our products that have been subject to anti-dumping or countervailing duty proceedings in the aggregate have not accounted for a material portion of our total sales in recent years. However, there can be no assurance that increases in, or new impositions of, anti-dumping duties, countervailing duties, quotas or tariffs on our exports 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.

We participate in overseas natural resources exploration, development and production projects abroad, which expose us to various risks.

As part of consortia or through acquisitions of minority interests, we engage in overseas natural resources exploration, development and production projects in various locations, including a gas field exploration project in Myanmar, in which Daewoo International had invested approximately Won 1,126 billion as of December 31, 2012 and plans to make substantial further investments in the future. Daewoo International expects to generate revenue from the Myanmar gas field project starting in May 2013. We may also selectively acquire or invest in companies or businesses that engage in such activities. As part of our efforts to diversify our operations, we intend to continue to expand our operations by carefully seeking out promising exploration, development and production opportunities abroad. To the extent that we enter into these arrangements, our success in these endeavors will depend in part on the willingness of our partner companies to dedicate sufficient resources to their partnership with us.

The demand and market acceptance for such activities abroad are subject to a substantially higher level of uncertainty than our traditional steel business and are substantially dependent upon the market condition of the global natural resources industry as well as the political and social environment of the target countries. The performance of projects in which we participate may be adversely affected by the occurrence of military hostility, political unrest or acts of terrorism. In addition, some of our current exploration, development and production projects involve drilling exploratory wells on properties with no proven amount of natural resource reserves. Although all drilling, whether developmental or exploratory, involves risks, exploratory drilling involves greater risks of dry holes or failure to find commercial quantities of natural resources. We have limited experience in this business, and we cannot assure you that our overseas natural resources exploration, development and production projects will be profitable, that we will be able to meet the financing requirements for such projects, or that we can recoup the costs related to such investments, which in turn could materially and adversely affect our business, financial condition and results of operations.

We may encounter problems with joint overseas natural resources exploration, development and production projects and large-scale infrastructure projects, which may materially and adversely affect our business.

In recent years, we have begun to focus increasingly on overseas natural resources exploration, development and production projects. We typically pursue these natural resources exploration, development and production projects jointly with consortium partners or through acquisition of minority interests in such projects, and we expect to be involved in other joint projects in the future. We sometimes hold a majority interest in the projects among the consortium partners, but we often lack a controlling interest in the joint projects. Therefore, we may not be able to require that our joint ventures sell assets or return invested capital, make additional capital contributions or take any other action without the vote of at least a majority of our consortium partners. If there are disagreements between our consortium partners and us regarding the business and operations of the joint projects, we cannot assure you that we will be able to resolve them in a manner that will be in our best interests. Certain major decisions, such as selling a stake in the joint project, may require the consent of all other partners. These limitations may adversely affect our ability to obtain the economic and other benefits we seek from participating in these projects.

In addition, our consortium partners may:

- have economic or business interests or goals that are inconsistent with us;

- take actions contrary to our instructions, requests, policies or objectives;

- be unable or unwilling to fulfill their obligations;
- have financial difficulties; or
- have disputes with us as to their rights, responsibilities and obligations.

Any of these and other factors may have a material adverse effect on the performance of our joint projects and expose us to a number of risks, including the risk that the partners may be incapable of providing the required financial support to the partnerships and the risk that the partners may not be able to fulfill their other obligations, resulting in disputes not only between our partners and us, but also between the joint ventures and their customers. Such a material adverse effect on the performance of our joint projects may in turn materially and adversely affect our business, results of operations and financial condition.

Cyclical fluctuations based on macroeconomic factors may adversely affect POSCO E&C s business and performance.

In order to complement our steel operations, we engage in engineering and construction activities through POSCO E&C, an 89.5%-owned subsidiary. The construction segment, which accounted for approximately 7.4% of our consolidated sales in 2012 after adjusting for inter-company sales, is highly cyclical and tends to fluctuate based on macroeconomic factors, such as consumer confidence and income, employment levels, interest rates, inflation rates, demographic trends and policies of the Government. Although we believe that POSCO E&C s strategy of focusing on high-value-added plant construction and urban planning and development projects such as Songdo New City has enabled it to be exposed to a lesser degree to general economic conditions in Korea in comparison to some of its domestic competitors, our construction revenues have fluctuated in the past depending on the level of domestic construction activity including new construction orders. POSCO E&C s construction operations could suffer in the future in the event of a general downturn in the construction market resulting in weaker demand, which could adversely affect POSCO E&C s business, results of operations or financial condition.

Many of POSCO E&C s domestic and overseas construction projects are on a fixed-price basis, which could result in losses for us in the event that unforeseen additional expenses arise with respect to the project.

Many of POSCO E&C s domestic and overseas construction projects are carried out on a fixed-price basis according to a predetermined timetable, pursuant to the terms of a fixed-price contract. Under such fixed-price contracts, POSCO E&C retains all cost savings on completed contracts but is also liable for the full amount of all cost overruns and may be required to pay damages for late delivery. The pricing of fixed-price contracts is crucial to POSCO E&C s profitability, as is its ability to quantify risks to be borne by it and to provide for contingencies in the contract accordingly.

POSCO E&C attempts to anticipate costs of labor, raw materials, parts and components in its bids on fixed-price contracts. However, the costs incurred and gross profits realized on a fixed-price contract may vary from its estimates due to factors such as:

- unanticipated variations in labor and equipment productivity over the term of a contract;
- unanticipated increases in labor, raw material, parts and components, subcontracting and overhead costs, including as a result of bad weather;
- delivery delays and corrective measures for poor workmanship; and
- errors in estimates and bidding.

If unforeseen additional expenses arise over the course of a construction project, such expenses are usually borne by POSCO E&C, and its profit from the project will be correspondingly

14

reduced or eliminated. If POSCO E&C experiences significant unforeseen additional expenses with respect to its fixed price projects, it may incur losses on such projects, which could have a material adverse effect on its financial condition and results of operations.

POSCO E&C s domestic residential property business is highly dependent on the real estate market in Korea.

The performance of POSCO E&C s domestic residential property business is highly dependent on the general condition of the real estate market in Korea. The construction industry in Korea is experiencing a downturn due to excessive investment in recent years in residential property development projects, stagnation of real property prices and reduced demand for residential property, especially in areas outside of Seoul. In addition, as liquidity and credit concerns and volatility in the global financial markets increased significantly starting in September 2008, there has been a general decline in the willingness by banks and other financial institutions in Korea to engage in project financing and other lending activities to construction companies, which may adversely impact POSCO E&C s ability to meet its desired funding needs. The Government has taken measures to support the Korean construction industry, including easing of regulations imposed on redevelopment of apartment buildings and resale restrictions in the metropolitan areas, as well as reductions in property taxes. Although the Korean real estate market temporarily recovered in the second half of 2009 and into 2010, declines in demand and price took place in the Korean real estate market in 2011 and 2012 due to the downturn of the domestic economic cycle and financial risk in Europe, and the overall prospects for the Korean real estate market in 2013 and beyond remain uncertain.

We are subject to environmental regulations, and our operations could expose us to substantial liabilities.

We are subject to national and local environmental laws and regulations, including increasing pressure to reduce emission of carbon dioxide relating to our manufacturing process, and our steel manufacturing and construction operations could expose us to risk of substantial liability relating to environmental or health and safety issues, such as those resulting from discharge of pollutants and carbon dioxide into the environment, the handling, storage and disposal of solid or hazardous materials or wastes and the investigation and remediation of contaminated sites. We may be responsible for the investigation and remediation of environmental conditions at currently and formerly operated manufacturing or construction sites. We may also be subject to associated liabilities, including liabilities for natural resource damage, third party property damage or personal injury resulting from lawsuits brought by the Government or private litigants. In the course of our operations, hazardous wastes may be generated at third party-owned or operated sites, and hazardous wastes may be disposed of or treated at third party-owned or operated disposal sites. If those sites become contaminated, we could also be held responsible for the cost of investigation and remediation of such sites, for any associated natural resource damage, and for civil or criminal fines or penalties.

Failure to protect our intellectual property rights could impair our competitiveness and harm our business and future prospects.

We believe that developing new steel manufacturing technologies that can be differentiated from those of our competitors, such as FINEX, strip casting and silicon steel manufacturing technologies, is critical to the success of our business. We take active measures to obtain protection of our intellectual property by obtaining patents and undertaking monitoring activities in our major markets. However, we cannot assure you that the measures we are taking will effectively deter competitors from improper use of our proprietary technologies. Our competitors may misappropriate our intellectual property, disputes as to ownership of intellectual property may arise and our intellectual property may otherwise become known or independently developed by our competitors. Any failure to protect our intellectual property could impair our competitiveness and harm our business and future prospects.

Table of Contents

We rely on trade secrets and other unpatented proprietary know-how to maintain our competitive position, and unauthorized disclosure of our trade secrets or other unpatented proprietary know-how could negatively affect our business.

We rely on trade secrets and unpatented proprietary know-how and information. We enter into confidentiality agreements with each of our employees and consultants upon the commencement of an employment or consulting relationship. These agreements generally provide that all inventions, ideas, discoveries, improvements and patentable material made or conceived by the individual arising out of the employment or consulting relationship and all confidential information developed or made known to the individual during the term of the relationship is our exclusive property. We cannot assure the enforceability of these types of agreements, or that they will not be breached. We also cannot be certain that we will have adequate remedies for any breach. The disclosure of our trade secrets or other know-how as a result of such a breach could adversely affect our business.

We face the risk of litigation proceedings relating to infringement of intellectual property rights of third parties, which, if determined adversely to us, could cause us to lose significant rights, pay significant damage awards or suspend the sale of certain products.

Our success depends largely on our ability to develop and use our technology and know-how in a proprietary manner without infringing the intellectual property rights of third parties. The validity and scope of claims relating to technology and patents involve complex scientific, legal and factual questions and analysis and, therefore, may be highly uncertain. In addition, because patent applications in many jurisdictions are kept confidential for an extended period before they are published, we may be unaware of other persons pending patent applications that relate to our products or manufacturing processes. Accordingly, we face the risk of litigation proceedings relating to infringement of intellectual property rights of third parties. See Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings.

The plaintiffs in actions relating to infringement of intellectual property rights typically seek injunctions and substantial damages. Although patent and other intellectual property disputes are often settled through licensing or similar arrangements, there can be no assurance that such licenses can be obtained on acceptable terms or at all. Accordingly, regardless of the scope or validity of disputed patents or the merits of any patent infringement claims by potential or actual litigants, we may have to engage in protracted litigation. The defense and prosecution of intellectual property suits, patent opposition proceedings and related legal and administrative proceedings can be both costly and time consuming and may significantly divert the efforts and resources of our technical and management personnel. An adverse determination in any such litigation or proceedings could subject us to pay substantial damages to third parties, require us to seek licenses from third parties and pay ongoing royalties or redesign certain products, or subject us to injunctions prohibiting the manufacture and sale of our products or the use of technologies in certain jurisdictions. The occurrence of any of the foregoing could have a material adverse effect on our reputation, business, financial condition and results of operations.

Escalations in tensions with North Korea could have an adverse effect on us and the market value of our common shares and ADSs.

Relations between Korea and North Korea have been tense throughout Korea s modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of future events. In particular, since the death of Kim Jong-il in December 2011, there has been increased uncertainty with respect to the future of North Korea s political leadership and concern regarding its implications for political and economic stability in the region. Although Kim Jong-il s third son, Kim Jong-eun, has assumed power as his father s designated successor, the long-term outcome of such leadership transition remains uncertain.

Table of Contents

In addition, there have been heightened security concerns in recent years stemming from North Korea s nuclear weapon and long-range missile programs as well as its hostile military and other actions against Korea. Some of the significant incidents in recent years include the following:

In early April 2013, North Korea blocked access to the inter-Korean industrial complex in its border city of Gaeseong to South Koreans, while the U.S. deployed nuclear-capable stealth bombers and destroyers to Korean air and sea space.

In late March 2013, North Korea stated that it had entered a state of war with Korea, declaring the 1953 armistice invalid, and put its artillery at the highest level of combat readiness to protest the Korea-United States allies military drills and additional sanctions imposed on North Korea for its missile and nuclear tests.

North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted three rounds of nuclear tests between October 2006 to February 2013, which increased tensions in the region and elicited strong objections worldwide. In response, the United Nations Security Council unanimously passed resolutions that condemned North Korea for the nuclear tests and expanded sanctions against North Korea, most recently in March 2013.

In December 2012, North Korea launched a satellite into orbit using a long-range rocket, despite concerns in the international community that such a launch would be in violation of the agreement with the United States as well as the United Nations Security Council resolutions that prohibit North Korea from conducting launches that use ballistic missile technology.

In March 2010, a Korean naval vessel was destroyed by an underwater explosion, killing many of the crewmen on board. The Government formally accused North Korea of causing the sinking, while North Korea denied responsibility. Moreover, in November 2010, North Korea fired more than one hundred artillery shells that hit Korea s Yeonpyeong Island near the Northern Limit Line, which acts as the de facto maritime boundary between Korea and North Korea on the west coast of the Korean peninsula, causing casualties and significant property damage. The Government condemned North Korea for the attack and vowed stern retaliation should there be further provocation

North Korea s economy also faces severe challenges. For example, in November 2009, the North Korean government redenominated its currency at a ratio of 100 to 1 as part of a currency reform undertaken in an attempt to control inflation and reduce income gaps. In tandem with the currency redenomination, the North Korean government banned the use or possession of foreign currency by its residents and closed down privately run markets, which led to severe inflation and food shortages. Such developments may further aggravate social and political tensions within North Korea.

There can be no assurance that the level of tension on the Korean peninsula will not escalate in the future. Any further increase in tensions, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between Korea and North Korea break down or military hostilities occur, could have a material adverse effect on our business, results of operations and financial condition and the market value of our common shares and ADSs.

If you surrender your ADRs to withdraw shares of our common stock, you may not be allowed to deposit the shares again to obtain ADRs.

Under the deposit agreement, holders of shares of our common stock may deposit those shares with the ADR depositary s custodian in Korea and obtain ADRs, and holders of ADRs may surrender ADRs to the ADR depositary and receive shares of our common stock. However, 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 that exceeds the difference between (i) 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 (ii) the number of shares on deposit with the depositary bank at the time of such proposed deposit. It is possible that we may not give the consent. As a result, if you surrender ADRs and withdraw shares of common stock, you may not be able to deposit the shares again to obtain ADRs. See Item 10. Additional Information Item 10.D. Exchange Controls.

You may not be able to exercise preemptive rights for additional shares of common stock and may suffer dilution of your equity interest in us.

The Commercial Code and our articles of incorporation require us, with some exceptions, to offer shareholders the right to subscribe for new shares in proportion to their existing ownership percentage whenever new shares are issued. If we issue new shares to persons other than our shareholders (See Item 10.B. Memorandum and Articles of Association Preemptive Rights and Issuance of Additional Shares), a holder of our ADSs will experience dilution of such holding. If none of these exceptions is available, we will be required to grant preemptive rights when issuing additional common shares under Korean law. Under the deposit agreement governing the ADSs, if we offer any rights to subscribe for additional shares of our common stock or any rights of any other nature, the ADR depositary, after consultation with us, may make the rights available to you or use reasonable efforts to dispose of the rights on your behalf and make the net proceeds available to you. The ADR depositary, however, is not required to make available to you any rights to purchase any additional shares unless it deems that doing so is lawful and feasible and:

- a registration statement filed by us under the Securities Act is in effect with respect to those shares; or

- the offering and sale of those shares is exempt from or is not subject to the registration requirements of the Securities Act.

We are under no obligation to file any registration statement under the Securities Act to enable you to exercise preemptive rights in respect of the common shares underlying the ADSs, and we cannot assure you that any registration statement would be filed or that an exemption from the registration requirement under the Securities Act would be available. Accordingly, if a registration statement is required for you to exercise preemptive rights but is not filed by us, you will not be able to exercise your preemptive rights for additional shares and may suffer dilution of your equity interest in us.

U.S. investors may have difficulty enforcing civil liabilities against us and our directors and senior management.

We are incorporated in Korea with our principal executive offices located in Seoul. The majority of our directors and senior management are residents of jurisdictions outside the United States, and the majority of our assets and the assets of such persons are located outside the United States. As a result, U.S. investors may find it difficult to effect service of process within the United States upon us or such persons or to enforce outside the United States judgments obtained against us or such persons in U.S. courts, including actions predicated upon the civil liability provisions of the U.S. federal securities laws. It may also be difficult for an investor to enforce in U.S. courts judgments obtained against us or such persons in courts in jurisdictions outside the United States, including actions predicated upon the civil liability provisions of the U.S. federal securities laws. It may also be difficult for a U.S. investor to bring an action in a Korean court predicated upon the civil liability provisions of the U.S. federal securities laws against our directors and senior management and non-U.S. experts named in this annual report.

Table of Contents

We could be adversely affected if the U.S. government were to determine that our affiliate s Iran-related business activities are sanctionable under the U.S. Iranian sanction laws and regulations.

We acquired a controlling interest in Sungjin Geotec Co., Ltd. (Sungjin Geotec), a manufacturer of specialized equipment used in the power and energy industries in May 2010, and we currently hold a 33.0% interest in the company. In recent years, Sungjin Geotec entered into contracts with various suppliers to supply equipment for the development of natural gas fields in Iran, including natural gas fields located in South Pars that is led by Pars Oil and Gas Company, a subsidiary of National Iranian Oil Company. Sungjin Geotec recognized revenues of approximately Won 27 billion in 2010, Won 240 billion in 2011 and Won 134 billion in 2012, and net profits of approximately Won 1 billion in 2010, Won 15 billion in 2011 and Won 25 billion in 2012 related to such activities. Sungjin Geotec has completed or terminated all of its remaining outstanding supply contracts to sell equipment for the development of natural gas fields in Iran, and it does not plan to engage in any sale of equipment in Iran related to the country s development of petroleum resources in the future.

In July 2010, the United States adopted legislation that expands U.S. economic sanctions against foreign companies doing business with Iran in certain sectors. The Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (the CISADA) expands the scope of sanctionable activities by, among other things, broadening the definition of investment under the Iran Sanctions Act (the ISA) arguably to include the supply of goods for use in petroleum and gas production. The CISADA also expands the severity of potential sanctions available under the ISA and imposes mandatory investigation and reporting requirements designed to increase the likelihood of enforcement. The CISADA requires the imposition of sanctions against parties found by the U.S. administration, following an investigation, to have engaged in conduct sanctionable under the ISA, subject to certain waiver provisions and exceptions.

Under the ISA, as amended, sanctions can also be imposed against a company that has actual knowledge of, or should have known of, sanctionable conduct engaged in by another company that it owns or controls. A range of sanctions may be imposed on companies that engage in sanctionable activities, including among other things the blocking of any property subject to U.S. jurisdiction in which the sanctioned company has an interest, which could include a prohibition on transactions or dealings involving securities of the sanctioned company. By its terms, the CISADA is applicable to certain investments in Iran that commenced on or after July 1, 2010.

There can be no assurance that Sungjin Geotec s Iran-related business activities do not constitute sanctionable activities or that we will not be subjected to sanctions under the ISA as amended by the CISADA. Our business and reputation could be adversely affected if the U.S. government were to determine that Sungjin Geotec s Iran-related business activities constitute sanctionable activity attributable to us. Investors in our securities may also be adversely affected if we are sanctioned under the CISADA or if their investment in the securities is restricted under any sanctions regimes with which the investors are required to comply. As noted above, sanctions under the ISA could include the blocking of any property in which we have an interest, which would effectively prohibit all U.S. persons from receiving any payments from us, or otherwise acquiring, holding, withholding, using, transferring, withdrawing, transporting, importing, or exporting any property in which we have any interest.

We expect to continue operations and investments relating to countries targeted by United States and European Union economic sanctions.

The U.S. Department of the Treasury s Office of Foreign Assets Control, or OFAC, enforces certain laws and regulations (OFAC Sanctions) that impose restrictions upon U.S. persons and, in some instances, foreign entities owned or controlled by U.S. persons, with respect to activities or transactions with certain countries, governments, entities and individuals that are the subject of OFAC

Table of Contents

Sanctions (U.S. Sanctions Targets). U.S. persons are also generally strictly prohibited from facilitating such activities or transactions. Similarly, the European Union enforces certain laws and regulations (E.U. Sanctions) that impose restrictions upon nationals of E.U. member states, persons located within E.U. member states, entities incorporated or constituted under the law of an E.U. member state, or business conducted in whole or in part in E.U. member states with respect to activities or transactions with certain countries, governments, entities and individuals that are the subject of E.U. Sanctions (E.U. Sanctions Targets and together with U.S. Sanctions Targets, Sanctions Targets). E.U. persons are also generally prohibited from activities that promote such activities or transactions.

We engage in limited business activities in countries that are deemed Sanctions Targets, including Iran, Syria and Sudan. We produce and export, typically through our sales subsidiaries, steel products to such countries, including automotive steel sheets and other steel materials to Iranian entities. Our subsidiaries also engage in limited business activities in countries that are deemed Sanctions Targets. In particular, Daewoo International, a global trading company in which we hold a 60.3% interest, engages in the trading of steel, raw materials and other items with entities in countries that are deemed Sanctions Targets, including Iran and Sudan. Our activities and investments do not involve any U.S. goods or services, and we do not export or re-export U.S. goods or services directly or indirectly to any Sanctions Target. Our activities and investments in Iran, Syria and Sudan accounted for approximately 1.7% of our consolidated revenues in 2010, 3.4% in 2011 and 1.4% in 2012.

We expect to continue to engage in business activities and make investments in countries that are deemed Sanctions Targets over the foreseeable future. Although we believe that OFAC Sanctions under their current terms are not applicable to our current activities, our reputation may be adversely affected, some of our U.S. investors may be required to divest their investments in us under the laws of certain U.S. states or under internal investment policies or may decide for reputational reasons to divest such investments. We are aware of initiatives by U.S. governmental entities and U.S. institutional investors, such as pension funds, to adopt or consider adopting laws, regulations, or policies prohibiting transactions with or investment in, or requiring divestment from, entities doing business with countries identified as state sponsors of terrorism. We cannot assure you that the foregoing will not occur or that such occurrence will not have a material adverse effect on the value of our securities.

This annual report contains forward-looking statements that are subject to various risks and uncertainties.

This annual report contains forward-looking statements that are based on our current expectations, assumptions, estimates and projections about our company and our industry. The forward-looking statements are subject to various risks and uncertainties. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as anticipate, believe, estimate, expect, intend, project, sho similar expressions. Those statements include, among other things, the discussions of our business strategy and expectations concerning our market position, future operations, margins, profitability, liquidity and capital resources. We caution you that reliance on any forward-looking statement involves risks and uncertainties, and that although we believe that the assumptions on which our forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and, as a result, the forward-looking statements based on those assumptions could be incorrect. The uncertainties in this regard include, but are not limited to, those identified in the risk factors discussed above. In light of these and other uncertainties, you should not conclude that we will necessarily achieve any plans and objectives or projected financial results referred to in any of the forward-looking statements. We do not undertake to release the results of any revisions of these forward-looking statements to reflect future events or circumstances.

Table of Contents

Item 4. ***Information on the Company***

Item 4.A. ***History and Development of the Company***

We were established by the Government on April 1, 1968, under the Commercial Code, to manufacture and distribute steel rolled products and plates in the domestic and overseas markets. The Government owned more than 70% of our equity until 1988, when the Government reduced its ownership of our common stock to 35% through a public offering and listing our shares on the KRX KOSPI Market. In December 1998, the Government sold all of our common stock it owned directly, and The Korea Development Bank completed the sale of our shares that it owned in September 2000. The Government no longer holds any direct interest in us, and our outstanding common stock is currently held by individuals and institutions. See Item 7. Major Shareholders and Related Party Transactions Item 7A. Major Stockholders.

Our legal and commercial name is POSCO. Our principal executive offices are located at POSCO Center, 892 Daechi-4-dong, Gangnam-gu, Seoul, Korea 135-777, and our telephone number is (822) 3457-0114.

Item 4.B. ***Business Overview***

The Company

We are the largest fully integrated steel producer in Korea, and one of the largest steel producers in the world, based on annual crude steel production. We produced approximately 39.7 million tons of crude steel in 2012 and approximately 39.1 million tons in 2011, a substantial portion of which was produced at Pohang Works and Gwangyang Works. As of December 31, 2012, Pohang Works had 16.7 million tons of annual crude steel and stainless steel production capacity, and Gwangyang Works had an annual crude steel production capacity of 20.8 million tons. We believe Pohang Works and Gwangyang Works are two of the most technologically advanced integrated steel facilities in the world. We manufacture and sell a diversified line of steel products, including cold rolled and hot rolled products, stainless steel products, plates, wire rods and silicon steel sheets, and we are able to meet a broad range of customer needs from manufacturing industries that consume steel, including automotive, shipbuilding, home appliance, engineering and machinery industries.

We sell primarily to the Korean market. Domestic sales accounted for 52.0% of our total revenue from steel products produced and sold by us in 2012 and 50.2% in 2011. On a non-consolidated basis, we believe that we had an overall market share of approximately 42% of the total sales volume of steel products sold in Korea in 2012 and approximately 41% in 2011. Our export sales and overseas sales to customers abroad accounted for 48.0% of our total revenue from steel products produced and sold by us in 2012 and 49.8% in 2011. Our major export market is Asia, with China accounting for 28.9%, Asia other than China and Japan accounting for 26.7%, and Japan accounting for 14.1% of our total steel export revenue from steel products produced and exported by us in 2012 and Asia other than China and Japan accounting for 23.2%, China 28.3% and Japan 13.8% of our total steel export revenue from steel products produced and exported by us in 2011.

We also engage in businesses that complement our steel manufacturing operations as well as carefully seek out promising investment opportunities to diversify our businesses both vertically and horizontally, in part to prepare for the eventual maturation of the Korean steel market. POSCO E&C, our consolidated subsidiary in which we hold an 89.5% interest, is one of the leading engineering and construction companies in Korea that primarily engages in the planning, design and construction of industrial plants and architectural works and civil engineering. Daewoo International, our consolidated subsidiary in which we hold a 60.3% interest, is a global trading company that primarily engages in trading of steel and raw materials as well as investing in energy and mineral development projects throughout the world. POSCO Energy Corporation, our wholly-owned consolidated subsidiary in which we hold an 89.0% interest, is the largest private power generation company in Korea.

Table of Contents

We generated revenue of Won 63,604 billion and profit for the period of Won 2,386 billion in 2012, compared to revenue of Won 68,939 billion and profit for the period of Won 3,714 billion in 2011. We had total assets of Won 79,266 billion and total equity of Won 42,429 billion as of December 31, 2012, compared to total assets of Won 78,409 billion and total equity of Won 40,730 billion as of December 31, 2011.

Business Strategy

Leveraging on our success during the past four decades, our goal is to strengthen our position as one of the leading steel producers in the world and strive to rank among the top three global steel companies in technology leadership, operational excellence and production capacity. In order to compete effectively in the dynamic global market environment driven by emerging economies and increasing demand for more environmentally friendly products, we are committed to leveraging our competitive advantages and further enhancing our leadership positions. We believe that our proprietary technologies and expertise in developing environmentally-friendly steel production facilities, ability to independently construct such facilities, and know-how in their efficient operation and management enables us to develop differentiated steel products at a highly competitive cost structure.

We also plan to selectively explore opportunities in growth industries that are integral to our overall business model, and we have identified steel, comprehensive materials, energy and new businesses as our key areas of focus. We seek to strengthen our competitiveness and pursue growth through the following core business strategies:

Seek Opportunities for EPC Projects and Expand Our Production and Supply Chain Management Infrastructure Abroad

Drawing on our expertise in steel production, construction capabilities of POSCO E&C and natural resources exploration and production know-how of Daewoo International, POSCO Group plans to carefully seek out promising business opportunities abroad for EPC (or engineering, procurement and construction) projects in the steel sector. We seek out promising investment opportunities abroad, primarily in China, India, Southeast Asia and Latin America, in part to prepare for the eventual maturation of the Korean steel market. We believe that China, India, Southeast Asia and Latin America will continue to offer substantial growth opportunities, and we plan to selectively seek investment opportunities to secure development rights to natural resources and construct steel production facilities. For example, we obtained clearance from the Government of India in May 2011 for deforestation and we are currently in the process of acquiring the land on which the integrated steel mill will be constructed. However, the National Green Tribunal, a special court in India that handles the expeditious disposal of cases pertaining to environmental issues, ordered in March 2012 that the Ministry of Environment should reassess the conditions on which clearance was granted for the project, and the ministry is currently in the process of revalidating its environmental clearance. With respect to development of iron ore mines in Orissa State, all hearings have been completed, and we are waiting for the final verdict from the Indian Supreme Court.

In June 2010, we also signed a memorandum of understanding with the Government of Karnataka, a state in southwest India, to construct an integrated steel mill in Karnataka, and we are in discussions with the Government of Karnataka to obtain a mining lease and secure land with appropriate infrastructure.

We are also building a global distribution network of supply chain management centers to provide processing and logistics services and more effectively respond to changes in consumer trends in the global steel market. In 2012, we operated 42 supply chain management centers worldwide that recorded aggregate sales of 4.0 million tons of steel products. We plan to continue expanding our global network of supply chain management centers.

Maintain Technology Leadership in Steel Manufacturing

As part of our strategy, we have identified core products that we plan to further develop, such as premium automotive steel sheets, silicon steel and API-grade steel, and we will continue to invest in developing innovative products that offer the greatest potential returns and enhance the overall quality of our products. In order to increase our competitiveness and the proportion of our sales of higher margin, higher value-added products, we plan to make additional investments in the development of new manufacturing technologies and upgrade our facilities through continued modernization and rationalization.

We will continue to refine FINEX, a low cost, environmentally friendly steel manufacturing process that 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 through elimination of major sources of pollution such as sintering and coking plants, as well as reducing operating and raw material costs. In recent years, we have developed proprietary manufacturing technology using a compact endless cast rolling mill that combines the FINEX process with an advanced basic oxygen steelmaking process that uses more scrap in place of pig iron, which enables us to manufacture products at a highly competitive cost structure with lower carbon dioxide emission. Our compact endless cast rolling mill directly casts coils from liquid steel and uses a rolling process that rolls hot rolled coils up to 40 slabs at a time.

Diversify into Production of Comprehensive Materials, including Lithium, Silicon, Carbon and Magnesium

We plan to leverage our expertise in production of various steel-applied materials and venture into the fast-growing and high value-added business of producing environmentally friendly comprehensive materials. We have identified lithium, carbon and magnesium as our main investment areas. Demand for lithium, which is used as an anode material in lithium ion batteries, has been increasing in recent years, and we have developed proprietary technology to extract lithium from its brine in approximately one month compared to twelve months through conventional production processes. We believe we are also able to leverage our expertise in production of crude steel to cost-effective production of carbon and magnesium, which have wide application of industrial use.

Further Develop Our Capabilities to become an Integrated Provider of Energy Solutions

We plan to pursue strategic synergies with our member companies of the POSCO Group to further strengthen our capabilities in the energy industry. POSCO Energy Corporation is the largest private power generation company in Korea. POSCO E&C is one of the leading engineering and construction companies in Korea with expertise in the design and construction of power plants. Daewoo International engages in various natural resources procurement and energy development projects around the world. In order to secure adequate procurement of principal raw materials, we have also invested in and will continue to explore additional investment opportunities in various raw material development projects abroad, as well as enter into long-term contracts with leading suppliers of iron ore, coal and nickel, principally in Australia and Brazil. We believe that the energy industry is a sustainable business area that offers us attractive opportunities. We will continue to seek opportunities in natural resources development and further expand our power generation and alternative energy solutions businesses, as well as pursue participation in additional power plant projects abroad.

Pursue Cost-Cutting through Operational and Process Innovations

We seek to achieve cost reductions in this era of increasing raw material costs through our company wide process for innovation and enhancing efficiency of operations. We believe that strategic cost cutting measures through utilization of efficient production methods and management discipline will strengthen our corporate competitiveness. After implementation of Six Sigma innovations in recent

Table of Contents

years, we are now implementing the Quick Six Sigma program, a customized program that we believe will enhance our corporate culture that rewards innovative ideas at all stages of our operations and enable us to benchmark successful innovations to all relevant processes within the company. We will also strive to invest more in human resources development to nurture employees who are capable of working in the global environment.

Selectively Seek Opportunities in Growth Industries

We will continue to selectively seek opportunities in growth industries to diversify our business both vertically and horizontally. Through POSCO ICT Co., Ltd., a 72.5%-owned subsidiary, we engage in information and technology consulting services as well as automation and system integration engineering services. POSCO E&C is one of the leading engineering and construction companies in Korea that primarily engages in the planning, design and construction of industrial plants and architectural works and civil engineering. On September 20, 2010, we acquired a controlling interest in Daewoo International Corporation for Won 3.37 trillion. Daewoo International is a global trading company that primarily engages in trading of steel and raw materials as well as investing in energy development projects. We will continue to selectively seek opportunities to identify new growth engines and diversify our operations.

Major Products

We manufacture and sell a broad line of steel products, including the following:

- cold rolled products;
- hot rolled products;
- stainless steel products;
- plates;
- wire rods; and
- silicon steel sheets.

The table below sets out our revenue of steel products produced by us and directly sold to external customers, which are recognized as external revenue of the Steel Segment, by major steel product categories for the periods indicated. Such amounts do not include steel products produced by us and sold to our consolidated subsidiaries.

	For the Year Ended December 31,					
	2010 (1)		2011		2012	
Steel Products	**Billions of Won**	**%**	**Billions of Won**	**%**	**Billions of Won**	**%**
Cold rolled products	10,321	29.1%	11,583	29.6%	11,421	32.4%
Hot rolled products	7,144	20.1	7,752	19.8	6,291	17.8
Stainless steel products	6,456	18.2	7,453	19.0	7,305	20.7
Plates	3,184	9.0	4,560	11.6	3,620	10.3
Wire rods	1,538	4.3	2,240	5.7	1,906	5.4
Silicon steel sheets	1,173	4.1	1,134	3.8	1,143	3.8

Sub-total	30,384	85.5	35,369	90.3	32,099	91.0
Others	5,144	14.5	3,782	9.7	3,160	9.0
Total	35,527	100.0%	39,152	100.0%	35,259	100.0%

(1) Including revenue from steel products sold by us to Daewoo International from January 1, 2010 to September 20, 2010, the date of our acquisition of Daewoo International.

Table of Contents

The table below sets out our sales volume of the principal categories of steel products produced by us and directly sold to external customers, which are recognized as external sales volume of the Steel Segment, by major steel product categories for the periods indicated. Such amounts do not include steel products produced by us and sold to our consolidated subsidiaries.

	For the Year Ended December 31,					
	2010 (1)		2011		2012	
Steel Products	**Thousands of Tons**	**%**	**Thousands of Tons**	**%**	**Thousands of Tons**	**%**
Cold rolled products	11,126	38.8%	11,023	37.3%	11,863	39.6%
Hot rolled products	9,056	31.6	8,902	30.1	8,540	28.5
Stainless steel products	2,349	8.2	2,414	8.2	2,760	9.2
Plates	3,436	12.0	4,373	14.8	4,145	13.8
Wire rods	1,558	5.4	1,686	5.7	1,531	5.1
Silicon steel sheets	1,173	4.1	1,134	3.8	1,143	3.8
Total (2)	28,699	100.0%	29,532	100.0%	29,983	100.0%

(1) Including sales volume of steel products sold by us to Daewoo International from January 1, 2010 to September 20, 2010, the date of our acquisition of Daewoo International.

(2) Not including sales volume of steel products categorized under others.

In addition to steel products produced by us and directly sold to external customers, we engage our consolidated sales subsidiaries (including Daewoo International starting on September 20, 2010, the date of our acquisition of Daewoo International) to sell our steel products produced by us. Our revenue from steel products produced by us and sold to our consolidated sales subsidiaries that in turn sold them to their external customers amounted to Won 5,437 billion in 2010, Won 10,415 billion in 2011 and Won 10,344 billion in 2012. Sales of such steel products by our consolidated sales subsidiaries to external customers are recognized as external revenue of the Trading Segment.

Cold Rolled Products

Cold rolled coils and further refined galvanized cold rolled products are used mainly in the automotive industry to produce car body panels. Other users include the household goods, electrical appliances, engineering and metal goods industries.

Our deliveries of cold rolled products produced by us and directly sold to external customers amounted to 11.9 million tons in 2012, representing 39.6% of our total sales volume of principal steel products produced by us and directly sold to external customers.

Cold rolled products constitute our largest product category in terms of sales volume and revenue from steel products produced by us and directly sold to external customers. In 2012, our sales volume of cold rolled products produced by us and directly sold to external customers increased by 7.6% compared to our sales volume in 2011 due to an increase in sales to automotive companies abroad.

Including sales of cold rolled products produced by us and sold through our consolidated sales subsidiaries in addition to cold rolled products produced by us and directly sold to external customers, we had a domestic market share for cold rolled products of approximately 48% on a non-consolidated basis.

Hot Rolled Products

Hot rolled coils and sheets have many different industrial applications. They are used to manufacture structural steel used in the construction of buildings, industrial pipes and tanks, and automobile chassis. Hot rolled coil is also manufactured in a wide range of widths and thickness as the feedstock for higher value-added products such as cold rolled products and silicon steel sheets.

Table of Contents

Our deliveries of hot rolled products produced by us and directly sold to external customers amounted to 8.5 million tons in 2012, representing 28.5% of our total sales volume of principal steel products produced by us and directly sold to external customers. The largest customers of our hot rolled products are downstream steelmakers in Korea which use the products to manufacture pipes and cold rolled products.

Hot rolled products constitute our second largest product category in terms of sales volume and third largest product category in terms of revenue from steel products produced by us and directly sold to external customers. In 2012, our sales volume of hot rolled products produced by us and directly sold to external customers decreased by 4.1% compared to 2011 primarily due to a decrease in demand from downstream steelmakers in Korea and abroad.

Including sales of hot rolled products produced by us and sold through our consolidated sales subsidiaries in addition to hot rolled products produced by us and directly sold to external customers, we had a domestic market share for hot rolled products of approximately 42% on a non-consolidated basis.

Stainless Steel Products

Stainless steel products are used to manufacture household goods and are also used by the chemical industry, paper mills, the aviation industry, the automotive industry, the construction industry and the food processing industry.

Our deliveries of stainless steel products produced by us and directly sold to external customers amounted to 2.8 million tons in 2012, representing 9.2% of our total sales volume of principal steel products produced by us and directly sold to external customers.

Stainless steel products constitute our second largest product category in terms of revenue from steel products produced by us and directly sold to external customers. Although sales of stainless steel products accounted for only 9.2% of total sales volume of the principal steel products produced by us and directly sold to external customers in 2012, they represented 20.7% of our total revenue from such steel products in 2012. Our sales volume of stainless steel products produced by us and directly sold to external customers increased by 14.3% in 2012 compared to 2011 due to an increase in demand from our overseas customers in the automotive industry and the household goods industry.

Including sales of stainless steel products produced by us and sold through our consolidated sales subsidiaries in addition to stainless steel products produced by us and directly sold to external customers, we had a domestic market share for stainless steel products of approximately 49% on a non-consolidated basis.

Plates

Plates are used in shipbuilding, structural steelwork, offshore oil and gas production, power generation, mining, and the manufacture of earth-moving and mechanical handling equipment, boiler and pressure vessels and other industrial machinery.

Our deliveries of plates produced by us and directly sold to external customers amounted to 4.1 million tons in 2012, representing 13.8% of our total sales volume of principal steel products produced by us and directly sold to external customers. The Korean shipbuilding industry, which uses plates to manufacture chemical tankers, rigs, bulk carriers and containers, and the construction industry are our largest customers of plates.

In 2012, our sales volume of plates produced by us and directly sold to external customers decreased by 5.2% compared to 2011, reflecting a decrease in demand from the shipbuilding industry.

Table of Contents

Including sales of plates produced by us and sold through our consolidated sales subsidiaries in addition to plates produced by us and directly sold to external customers, we had a domestic market share for plates of approximately 38% on a non-consolidated basis.

Wire Rods

Wire rods are used mainly by manufacturers of wire, fasteners, nails, bolts, nuts and welding rods. Wire rods are also used in the manufacture of coil springs, tension bars and tire cords in the automotive industry.

Our deliveries of wire rods produced by us and directly sold to external customers amounted to 1.5 million tons in 2012, representing 5.1% of our total sales volume of principal steel products produced by us and directly sold to external customers. The largest customers for our wire rods are manufacturers of wire ropes and fasteners.

In 2012, our sales volume of wire rods produced by us and directly sold to external customers decreased by 9.2% compared to 2011, reflecting a decrease in demand from the domestic automotive industry.

Including sales of wire rods produced by us and sold through our consolidated sales subsidiaries in addition to wire rods produced by us and directly sold to external customers, we had a domestic market share for wire rods of approximately 56% on a non-consolidated basis.

Silicon Steel Sheets

Silicon steel sheets are used mainly in the manufacture of power transformers and generators and rotating machines.

Our deliveries of silicon steel sheets produced by us and directly sold to external customers amounted to 1.1 million tons in 2012, representing 3.8% of our total sales volume of principal steel products produced by us and directly sold to external customers.

In 2012, our sales volume of silicon steel sheets produced by us and directly sold to external customers increased by 0.8% compared to 2011 due to an increase in demand from manufacturers of power transformers and generators.

Including sales of silicon steel sheets produced by us and sold through our consolidated sales subsidiaries in addition to silicon steel sheets produced by us and directly sold to external customers, we had a domestic market share for silicon steel sheets of approximately 89% on a non-consolidated basis.

Others

Other products include lower value-added semi-finished products such as pig iron, billets, blooms and slab.

Markets

Korea is our most important market. Domestic sales represented 52.0% of our total revenue from steel products produced and sold by us in 2012. Our export sales and overseas sales to customers abroad represented 48.0% of our total revenue from steel products in 2012. Our sales strategy has been to devote our production primarily to satisfy domestic demand, while seeking export sales to utilize capacity to the fullest extent and to expand our international market presence.

Domestic Market

The total Korean market for steel products amounted to approximately 48.3 million tons in 2012.

Table of Contents

The table below sets out our estimates of steel product sales in Korea for the periods indicated.

	For the Year Ended December 31,					
	2010		2011		2012	
Source	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%
POSCO s sales[(1)]	20,122	39.1%	20,915	41.4%	20,209	41.9%
Other domestic steel companies sales	12,107	23.5	12,452	24.6	11,282	23.4
Imports	19,192	37.3	17,206	34.0	16,780	34.8
Total domestic sales	51,421	100.0%	50,573	100.0%	48,271	100.0%

(1) POSCO s sales volume includes steel products produced by us (but not by our subsidiaries) and sold through our consolidated sales subsidiaries in addition to steel products produced by us (but not by our subsidiaries) and directly sold to external customers.

Total sales volume of steel products in Korea decreased by 1.6% from 51.4 million tons in 2010 to 50.6 million tons in 2011, primarily due to a decrease in demand from the construction industry. Total sales volume of steel products in Korea further decreased by 4.6% to 48.3 million tons in 2012, primarily due to a decrease in demand from the construction, shipbuilding and domestic automotive industries.

In recent years, domestic consumers of steel products have also relied on imports from foreign competitors, primarily from China, Japan and Russia. Imports from foreign competitors have decreased in recent years, however, as the import volume of steel products in Korea decreased from 19.2 million tons in 2010 to 17.2 million tons in 2011, resulting in a decrease in market share from 37.3% in 2010 to 34.0% in 2011. Import volume of steel products in Korea further decreased to 16.8 million tons in 2012, resulting in a market share of 34.8% in 2012.

We sell in Korea higher value-added and other finished products to end-users and semi-finished products to other steel manufacturers for further processing. Local distribution companies and sales affiliates sell finished steel products to low-volume customers. We provide service technicians for large customers and distributors in each important product area.

Exports

Our export sales and overseas sales to customers abroad represented 48.0% of our total revenue from steel products produced and sold by us in 2012, 69.7% of which was generated from exports sales and overseas sales to customers in Asian countries. Our export sales and overseas sales to customers abroad in terms of revenue from such products decreased by 11.3% from Won 24,665 billion in 2011 to Won 21,888 billion in 2012, reflecting a decrease in our export prices resulting from production over-capacity in the global steel industry.

The tables below set out our export sales and overseas sales to customers abroad in terms of revenue from steel products produced and sold by us, by geographical market and by product for the periods indicated.

	For the Year Ended December 31,					
	2010		2011		2012	
Region	Billions of Won	%	Billions of Won	%	Billions of Won	%
Asia (other than China and Japan)	4,320	22.6%	5,733	23.2%	5,834	26.7%
China	6,731	35.2	6,984	28.3	6,328	28.9
Japan	2,390	12.5	3,415	13.8	3,084	14.1
Europe	1,257	6.6	1,609	6.5	942	4.3
Middle East	329	1.7	690	2.8	528	2.4
North America	687	3.6	2,387	9.7	1,288	5.9
Others	3,400	17.8	3,846	15.6	3,884	17.7

Total	19,114	100.0%	24,665	100.0%	21,888	100.0%

	For the Year Ended December 31,					
	2010		2011		2012	
Steel Products	Billions of Won	%	Billions of Won	%	Billions of Won	%
Cold rolled products	6,268	32.8%	7,975	32.3%	7,245	33.1%
Hot rolled products	3,075	16.1	4,210	17.1	3,783	17.3
Stainless steel products	5,218	27.3	6,295	25.5	5,302	24.2
Plates	770	4.0	1,487	6.0	1,573	7.2
Wire rods	401	2.1	689	2.8	598	2.7
Silicon steel sheets	888	4.6	996	4.0	840	3.8
Others	2,494	13.0	3,012	12.2	2,546	11.6
Total	19,114	100.0%	24,665	100.0%	21,888	100.0%

The table below sets out the world s apparent steel use for the periods indicated.

	For the Year Ended December 31,		
	2010	2011	2012
Apparent steel use (million metric tons)	1,300	1,395	1,413
Percentage of annual increase	14.0%	7.3%	1.3%

Source: World Steel Association.

Recent difficulties affecting the European Union and global financial sectors, adverse conditions and volatility in the European Union and worldwide credit and financial markets, fluctuations in oil and commodity prices and the general weakness of the European Union and global economies have increased the uncertainty of global economic prospects in general and have adversely affected the global and Korean economies. Such developments weakened global demand in steel consumption in 2008 and 2009 before the recovery in demand in recent years. The World Steel Association forecasts that global apparent steel use is expected to increase by 2.9% to 1,454 million metric tons in 2013 after increasing by 1.3% in 2012.

In recent years, driven in part by strong growth in steel consumption in China, the global steel industry has experienced renewed interest in expansion of steel production capacity. World Steel Dynamics estimated the global crude steel production capacity to be 2,069 million tons in 2012. The increased production capacity, combined with weakening demand due primarily to the recent slowdown of the global economy, has resulted in production over-capacity in the global steel industry. Production over-capacity in the global steel industry may intensify if the slowdown of the global economy occurs or demand from developing countries that have experienced significant growth in the past several years does not meet the recent growth in production capacity.

We distribute our export products mostly through Korean trading companies, including Daewoo International, and our overseas sales subsidiaries. Our largest export market in 2012 was China, which accounted for 28.9% of our export revenue from steel products produced and sold by us. The principal products exported to China were cold rolled products and plates. Our exports to China amounted to Won 6,984 billion in 2011 and Won 6,328 billion tons in 2012. Our exports to China decreased by 9.4% in 2012 primarily due to a decrease in our export prices to China as well as our decision to allocate more products to Asian countries other than China and Japan where we could obtain better export prices. Our export sales in terms of revenue from Asian countries other than China and Japan increased by 1.7% from Won 5,733 billion in 2011 to Won 5,834 billion in 2012.

Anti-Dumping and Countervailing Duty Proceedings

In the United States, our sales of corrosion-resistant carbon steel flat products had been subject to a de minimis countervailing duty rate and a de minimis anti-dumping margin rate, but the U.S. government revoked the anti-dumping order in March 2012 under the three consecutive de minimis

margin rule, which is currently being appealed by U.S. steel manufacturers to the Court of International Trade. In March 2013, the U.S. government revoked its anti-dumping and countervailing duty orders on corrosion-resistant carbon steel flat products exported from Korea, which revocations are retroactively effective from February 14, 2012.

In India, our exports of stainless cold-rolled steel products have been subject to an anti-dumping duty ranging from $62.61 per ton to $234.98 per ton starting in November 2009 for a five-year period. In Russia, our exports of stainless steel products have been subject to an anti-dumping duty of 4.8% starting in November 2010 for a three-year period. In Indonesia, our exports of cold-rolled steel products have been subject to an anti-dumping duty of 10.9% starting in March 2013 for a three-year period. In Australia, our exports of hot-rolled steel products are subject to an anti-dumping duty of 6% starting in December 2012 for a five-year period. In Malaysia, our exports of low and medium carbon steel wire rods are subject to an anti-dumping duty of 3.03% starting in February 2013 for a five-year period.

In addition, several other countries have initiated anti-dumping investigations relating to our global sales operations. The Brazilian government initiated an anti-dumping investigation in April 2012 relating to our exports of non-grain oriented silicon steel products and cold-rolled stainless steel products, and followed up with another investigation in May 2012 relating to our exports of heavy plates. The Australian government initiated an anti-dumping investigation in December 2012 relating to our exports of coated steel products and followed up with another investigation in February 2013 relating to our exports of heavy plates. In Thailand, no anti-dumping tariff was imposed in our previous round of assessment completed in July 2010 relating to our exports of hot rolled products, but the Thai government initiated a new round of review in August 2012. The Mexican government initiated an anti-dumping investigation in October 2012 relating to our exports of cold-rolled steel products. In addition, the Taiwan government initiated an anti-dumping investigation in February 2013 relating to our exports of cold-rolled stainless steel products.

Pricing Policy

We determine the sales price of our products based on market conditions. In setting prices, we take into account our costs, including those of raw materials, supply and demand in the Korean market, exchange rates, and conditions in the international steel market.

Our export prices can fluctuate considerably over time, depending on market conditions and other factors. The export prices of our higher value-added steel products in the largest markets are determined considering the prices of similar products charged by our competitors. Our export prices in Dollar terms decreased in 2008 in response to intensification of the global financial crisis, a trend which lasted until the first half of 2009. Starting in the third quarter of 2009, our export prices 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. We maintained similar pricing levels throughout 2010, but we gradually increased our export prices in the first half of 2011. However, our export prices fell substantially in the second half of 2011 and decreased further in 2012 due to uncertainties in the global economy caused by financial difficulties affecting European countries including Greece, Spain, Portugal and Italy. We may decide to adjust our future sales prices on an on-going basis subject to market demand for our products, prices of raw materials, the production outlook of the global steel industry and global economic conditions in general.

Raw Materials

Steel Production

The principal raw materials used in producing steel through the basic oxygen steelmaking method are iron ore and coal. We require approximately 1.7 tons of iron ore and 0.8 tons of coal to produce one ton of steel. We import all of the coal and virtually all of the iron ore that we use. In 2012, POSCO imported approximately 51.0 million dry metric tons of iron ore and 27.4 million wet metric tons of coal. Iron ore is imported primarily from Australia, Brazil and South Africa. Coal is imported primarily from Australia, Canada and the United States. In 2012, we purchased a substantial portion of our iron ore and coal imports pursuant to long-term contracts. The supply contracts have terms of one to ten years and the long-term contracts generally provide for periodic price adjustments to the 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. We or the suppliers may cancel the long-term contracts only if performance under the contracts is prevented by causes beyond our or their control and these causes continue for a specified period.

We also make investments in exploration and production projects abroad to enhance our ability to meet the requirements for high-quality raw materials, either as part of a consortium or through an acquisition of a minority interest. We purchased approximately 19.0% of our iron ore and coal imports in 2012 from foreign mines in which we have made investments. Our major investments to procure supplies of coal, iron ore and nickel are located in Australia, Brazil, New Caledonia and Canada, and our significant investments are as follows:

- We made an investment of US$500 million in December 2008 to acquire a 6.5% interest in Nacional Minérios S.A., an iron ore mining company in Brazil, in a consortium with Japanese steel manufacturers and trading companies. We secured approximately 0.2 million tons of iron ore in 2012, and we have the right to secure up to 3.7 million tons of iron ore per year.

- We made an initial investment of A$249 million in 2010 to acquire a 3.75% interest in Roy Hill Holdings Pty., Ltd., an iron ore mining company in Australia. We subsequently entered into a contract in March 2012 to invest an additional A$1,495 million to increase our interest to 15% but sold a 2.5% interest in April 2012 to China Steel Corporation for A$305 million. Through our remaining 12.5% interest in Roy Hill Holdings Pty. Ltd., we expect to secure approximately 7.0 million tons of iron ore per year starting in 2015.

- In July 2010, we acquired a 24.5% interest in the Australian Premium Iron (API) iron ore joint venture in Pilbara, Australia for A$184 million, which expects to supply 7.4 million tons of iron ore per year starting in 2018.

- As part of a consortium including China Steel Corporation and domestic financial investors, we made an investment of US$270 million in March 2013 to acquire a minority interest in ArcelorMittal Mines Canada Inc., an iron ore mining company in Canada. We expect to secure additional iron ore through our investment in the mining company.

We will continue to seek opportunities to enter into additional strategic relationships that would enhance our ability to meet the requirements for principal raw materials.

The average market price of coal per wet metric ton (benchmark free on board price of Australian premium hard coking coal) was US$191 in 2010, US$292 in 2011 and US$209 in 2012. The average market price of iron ore per dry metric ton (free on board price of Platts Iron Ore index with iron (Fe) 62% content) was US$136 in 2010, US$167 in 2011 and US$113 in 2012. We currently do not depend on any single country or supplier for our coal or iron ore.

Stainless Steel Production

The principal raw materials for the production of stainless steel are wrought nickel, ferrochrome, stainless steel scrap and carbon steel scrap. We purchase a substantial portion of our requirements for

Table of Contents

wrought nickel from leading producers in Australia, Indonesia, New Caledonia and Japan, as well as Korea. A substantial portion of the requirements for ferrochrome is purchased from producers in South Africa, India and Kazakhstan. Most of the requirements for stainless steel scrap are sourced from domestic and overseas suppliers in Japan, United States, European Union and Southeast Asian countries. As for the requirements for carbon steel scrap, scrap from the Pohang Steelworks is also utilized. The average market price of nickel per ton trading on the London Metal Exchange was US$21,809 in 2010, US$22,894 in 2011 and US$17,536 in 2012.

Transportation

In order to meet our transportation needs for iron ore and coal, we have entered into long-term contracts with shipping companies in Korea to retain a fleet of dedicated vessels. These dedicated vessels transported approximately 80% of the total requirements in 2012, and the remaining approximately 20% was transported by vessels retained through short to medium term contracts, depending on market conditions. Australia and Brazil are the main countries where the vessels are loaded, and they accounted for 65% and 16%, respectively, of our total requirements in 2012. We plan to increase the average size of dedicated vessels we use by approximately 10% by 2020 in order to pursue additional economies of scale, as well as upgrade some of the existing vessels with others that utilize more energy-efficient technologies.

The Steelmaking Process

Our major production facilities, Pohang Works and Gwangyang Works, produce steel by the basic oxygen steelmaking method. The stainless steel plant at Pohang Works produces stainless steel by the electric arc furnace method. Continuous casting improves product quality by imparting a homogenous structure to the steel. Pohang Works and Gwangyang Works produce all of their products through the continuous casting.

Steel   Basic Oxygen Steelmaking Method

First, molten pig iron is produced in a blast furnace from iron ore, which is the basic raw material used in steelmaking. Molten pig iron is then refined into molten steel in converters by blowing pure oxygen at high pressure to remove impurities. Different desired steel properties may also be obtained by regulating the chemical contents.

At this point, molten steel is made into semi-finished products such as slabs, blooms or billets at the continuous casting machine. Slabs, blooms and billets are produced at different standardized sizes and shapes. Slabs, blooms and billets are semi-finished lower margin products that we either use to produce our further processed products or sell to other steelmakers that produce further processed steel products.

Slabs are processed to produce hot rolled coil products at hot strip mills or to produce plates at plate mills. Hot rolled coils are an intermediate stage product that may either be sold to our customers as various finished products or be further processed by us or our customers into higher value-added products, such as cold rolled sheets and silicon steel sheets. Blooms and billets are processed into wire rods at wire rod mills.

Stainless Steel   Electric Arc Furnace Method

Stainless steel is produced from stainless steel scrap, chrome, nickel and steel scrap using an electric arc furnace. Stainless steel is then processed into higher value-added products by methods similar to those used for steel production. Stainless steel slabs are produced at a continuous casting mill. The slabs are processed at hot rolling mills into stainless steel hot coil, which can be further processed at cold strip mills to produce stainless cold rolled steel products.

Table of Contents

Competition

Domestic Market

We are the largest fully integrated steel producer in Korea. We generally face fragmented competition in the domestic market. In hot rolled products, where we had a market share of approximately 42% on a non-consolidated basis in 2012, we face competition from a Korean steel producer that operates mini-mills and produces hot rolled coil products from slabs and from various foreign producers, primarily from China and Japan. In cold rolled products and stainless steel products, where we had a market share of approximately 48% and 49%, respectively, on a non-consolidated basis in 2012, we compete with smaller specialized domestic manufacturers and various foreign producers, primarily from China and Japan. For a discussion of domestic market shares, see Markets Domestic Market.

We may face increased competition in the future from new specialized or integrated domestic manufacturers of steel products in the Korean market. Our biggest competitors in Korea are Hyundai Steel Co., Ltd. with an annual crude steel production of approximately 17.1 million tons and Dongbu Steel Co., Ltd. with an annual crude steel production of approximately 2.0 million tons. Hyundai Steel completed construction of an integrated steel mill with an annual capacity of 4 million tons in January 2010 and added a second furnace with the same capacity in November 2010 and a third furnace with the same capacity in April 2011.

The Korean Government does not impose quotas on or provide subsidies to local steel producers. As a World Trade Organization signatory, Korea has also removed all steel tariffs.

Export Markets

The competitors in our export markets include all the leading steel manufacturers of the world. In recent years, there has been a trend toward industry consolidation among our competitors, and smaller competitors in the global steel market today may become larger competitors in the future. For example, Mittal Steel s takeover of Arcelor in 2006 created a company with approximately 10% of global steel production capacity. Competition from global steel manufacturers with expanded production capacity such as ArcelorMittal S.A., and new market entrants, especially from China and India, could result in a significant increase in competition. Major competitive factors include range of products offered, quality, price, delivery performance and customer service. Our larger competitors may use their resources, which may be greater than ours, against us in a variety of ways, including by making additional acquisitions, investing more aggressively in product development and capacity and displacing demand for our export products.

Various export markets currently impose tariffs on different types of steel products. However, we do not believe that tariffs significantly affect our ability to compete in these markets.

Subsidiaries and Global Joint Ventures

Steel Production

In order to effectively implement our strategic initiatives and to solidify our leadership position in the global steel industry, we have established various subsidiaries and joint ventures around the world that engage in steel production activities.

Korea. POSCO Specialty Steel produces high-quality steel products for the automotive, machinery, nuclear power plant, shipbuilding, aeronautics and electronics industries. We currently hold a 94.7% interest in the company. Production facilities operated by POSCO Specialty Steel have an aggregate annual production capacity of 840 thousand tons of wire rods, round bars, steel pipes and semi-finished products. POSCO Specialty Steel Co., Ltd. produced 580 thousand tons of such products in 2012.

In order to expand our sale of value-added products, we established POSCO Coated and Color Sheet Co., Ltd. by merging a coated steel manufacturer and a color sheet manufacturer in March 1999. POSCO Coated and Color Sheet produces 600 thousand tons a year of both galvanized and aluminized steel sheets widely used in the construction, automotive parts and home appliances industries. POSCO Coated and Color Sheet also produces color sheets with an annual capacity of 350 thousand tons that are mainly used for interior and exterior materials and home appliances.

China. We entered into an agreement with Sagang Group Co. to establish Zhangjiagang Pohang Stainless Steel Co., Ltd., a joint venture company in China for the manufacture and sale of stainless cold rolled steel products. We have an 82.5% interest in the joint venture (including 23.9% interest held by POSCO China Holding Corporation). The plant commenced production of stainless cold rolled steel products in December 1998. The joint venture also completed the construction of new mills in July 2006 with additional annual production capacity of approximately 800 thousand tons of stainless hot rolled products. Zhangjiagang Pohang Stainless Steel produced 998 thousand tons of stainless steel products in 2012.

We established Qingdao Pohang Stainless Steel Co., Ltd., a wholly owned subsidiary set up to manufacture and sell stainless cold rolled steel products in China. The plant became operational in December 2004, with an annual production capacity of 180 thousand tons of stainless cold rolled steel products. Qingdao Pohang Steel produced 211 thousand tons of such products in 2012.

In August 2003, we entered into a joint venture agreement with Benxi Iron and Steel Group in China to establish Benxi Steel POSCO Cold Rolled Sheet Co., Ltd. The cold rolling mill with an annual production capacity of 1.9 million tons became operational in March 2006 and the company produced 1.9 million tons of such products in 2012. We currently hold a 25% interest in this joint venture.

Vietnam. We entered into an agreement with Nippon Steel & Sumitomo Metal Corporation to establish POSCO Vietnam Co., Ltd., a joint venture company in Vietnam for the manufacture and sale of cold rolled steel products. We have an 85% interest in the joint venture. We completed the construction of a plant in September 2009 with an annual production capacity of 1.2 million tons of cold rolled products and commenced commercial production. POSCO Vietnam produced 939 thousand tons of such products in 2012.

Thailand. In order to secure an alternative sales source for stainless cold rolled steel products and an export base for expanding into the Southeast Asia stainless steel markets, we acquired a controlling interest in Thainox Stainless Public Company Limited, a major stainless steel manufacturer in Thailand, in September 2011. We renamed the company as POSCO Thainox Public Company Limited in October 2011 and currently hold a 84.9% interest in the company. POSCO Thainox Pcl plans to increase its production volume to 300,000 tons by 2015. The company produced 177 thousand tons of stainless cold rolled products in 2012.

United States. We entered into a joint venture in March 2007 with US Steel and SeAH to establish United Spiral Pipe LLC to produce American Petroleum Institute-compliant pipes (API Pipes) and non-API pipes. We hold a 35% interest in the company. US Steel and we each supply 50% of the hot rolled steel required for the production of pipes. United Spiral Pipe started commercial production in May 2010 and produced 40 thousand tons of pipes in 2012.

We also entered into 50-50 joint venture between U.S. Steel Corporation and us called USS-POSCO Industries Corporation. We sell hot rolled products to USS-POSCO Industries, which uses such products to manufacture cold rolled and galvanized steel products and tin-plate products for sale in the United States. USS-POSCO Industries produced 845 thousand tons of such products in 2012.

Mexico. In Mexico, POSCO Mexico S.A. de C.V. completed the construction of a plant in August 2009 with an annual production capacity of 0.4 million tons of cold rolled products and commenced commercial production to supply automotive manufacturers in Mexico, Southeastern United States and South America. POSCO Mexico produced 372 thousand tons of cold rolled products in 2012.

Table of Contents

Others. In addition to the above investments, we are carefully seeking out additional promising investment opportunities abroad. In June 2005, we entered into a memorandum of understanding with Orissa State Government of India for the construction of an integrated steel mill and the development of iron ore mines in Orissa State. We estimate the aggregate costs of the initial phase of construction and mine development to be approximately $3.7 billion and an additional cost of approximately $8.3 billion in order to increase the annual production capacity to 12 million tons of plates and hot rolled products. We obtained clearance from the Government of India in May 2011 for deforestation and we are currently in the process of acquiring the land on which the integrated steel mill will be constructed. However, the National Green Tribunal, a special court in India that handles the expeditious disposal of cases pertaining to environmental issues, ordered in March 2012 that the Ministry of Environment should reassess the conditions on which clearance was granted for the project, and the ministry is currently in the process of revalidating its environmental clearance. With respect to development of iron ore mines in Orissa State, all hearings have been completed, and we are waiting for the final verdict from the Indian Supreme Court. In June 2010, we also signed a memorandum of understanding with the Government of Karnataka, a state in southwest India, to construct an integrated steel mill in Karnataka. However, due to the cease and desist order from the Supreme Court of India on all mining activities in Karnataka as a result of illegal mining operations and the region s political instability, the mining lease and land acquisition processes are being delayed.

We have also established supply chain management centers around the world to provide processing and logistics services such as cutting flat steel products to smaller sizes to meet customers needs. In 2012, our 42 supply chain management centers recorded aggregate sales of 4.0 million tons of steel products.

Trading

Our trading activities consist primarily of trading activities of Daewoo International. We acquired a controlling interest in Daewoo International for Won 3.37 trillion on September 20, 2010, and we currently hold a 60.3% interest in Daewoo International. Our consolidated subsidiaries that also engage in trading activities include POSCO Processing & Service Co., Ltd. that primarily focuses in the domestic market, and POSCO Asia Company Limited located in Hong Kong, POSCO Japan Co., Ltd. located in Tokyo, Japan, POSCO America Corporation located in New Jersey, U.S.A. and POSCO South Asia Co., Ltd. located in Bangkok, Thailand.

Daewoo International is a global trading company that primarily engages in trading of steel and raw materials as well as investing in energy and mineral development projects. It also manufactures and sells textiles and operates a department store in Korea. Daewoo International was established in December 2000 when the international trading and construction businesses of Daewoo Corporation were spun off into three separate companies as part of a debt workout program of Daewoo Corporation.

Table of Contents

The following table sets forth a breakdown of Daewoo International s total sales by export sales, domestic sales and third-party trades as well as product category for the periods indicated:

Product Category	2010 [1]		2011		2012	
	For the Year Ended December 31, (In billions of Won, except percentages)					
Export Sales						
Trading sales:						
Steel and metal	4,742	29.5%	6,070	31.2%	6,203	35.3%
Chemical and commodities	1,654	10.3	1,654	8.5	1,686	9.6
Automobile and machinery parts	1,370	8.5	1,527	7.8	1,469	8.4
Electronics and miscellaneous items	83	0.5	93	0.5	120	0.7
Natural resources development					2	0.0
Car seats and other goods	20	0.1	18	0.1	26	0.1
Sub-total	7,868	49.0	9,362	48.1	9,506	54.1
Manufactured product sales	143	0.9	196	1.0	143	0.8
Miscellaneous	40	0.2	71	0.4	25	0.1
Total export sales	8,051	50.1	9,629	49.5	9,674	55.0
Domestic Sales						
Trading sales:						
Steel and metal	517	3.2%	688	3.5%	609	3.5%
Chemical and commodities	55	0.4	70	0.4	69	0.4
Automobile and machinery parts	8	0.1	8	0.1	3	0.0
Electronics and miscellaneous items					7	0.0
Car seats and other goods	72	0.5	78	0.4	66	0.4
Sub-total	653	4.1	844	4.3	754	4.3
Manufactured product sales	99	0.6	103	0.5	85	0.5
Miscellaneous	7	0.0	8	0.1	9	0.1
Total domestic sales	759	4.7	955	4.9	848	4.9
Third-Country Trades						
Trading	9,998	62.3%	12,151	62.5%	10,220	58.2%
Natural resources development	55	0.3	58	0.3	78	0.4
Manufactured product trading	467	2.9	474	2.4	312	1.8
Total third-country trades	10,521	65.5	12,683	65.2	10,610	60.4
Consolidation adjustments	(3,269)	(20.3)	(3,810)	(19.6)	(3,561)	(20.3)
Total sales	16,062	100.0%	19,457	100.0%	17,571	100.0%

(1) Sales results of Daewoo International in 2010 were consolidated into our results only from the date of our acquisition of Daewoo International on September 20, 2010.

The tables below set out Daewoo International s total sales by geographical area for the periods indicated.

	For the Year Ended December 31,			
	2011		2012	
Region	Billions of Won	%	Billions of Won	%
Korea	851	4.4%	1,471	8.4%
Asia (excluding China)	7,073	36.4	6,819	38.8
China	4,111	21.1	3,451	19.6
North America	1,484	7.6	1,455	8.3
Others	5,938	30.5	4,374	24.9
Total	19,457	100.0%	17,571	100.0%

Trading Activities. Daewoo International s trading activities consist of exporting and importing a wide variety of products and commodities, including iron and steel, raw materials for steel production, non-ferrous metals, chemicals, automotive parts, machinery and plant equipment, electronics products,

Table of Contents

agricultural commodities and textiles. Daewoo International is also engaged in third-country trade that does not involve exports from or imports to Korea. The products are obtained from and supplied to numerous suppliers and purchasers in Korea and overseas, which are procured through a global trading network comprised of 38 overseas trading subsidiaries and 51 overseas branches and representative offices in 46 countries. Such subsidiaries and offices support Daewoo International s trading activities by locating suitable local suppliers and purchasers on behalf of customers, identifying business opportunities and providing information regarding local market conditions.

In most cases, Daewoo International enters into trading transactions after the underlying sale and purchase contracts have been matched, which mitigates inventory and price risks to Daewoo International. Daewoo International has not experienced material losses related to such risks. Daewoo International typically enters into trading transactions as a principal, and in limited cases as an import or export agent. When acting as a principal or an agent, Daewoo International derives its gross trading profit from the margin between the selling price of the products and the purchase price it pays for such products. In the case of principal transactions, the selling price is recorded as sales and the purchase price is recorded as cost of sales, while only the margin is recorded as sales in the case of agency transactions in which Daewoo International does not assume the risks and rewards of ownership of the goods. In the case of principal transactions, it typically takes between 23 days to 63 days between Daewoo International s payment of goods and its receipt of payment from its customers. In the instances in which it acts as an arranger for a third country transaction, Daewoo International derives its gross trading profit from, and records as sales, the commission paid to it by the customer. The sizes of margins and commissions for Daewoo International s trading activities vary depending on a number of factors, including prevailing supply and demand conditions for the product involved, the cost of financing, insurance, storage and transport and the creditworthiness of the customer, and tends to decline as the product or market matures.

In connection with its export and import transactions, Daewoo International has accounts receivable and payable in a number of currencies, but principally in Dollars. Daewoo International s exposure to fluctuations in exchange rates, including the Won/Dollar exchange rate, is limited because trading transactions typically involve matched purchase and sale contracts, which result in limited settlement exposure, and because Daewoo International s contracts with domestic suppliers of products for export and with domestic purchasers of imported products are generally denominated in Dollars. Although the impact of exchange rate fluctuations is substantially mitigated by such strategies, Daewoo International also periodically enters into derivative contracts, primarily currency forward contracts, to further hedge its foreign exchange risks.

In connection with its trading activities, Daewoo International arranges insurance and product transport at the request of customers, the costs of which generally become reflected in the sales price of the relevant products, and also provides financing services to its purchasers and suppliers as necessary. In the case of trading transactions involving large-scale industrial or construction projects, Daewoo International also provides necessary project planning and organizing services to its customers.

Natural Resources Development Activities. Daewoo International also invests in energy and mineral development projects throughout the world. In particular, Daewoo International joined a consortium with Korea Gas Corporation, ONGC Videsh Ltd. and the Gas Authority of India Ltd. in November 2002, which made a successful bid in the gas exploration, development and production project in the Myanmar A-1 gas field. In October 2005, the consortium made a successful bid in the gas exploration, development and production project in the Myanmar A-3 gas field, located adjacent to the Myanmar A-1 gas field. In December 2008, the consortium entered into a sales agreement with China National United Oil Corporation to sell the gas produced from the A-1 and A-3 gas fields for a period of 30 years after the commencement of production. In August 2010, Myanmar Oil & Gas Enterprise, the national oil and gas company of Myanmar, acquired a 15% interest in each of the projects. As of December 31, 2012, Daewoo International had invested approximately US$892 million in the A-1 and A-3 gas field projects, approximately US$160 million in a related off-shore pipeline

Table of Contents

project and approximately US$288 million in a related on-shore pipeline project. Daewoo International held a 51% interest in each of the A-1, A-3 and off-shore pipeline projects and a 25% interest in the on-shore pipeline project. Daewoo International plans to make substantial further investments in these gas fields in the future, and production of gas from these gas fields is expected to commence in May 2013.

Such natural resources development projects, while entailing higher risks than the traditional trading business, offer higher potential returns. Daewoo International intends to continue to expand its operations by carefully seeking out promising energy development projects abroad. Daewoo International mitigates the risks associated with such investments through subsidies from the Special Account for Energy Related Funds that is administered, among others, by Korea National Oil Corporation and Korea Resources Corporation, government agencies that promote natural resources development activities of the fund. The fund subsidizes a portion of the investment amount in the event the investor fails to develop viable deposits. If the natural resources development activities are successful, the investor must reimburse the Fund for the subsidy amount, together with accrued interest. In most instances, Daewoo International is required to obtain consent from the Ministry of Trade, Industry & Energy prior to investing in natural resources development projects.

Competition. Daewoo International competes principally with six other Korean general trading companies, each of which is affiliated with a major domestic business group, as well as global trading companies based in other countries. In the domestic market, competition for export transactions on behalf of domestic suppliers and import transactions on behalf of domestic purchasers was limited, as most affiliated general trading companies of large Korean business groups generally relied on affiliate transactions for the bulk of their trading business. However, in recent years, many of these Korean general trading companies have reduced their reliance on their affiliated business group and transactions carried out on behalf of their member companies and instead have generally evolved to focus on segments of the import and export markets in which they have a competitive advantage. As a result, competition among Korean general trading companies in the area of traditional trade has become more intense. Daewoo International s principal competitors in the overseas trading markets include Korean trading companies that operate in various international markets, as well as foreign trading companies, particularly those based in Japan. As Daewoo International diversifies into businesses other than traditional trading such as natural resources development, it also increasingly competes with other Korean and international companies involved in these businesses.

Construction

POSCO E&C, our consolidated subsidiary in which we hold an 89.5% interest, is one of the leading engineering and construction companies in Korea, primarily engaged in the planning, design and construction of industrial plants and architectural works and civil engineering projects. In particular, POSCO E&C has established itself as one of the premier engineering and construction companies in Korea through:

- its strong and stable customer base; and

- its cutting-edge technological expertise obtained from construction of advanced integrated steel plants, as well as participation in numerous modernization and rationalization projects at our Pohang Works and Gwangyang Works.

Table of Contents

Construction Services Offered. The following table sets forth a breakdown of POSCO E&C s total sales by product category for the periods indicated:

Product Category	For the Year Ended December 31, 2010		2011		2012	
	(In billions of Won, except percentages)					
Plant works	2,228	31.0%	1,797	23.9%	3,223	37.3%
Architectural works	1,779	24.7	1,728	23.0	2,026	23.5
Energy works	1,184	16.5	1,465	19.5	1,411	16.3
Civil works	1,260	17.5	1,458	19.4	1,220	14.1
Real estate services	131	1.8	94	1.3	40	0.5
Engineering services	775	10.8	1,137	15.1	1,118	12.9
Consolidation adjustments	(163)	(2.3)	(171)	(2.3)	(401)	(4.6)
Total sales	7,194	100.0%	7,508	100.0%	8,637	100.0%

The tables below set out POSCO E&C s total sales by geographical area for the periods indicated.

Region	For the Year Ended December 31, 2010		2011		2012	
	(In billions of Won, except percentages)					
Korea	6,389	88.8%	5,438	72.4%	7,729	89.5%
Southeast Asia	290	4.0	493	6.6	475	5.5
India	65	0.9	201	2.7	56	0.6
China	155	2.2	133	1.8	170	2.0
Middle East	12	0.2	294	3.9	217	2.5
Central and South America	418	5.8	1,001	13.3	261	3.0
Others	28	0.4	120	1.6	131	1.5
Consolidation adjustments	(163)	(2.3)	(171)	(2.3)	(401)	(4.6)
Total sales	7,194	100.0%	7,508	100.0%	8,637	100.0%

Leveraging its technical know-how and track record of building some of the leading industrial complexes in Korea, POSCO E&C has also focused on diversifying its operations into construction of high-end apartment complexes and participating in a wider range of architectural works and civil engineering projects, as well as engaging in urban planning and development projects and expanding its operations abroad. One of its landmark urban planning and development projects includes the development of a 5.7 million-square meter area of Songdo International City in Incheon, which POSCO E&C is co-developing with Gale International, a respected real estate developer based in the United States. POSCO E&C also has substantial experience in the energy field obtained from the construction of various power plants for member companies of the POSCO Group, specializing primarily in engineering and construction of liquefied natural gas (LNG) and coal-fired thermal power plants. In recent years, POSCO E&C has obtained various orders for such power plants, including LNG-fired power plants in Incheon, Korea and coal-fired thermal power plants in Ventanas and Angamos, Chile. In response to increasing demand from the energy industry, POSCO E&C plans to continue to target opportunities in power plant construction, which it believes offers significant growth potential, and thereby enhance its know-how and profitability.

Competition. Competition in the construction industry is based primarily on price, reputation for quality, reliability, punctuality and financial strength of contractors. In Korea, POSCO E&C s main competition in the construction of residential and non-residential buildings, EPC projects, urban planning and development projects and civil works projects consists of approximately ten major domestic construction companies, all of which are member companies of other large business groups in Korea and are capable of undertaking larger-scale, higher-value-added projects that offer greater potential returns. A series of measures introduced by the Government over the past few years to regulate housing prices in Korea, as well as an increasing popularity of low-bid contracts in civil works project mandates, have contributed to increased competition in the Korean construction industry in

39

Table of Contents

recent years. In the overseas markets, POSCO E&C faces competition from local construction companies, as well as international construction companies from other countries, including other major Korean construction companies with overseas operations. Construction companies from developed countries may be more experienced, have greater financial resources and possess more sophisticated technology than POSCO E&C, while construction companies from developing countries often have the advantage of lower wage costs.

Others

As part of our diversification efforts, we strive to identify business opportunities that supplement our steel, trading and construction segments, including power generation, LNG logistics and network and system integration.

POSCO Energy Corporation. In 2006, we acquired the largest domestic private power utility company that operates LNG combined cycle power generation facilities with total power generation capacity of 1,800 megawatts and renamed it POSCO Energy Corporation. POSCO Energy Corporation expanded its power generation capacity by constructing additional 1,252 megawatts power plants that began commercial operation in June 2011. In December 2010, POSCO Energy Corporation also completed the construction of a 284 megawatts combined cycle power generation facility utilizing by-product gas generated from our Gwangyang Works. As part of its efforts to geographically diversify its power generation facilities, POSCO Energy Corporation is constructing a 1,200 megawatts class coal power plant in Vietnam with Applied Energy Services Corporation. In Indonesia, POSCO Energy Corporation has partnered with PT. Krakatau Daya Listrik to build a 200 megawatts by-product gas power plant, which will be used to power our integrated mill. POSCO Energy Corporation s total power generation capacity was approximately 3,300 megawatts as of December 31, 2012, and it plans to further increase its power generation capacity with the construction of additional power plants in Korea.

POSCO Energy Corporation is also selectively seeking opportunities to expand into solar, wind and other renewable energy businesses in order to become an integrated provider of energy solutions. In order to meet the increasing demand and regulatory requirements for clean energy, POSCO Energy Corporation signed a strategic partnership agreement in February 2007 with FuelCell Energy, a global leader in the field of molten carbonate fuel cell technology, pursuant to which POSCO Energy Corporation is exploring opportunities to expand its business into the stationary fuel cell market. In consultation with FuelCell Energy, POSCO Energy Corporation completed construction of a fuel cell stack manufacturing plant with an annual production capacity of 34 megawatts in 2011 with the objective of enhancing POSCO Energy Corporation s capability to meet the growing domestic demand for fuel cell energy.

LNG Logistics. In an effort to reduce our dependency on oil, we became the first private company in Korea to import LNG in 2005, and we have steadily increased the use of natural gas for energy generation at our steel production facilities. We operate an LNG receiving terminal that is equipped with two 100,000 kiloliters storage tanks and one 165,000 kiloliters storage tank and additional facilities with capacity to process up to 1.7 million tons of LNG annually in Gwangyang. We are also constructing an additional 165,000 kiloliters storage tank that is scheduled for completion in May 2013. In order to achieve maximum operational efficiency of our LNG terminal, we participate in the LNG trading and LNG ship gas trial businesses. We are also building a synthetic natural gas production plant with an annual capacity of 500,000 tons in Gwangyang that is scheduled for completion by the end of 2014. We believe that the synthetic natural gas production plant will provide us with a stable supply of LNG substitutes that we can utilize to meet our growing needs for energy generation.

Others. We acquired or established several subsidiaries that address specific services to support the operations of Pohang Works and Gwangyang Works. POSCO ICT Co., Ltd., founded in 1989, provides information and technology consulting and system network integration and outsourcing services. POSCO Plant Engineering Co., Ltd., created from merger of POSCO Machinery &

Table of Contents

Engineering Co., Ltd. and POSCO Machinery Co., Ltd. in January 2010, provides engineering services related to plant construction and operations. POSCO Chemtech Company Ltd., formerly POSCO Refractories and Environment Company, Ltd., specializes in the manufacturing of refractories and lime used in steel manufacturing processes as well as a wide range of chemical products.

Insurance

As of December 31, 2012, our property, plant and equipment are insured against fire and other casualty losses up to approximately Won 17,800 billion. In addition, we carry general insurance for vehicles and accident compensation insurance for our employees to the extent we consider appropriate.

Item 4.C. ***Organizational Structure***

The following table sets out the jurisdiction of incorporation and our ownership interests of our significant subsidiaries:

Name	Jurisdiction of Incorporation	Percentage of Ownership
Daewoo International Corporation	Korea	60.31%
POSCO Engineering & Construction Co., Ltd	Korea	89.53%
POSCO Energy Corporation	Korea	89.02%
Zhangjiagang Pohang Stainless Steel Co., Ltd.	China	82.48%
POSCO Specialty Steel Co., Ltd.	Korea	94.74%
POSCO Processing & Service Co., Ltd.	Korea	95.31%
POSCO ICT Co., Ltd.	Korea	72.54%

Item 4.D. ***Property, Plants and Equipment***

Our principal properties are Pohang Works, which is located at Youngil Bay on the southeastern coast of Korea, and Gwangyang Works, which is located in Gwangyang City in the southwestern region of Korea. We expect to increase our production capacity in the future when we increase our capacity as part of our facilities expansion or as a result of continued modernization and rationalization of our existing facilities. For a discussion of major items of our capital expenditures currently in progress, see Item 5. Operating and Financial Review and Prospects Item 5.B. Liquidity and Capital Resources Liquidity Capital Expenditures and Capital Expansion.

Pohang Works

Construction of Pohang Works began in 1970 and ended in 1983. Pohang Works currently has an annual crude steel and stainless steel production capacity of 16.7 million tons. Pohang Works produces a wide variety of steel products. Products produced at Pohang Works include hot rolled sheets, plates, wire rods and cold rolled sheets, as well as specialty steel products such as stainless steel sheets and silicon steel sheets. These products can also be customized to meet the specifications of our customers.

Situated on a site of 8.9 million square meters at Youngil Bay on the southeastern coast of Korea, Pohang Works consists of 44 plants, including iron-making, crude steelmaking and continuous casting and other rolling facilities. Pohang Works also has docking facilities capable of accommodating ships as large as 200,000 tons for unloading raw materials, storage areas for up to 34 days supply of raw materials and separate docking facilities for ships carrying products for export. Pohang Works consumed approximately 321 thousand tons of LNG and approximately 11,310 gigawatt hours of electricity in 2012. Pohang Works is equipped with a highly advanced computerized production-management system allowing constant monitoring and control of the production process.

Table of Contents

The following table sets out Pohang Works capacity utilization rates for the periods indicated.

	As of or for the Year Ended December 31,		
	2010	2011	2012
Crude steel and stainless steel production capacity as of end of the year (million tons per year)	15.00	16.65	16.65
Actual crude steel and stainless steel output (million tons)	14.23	16.38	16.54
Capacity utilization rate (%) (1)	94.9	98.4	99.3

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

Gwangyang Works

Construction of Gwangyang Works began in 1985 on a site of 13.7 million square meters reclaimed from the sea in Gwangyang City in the southwestern region of Korea. Gwangyang Works currently has an annual crude steel production capacity of 20.8 million tons. Gwangyang Works specializes in high volume production of a limited number of steel products. Products manufactured at Gwangyang Works include both hot and cold rolled types.

Gwangyang Works is comprised of 46 plants, including iron-making plants, steelmaking plants, continuous casting plants, hot strip mills and thin-slab hot rolling plants. The site also features docking and unloading facilities for raw materials capable of accommodating ships of as large as 300,000 tons for unloading raw materials, storage areas for 38 days supply of raw materials and separate docking facilities for ships carrying products for export. Gwangyang Works consumed approximately 319 thousand tons of LNG and approximately 13,733 gigawatt hours of electricity in 2012.

We believe Gwangyang Works is one of the most technologically advanced integrated steel facilities in the world. Gwangyang Works has a completely automated, linear production system that enables the whole production process, from iron-making to finished products, to take place without interruption. This advanced system reduces the production time for hot rolled products to only four hours. Like Pohang Works, Gwangyang Works is equipped with a highly advanced computerized production-management system allowing constant monitoring and control of the production process.

Capacity utilization has kept pace with increases in capacity. The following table sets out Gwangyang Works capacity utilization rates for the periods indicated.

	As of or for the Year Ended December 31,		
	2010	2011	2012
Crude steel production capacity as of end of the year (million tons per year)	20.80	20.80	20.80
Actual crude steel output (million tons)	19.48	20.94	21.45
Capacity utilization rate (%) (1)	100.4	100.7	103.1

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

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. As we continue to diversify our production operations abroad and the importance of comprehensive environmental management continues to grow, we announced an integrated environmental management system in December 2010, pursuant to which all of our subsidiaries located in Korea as well as abroad acquired the ISO 14001 certification. We also operate a certification program targeting our suppliers and outsourcing partners, pursuant to which they are encouraged to establish environmental management systems of their own.

We have taken additional measures to ensure that we are appropriately addressing environmental issues. We recycle most of the by-products from the steelmaking process. A vital part of our production process requires consumption of water, and many of our operations are located on coastal sites or adjacent to major lakes and rivers. Recognizing the importance of water resources, we established mid-to-long-term water management strategies to more effectively utilize water resources, including increasing water recycling, reducing usage volume, developing substitute sources and reducing manufacturing discharge harmful to the environment. As part of our efforts to preserve biological diversity, we supply steel slag that is used in the construction of underwater facilities designed to restore marine ecosystems damaged by rising seawater temperatures. In addition, we 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 Austrian 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 late 2013. 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 27.3 billion in facilities and equipment for the program in 2012, and we spent Won 76.3 billion in our research and development activities in 2012 to reduce carbon dioxide emissions. 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. 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 636 billion in 2010, Won 493 billion in 2011 and Won 634 billion in 2012 on 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.

Table of Contents

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 IFRS, as issued by the IASB. Unless otherwise noted, the amounts included in Item 5.A. are presented on a consolidated basis.

Overview

We are the largest fully integrated steel producer in Korea. We have four reportable operating segments a steel segment, a trading segment, an engineering and construction 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 trading segment consists of global trading activities of Daewoo International, 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 construction segment includes planning, designing and construction of industrial plants, civil engineering projects and commercial and residential buildings, both in Korea and overseas. The others segment includes power generation, LNG production, network and system integration and logistics. See Note 39 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; and
- acquisition of Daewoo International in September 2010.

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.

In 2011, unit sales prices in Won for all of our principal product lines of steel products produced by us and directly sold to external customers increased. The weighted average unit price for such products increased by 13.1% from 2010 to 2011, despite an appreciation in the average value of the Won against the Dollar from 2010 to 2011 that decreased 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 from Won 1,156.3 to US$1.00 in 2010 to Won 1,108.1 to US$1.00 in 2011.

The unit sales price of wire rods, which accounted for 5.7% of total sales volume of the principal steel products produced by us and directly sold to external customers, increased by 34.6% in 2011. The unit sales price of cold rolled products, which accounted for 37.3% of total sales volume of such products, increased by 13.3% in 2011. The unit sales price of plates, which accounted for 14.8% of total sales volume of such products, increased by 12.6% in 2011. The unit sales price of stainless steel products, which accounted for 8.2% of total sales volume of such products, increased by 12.3% in 2011. The unit sales price of hot rolled products, which accounted for 30.1% of total sales volume of such products, increased by 10.4% in 2011. The unit sales price of silicon steel sheets, which accounted for 3.8% of total sales volume of such products, increased by 5.9% in 2011.

In 2012, unit sales prices in Won for all of our principal product lines of steel products produced by us and directly sold to external customers decreased. The weighted average unit price for such products decreased by 10.6% from 2011 to 2012, despite a depreciation in the average value of the Won against the dollar in 2012 that increased our export prices in Won terms. The average exchange rate of the Won against the Dollar depreciated from Won 1,108.1 to US$1.00 in 2011 to Won 1,126.9 to US$1.00 in 2012.

The unit sales price of plates, which accounted for 13.8% of total sales volume of the principal steel products produced by us and directly sold to external customers, decreased by 16.2% in 2012. The unit sales price of hot rolled products, which accounted for 28.5% of total sales volume of such products, decreased by 15.4% in 2012. The unit sales price of stainless steel products, which accounted for 9.2% of total sales volume of such products, decreased by 14.3% in 2012. The unit sales price of silicon steel sheets, which accounted for 3.8% of total sales volume of such products, decreased by 13.4% in 2012. The unit sales price of cold rolled products, which accounted for 39.6% of total sales volume of such products, decreased by 8.4% in 2012. The unit sales price of wire rods, which accounted for 5.1% of total sales volume of such products, decreased by 6.3% in 2012.

We maintained relatively constant export pricing levels throughout 2010, but we gradually increased our export prices in the first half of 2011. However, our export prices fell substantially in the second half of 2011 and decreased further in 2012 due to uncertainties in the global economy caused by financial difficulties affecting European countries including Greece, Spain, Portugal and Italy. 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.

Table of Contents

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, 2010	2011	2012
	(In thousands of Won per ton)		
Cold rolled products	928	1,051	963
Hot rolled products	789	871	737
Stainless steel products	2,748	3,087	2,646
Plates	926	1,043	873
Wire rods	987	1,328	1,245
Silicon steel sheets	1,484	1,571	1,362
Average [(1)]	1,059	1,198	1,071

(1) Average prices are based on the weighted average, by sales volume, of our sales for the listed principal products produced by us and directly sold to external customers. See Item 4. Information on the Company Item 4.B. Business Overview Major Products. The average unit sales price calculation does not include sales results of steel products categorized as others.

Costs and Production Efficiency

Our major costs and operating expenses are raw material purchases, depreciation, labor and other purchases. The table below sets out our cost of sales and selling and administrative expenses as a percentage of our revenue as well as gross profit margin and operating profit margin for the periods indicated.

	For the Year Ended December 31, 2010	2011	2012
	(Percentage of net sales)		
Cost of goods sold	82.9%	86.8%	88.3%
Selling and administrative expenses	5.5	5.3	6.0
Gross margin	17.1	13.2	11.7
Operating profit margin	11.3	7.8	5.2

Our operating profit margin decreased from 11.3% in 2010 to 7.8% in 2011. Our operating profit margin was negatively affected in 2011 due to the consolidation of Daewoo International s results in 2011 for the full year compared to the consolidation of such results in 2010 starting September 20, 2010, the date of our acquisition of the controlling interest in Daewoo International. Daewoo International, as a global trading company that primarily engages in trading of steel and raw materials, typically recognizes revenue from its trading activities on a gross basis that results in lower margin levels. Our operating profit margin further decreased to 5.2% in 2012, reflecting the current challenging business environment as discussed below.

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.

Table of Contents

Production capacity represents our maximum production capacity that can be achieved with an optimal level of operations of our facilities. The table below sets out certain information regarding our production capacity and efficiency in the production of steel products for the periods indicated.

	For the Year Ended December 31,		
	2010	2011	2012
Crude steel and stainless steel production capacity (million tons per year) (1)	37.6	39.5	39.6
POSCO	35.8	37.5	37.5
POSCO Specialty Steel Co., Ltd.	1.0	1.0	1.1
Zhangjiagang Pohang Stainless Steel Co., Ltd.	0.8	1.0	1.0
Actual crude steel and stainless steel output (million tons) (1)	35.4	39.0	39.7
POSCO	33.7	37.3	38.0
POSCO Specialty Steel Co., Ltd.	0.8	0.8	0.7
Zhangjiagang Pohang Stainless Steel Co., Ltd.	0.8	0.9	1.0
Capacity utilization rate (%) (1)	94.2%	98.7%	100.3%
POSCO	94.2%	99.7%	101.4%
POSCO Specialty Steel Co., Ltd.	85.2%	86.4%	63.3%
Zhangjiagang Pohang Stainless Steel Co., Ltd.	103.8%	99.1%	103.3%

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

We believe that global demand for steel products will remain relatively weak in 2013, and we plan to decrease our steel production to approximately 37 million tons in 2013.

Exchange Rate Fluctuations

Our consolidated financial statements are prepared from our local currency denominated financial results, assets and liabilities and our subsidiaries around the world, which are then translated into Won. A substantial proportion of our consolidated financial results is accounted for in currencies other than the Won. Accordingly, our consolidated financial results and assets and liabilities may be materially affected by changes in the exchange rates of foreign currencies. In 2012, 48.0% of our total revenue from steel products produced and sold by us was in overseas markets outside of Korea. To the extent that we incur costs in one currency and make sales in another, our profit margins may be affected by changes in the exchange rates between the two currencies. Since the currency in which sales are recorded may not be the same as the currency in which expenses are incurred, foreign exchange rate fluctuations may materially affect our results of operations. 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;
- 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 primarily in Dollars; and
- foreign exchange translation losses on liabilities, which lower our earnings for accounting purposes.

Appreciation of the Won against major currencies, on the other hand, causes:

- our export products to be less competitive by raising our prices in Dollar terms; and a reduction in net sales and accounts receivables in Won from export sales, which are primarily denominated in Dollars.

We strive to naturally offset our foreign exchange risk by matching foreign currency receivables with our foreign currency payables and our overseas subsidiaries have sought to further mitigate the

47

adverse impact of exchange rate fluctuations by conducting business transactions in the local currency of the respective market in which the transactions occur. In particular, Daewoo International s exposure to fluctuations in exchange rates, including the Won/Dollar exchange rate, is limited because trading transactions typically involve matched purchase and sale contracts, which result in limited settlement exposure, and because Daewoo International s contracts with domestic suppliers of products for export and with domestic purchasers of imported products are generally denominated in Dollars. Although the impact of exchange rate fluctuations is partially mitigated by such strategies, we and our subsidiaries, particularly Daewoo International and POSCO E&C, also periodically enter into derivative contracts, primarily foreign currency swaps and forward exchange contracts, to further hedge our foreign exchange risks. However, our results of operations have historically been affected by exchange rate fluctuations and there can be no assurance that such strategies will be sufficient to reduce or eliminate the adverse impact of such fluctuations in the future. 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), depreciation of the Won generally has a negative impact on our results of operations.

Acquisition of Daewoo International in September 2010

On September 20, 2010, we acquired a controlling interest in Daewoo International for Won 3.37 trillion. In accordance with IFRS as issued by the IASB, the results of operations of Daewoo International have been consolidated starting on September 20, 2010, the date of acquisition. Accordingly, comparability with our consolidated financial statements for prior years is impacted accordingly. On a consolidated basis, Daewoo International generated revenues of Won 4,272 billion and profit for the period of Won 128 billion in 2010 subsequent to our acquisition, revenues of Won 19,457 billion and profit for the period of Won 211 billion in 2011, and revenues of Won 17,571 billion and profit for the period of Won 216 billion in 2012.

Inflation

Inflation in Korea, which was 3.0% in 2010, 4.2% in 2011 and 2.2% in 2012, has not had a material impact on our results of operations in recent years.

Critical Accounting Estimates

We have prepared our consolidated financial statements in accordance with IFRS as issued by the IASB. These accounting principles require us to make certain estimates and judgments that affect the reported amounts in our consolidated financial statements. Our estimates and judgments are based on historical experience, forecasted future events and various other assumptions that we believe to be reasonable under the circumstances. Estimates and judgments may differ under different assumptions or conditions. We evaluate our estimates and judgments on an ongoing basis. We believe the critical accounting policies discussed below are the most important to the portrayal of our financial condition and results of operations. Each of them is dependent on projections of future market conditions, and they require us to make the most difficult, subjective or complex judgments.

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 customer s 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, 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. As of December 31, 2012, the percentage of allowance for doubtful accounts to gross account receivables was 3.28%. Assumptions and judgments related to the allowance for doubtful accounts did not change in 2012.

Specifically, allowances for doubtful accounts are recorded when any of the following loss events occur: (i) there is objective evidence as to the 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) a dispute with the customer over the collection of the account persists for more than 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, 2012 was 0.21%. 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 Financial Instruments including Debt and Equity 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. 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 and discounted cash flow analysis are subject to various assumptions used that, if changed, could significantly affect the fair value of the investments.

We assess at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the asset is impaired. 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 in order to assess whether there is any objective evidence such as significant financial difficulty of the issuer.

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 1%, then the estimated fair values would have decreased by 10% 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 impairment losses on available-for-sale investments of Won 57 billion in 2010, Won 153 billion in 2011 and Won 224 billion in 2012. Losses on impairment of investments increased in 2012 primarily due to impairment losses of Won 96 billion and Won 36 billion resulting from significant and prolonged declines in the fair value of our investments in Jupiter Mines Ltd. and SK Telecom, respectively, to below cost.

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

At each reporting date, we review the carrying amounts of our tangible and intangible assets (excluding goodwill) to determine whether there is any indication that the carrying amount of those assets may not be recoverable through continuing use. If any such indication exists, the recoverable amount of the asset (or cash generating unit) is reviewed in order to determine the amount of the impairment, if any. The recoverable amount is the higher of the asset s net selling price (fair value reduced by selling costs) and its 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 the 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 and is subject to changes in market conditions.

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. Effective January 1, 2011, we changed our estimated useful lives for certain machinery and equipment in our steel operating segment from the previous eight years to fifteen years based on an asset life study. Our depreciation expense decreased by Won 1,227 billion in 2011 as a result of such changes in our estimated useful lives.

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 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, 2012, we estimated an average discount rate of 7.51% and an average rate of revenue growth of 1.01%. 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 1%, then the estimated fair values would have decreased by 13% in total. If the estimated average rate of revenue growth rate were decreased by 1%, then the estimated fair values would have decreased by 11% in total. These sensitivity analyses do not affect the impairment loss due to the absence of an impairment loss indicator for our long-lived assets.

Goodwill

Goodwill is tested for impairment annually at the level of the groups of cash generating units or whenever changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of the groups of cash-generating units are determined from the higher of their fair value less cost to sell or their value-in-use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period.

Our management estimates discount rates using post-tax rates that reflect current market rates for investments of similar risk. Growth rates are based on industry growth forecasts, and changes in selling prices and direct costs are based on historical experience and expectations of future changes in the market. Cash flow forecasts are derived from the most recent financial budgets for the next five years. Beyond the specifically forecasted period, we extrapolate cash flows for the remaining years based on an estimated growth rate. This rate does not exceed the average long-term growth rate for the relevant markets. Once recognized, impairment losses recognized for goodwill are not reversed.

In validating the value in use determined for the cash generating units, the sensitivity of key assumptions used in the discounted cash-flow model such as discount rates and the terminal growth rate was evaluated. If the estimated average discount rates used in these valuations were increased by 0.25%, the estimated value-in-use would have decreased by 3.21% in total. If the estimated terminal growth rates were decreased by 0.25%, the estimated value-in-use would have decreased by 3.87% in total. If the discount rate assumptions were increased by 0.25% or the terminal growth rate assumptions were decreased by 0.25%, there would be no impact on goodwill impairment. Based on an impairment test as of December 31, 2012, the value in use of each of the cash generating units substantially exceeded their respective carrying values.

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. 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.

Table of Contents

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 the 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 reporting date. The selling price range used for determining the net realizable value of our inventories ranged from the inventory cost amount less 11.6% of gross profit margin to the inventory cost amount plus 28.9% 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. There was no recovery in 2010, 2011 and 2012. The valuation losses of inventories recognized within cost of goods sold were Won 39 billion in 2010, Won 140 billion in 2011 and Won 76 billion in 2012.

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.

Employee Benefits

Our accounting of employee benefits for defined benefit plans involves judgments about uncertain events including, but not limited to, discount rates, life expectancy, future pay inflation and expected rate of return on plan assets. The discount rates are determined by reference to the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of our benefits obligations and that are denominated in the same currency in which the benefits are expected to be paid. The expected rate of returns assumptions on plan assets are based on the portfolio as a whole and determined on the assumptions considering long-term historical returns and asset allocations. Due to changing market and economic conditions, the underlying key assumptions may differ from actual developments and may lead to significant changes in our defined benefit plan. We immediately recognize all actuarial gains and losses arising from defined benefit plans in retained earnings. If the estimated average discount rates by actuarial assumptions used in these valuations were increased by 1%, then the estimated provision for severance benefits would have decreased by 7.80% in total. If the estimated future pay inflation rates were decreased by 1%, then the estimated provision for severance benefits would have decreased by 7.88% in total.

Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS

In addition to preparing financial statements in accordance with IFRS as issued by the IASB included in this annual report, we also prepare financial statements in accordance with K-IFRS as adopted by the KASB, which we are required to file with the Financial Services Commission and the Korea Exchange under the Financial Investment Services and Capital Markets Act of Korea.

Beginning with our financial statements prepared in accordance with K-IFRS as of and for the year ended December 31, 2012, we are required to adopt certain amendments to K-IFRS No. 1001,

Table of Contents

Presentation of Financial Statements, as adopted by the KASB in 2012. Accordingly, beginning with our consolidated statements of comprehensive income prepared in accordance with K-IFRS for the year ended December 31, 2012, we present operating profit or loss as an amount of revenue less cost of sales and selling and administrative expenses. The amendments were applied retroactively to our consolidated statements of comprehensive income prepared in accordance with K-IFRS for the year ended December 31, 2011 and certain of the items in such consolidated statements of comprehensive income were reclassified to conform to the presentation of operating profit or loss in the consolidated statements of comprehensive income prepared in accordance with K-IFRS for the year ended December 31, 2012. Prior to the adoption of the amendments to K-IFRS No. 1001, Presentation of Financial Statements, we had presented operating profit or loss in our consolidated statements of comprehensive income prepared in accordance with K-IFRS as an amount of revenue plus other income less cost of sales, selling and administrative expenses, and other expenses.

In our consolidated statements of comprehensive income prepared in accordance with IFRS as issued by the IASB included in this annual report, such changes in presentation were not adopted. As a result, the presentation of results from operating activities in our consolidated statements of comprehensive income prepared in accordance with IFRS as issued by the IASB included in this annual report differs from the presentation of operating profit or loss in the our consolidated statements of comprehensive income prepared in accordance with K-IFRS. The table below sets forth a reconciliation of our results from operating activities as presented in our consolidated statements of comprehensive income prepared in accordance with IFRS as issued by the IASB for each of the years ended December 31, 2011 and 2012 to the operating profit or loss as presented in our consolidated statements of comprehensive income prepared in accordance with K-IFRS after giving effect to the amendments to K-IFRS No. 1001, Presentation of Financial Statements, for each of the corresponding years.

	For the Year Ended December 31,	
	2011	**2012**
	(In millions of Won)	
Operating profit under IFRS as issued by the IASB	5,408,102	3,291,763
Additions:		
Loss on disposals of property, plant and equipment	60,550	65,486
Loss on disposals of investment property	8,826	3,197
Loss on disposals of assets held for sale		9,510
Loss on disposals of investment in associates		15,119
Idle tangible assets expenses	16,881	31,297
Impairment loss of assets held for sale		258,451
Other bad debt expenses	11,155	44,115
Donations	66,558	73,963
Loss on disposals of waste	30,585	45,480
Penalty and default losses	39,551	149,437
Impairment loss of property, plant and equipment and others	99,071	72,259
Others	33,356	41,151
	366,533	809,465
Deductions:		
Gain on disposals of property, plant and equipment	(13,812)	(42,290)
Rental revenues	(6,510)	(1,898)
Gain on disposals of intangible assets	(953)	(906)
Gain on disposals of investment in associates	(2,247)	(39,441)
Gain on disposal of assets held for sale		(193,333)
Grant income	(1,228)	(3,198)
Reversal of other bad debt allowance	(57,875)	
Reversal of other provisions	(35,629)	(16,037)
Outsourcing income	(42,136)	(29,136)
Gain on disposals of waste	(11,348)	(38,597)
Gain from claim compensation	(68,853)	(31,613)
Penalty income from early termination of contracts	(38,570)	(15,054)
Others	(27,780)	(36,617)
	(306,941)	(448,120)
Operating profit under K-IFRS after adoption of the amendments	5,467,694	3,653,108

53

Table of Contents

Operating Results 2011 Compared to 2012

The following table presents our income statement information and changes therein for 2011 and 2012.

	For the Year Ended December 31,		Changes 2011 versus 2012	
	2011	2012	Amount	%
	(In billions of Won)			
Revenue	68,939	63,604	(5,335)	(7.7)%
Cost of sales	59,824	56,143	(3,681)	(6.2)
Gross profit	9,115	7,461	(1,654)	(18.1)
Administrative expenses	2,035	2,129	94	4.6
Selling expenses	1,612	1,679	67	4.1
Other operating income	307	448	141	46.0
Other operating expenses	367	809	443	120.8
Operating profit	5,408	3,292	(2,116)	(39.1)
Share of profit (loss) of equity-accounted investees	51	(23)	(73)	N.A.
Finance income	3,190	2,897	(293)	(9.2)
Finance costs	3,867	2,798	(1,069)	(27.6)
Profit before income tax	4,782	3,368	(1,414)	(29.6)
Income tax expense	1,068	983	(85)	(8.0)
Profit for the period	3,714	2,386	(1,329)	(35.8)
Profit for the period attributable to owners of the controlling company	3,648	2,462	(1,186)	(32.5)
Profit (loss) for the period attributable to non-controlling interests	66	(76)	(143)	N.A.

N.A. means not applicable.

Revenue

The following table presents our revenue by segment and changes therein for 2011 and 2012.

	For the Year Ended December 31,		Changes 2011 versus 2012	
	2011	2012	Amount	%
	(In billions of Won)			
Steel Segment:				
External revenue	39,152	35,259	(3,893)	(9.9)%
Internal revenue	17,139	17,610	471	2.7
Total revenue from Steel Segment	56,291	52,869	(3,422)	(6.1)
Trading Segment:				
External revenue	21,097	18,946	(2,152)	(10.2)
Internal revenue	7,526	7,468	(58)	(0.8)

Total revenue from Trading Segment	28,623	26,414	(2,209)	(7.7)
Construction Segment:				
External revenue	5,476	4,676	(801)	(14.6)
Internal revenue	2,997	5,050	2,053	68.5
Total revenue from Construction Segment	8,473	9,726	1,253	14.8
Others Segment:				
External revenue	3,213	4,724	1,511	47.0
Internal revenue	2,446	2,857	411	16.8
Total revenue from Others Segment	5,660	7,581	1,921	33.9
Total revenue prior to consolidation adjustments	99,046	96,589	(2,457)	(2.5)
Consolidation adjustments	(30,108)	(32,985)	(2,878)	9.6
Revenue	68,939	63,604	(5,335)	(7.7)

Table of Contents

Our revenue decreased by 7.7%, or Won 5,335 billion, from Won 68,939 billion in 2011 to Won 63,604 billion in 2012 due to decreases in external revenues from the Steel Segment, the Trading Segment and the Construction Segment, which were offset in part by an increase in external revenue from the Others Segment. Specifically:

Steel Segment. External revenue from the Steel Segment, which does not include internal revenue from inter-company transactions that are eliminated during consolidation, decreased by 9.9%, or Won 3,893 billion, from Won 39,152 billion in 2011 to Won 35,259 billion in 2012 primarily due to a decrease in the average unit sales price per ton of the principal steel products produced by us and directly sold to external customers, the impact of which was partially offset by an increase in our sales volume of the principal steel products produced by us and directly sold to external customers. The weighted average unit sales price per ton of the principal steel products produced by us and directly sold to external customers decreased by 10.6% from Won 1,197,661 per ton in 2011 to Won 1,070,565 per ton in 2012, while the overall sales volume of the principal steel products produced by us and directly sold to external customers increased by 1.5% from 29.5 million tons in 2011 to 30.0 million tons in 2012. Such factors were principally attributable to the following:

- The unit sales prices in Won for all of our principal product lines of steel products produced by us and directly sold to external customers decreased from 2011 to 2012, ranging from a decrease of 6.3% for wire rods to a decrease of 16.2% for plates. For a discussion of changes in the unit sales prices of each of our principal product lines, see Overview Sales Volume, Prices and Product Mix above.

- The sales volume of our stainless steel products produced by us and directly sold to external customers increased by 14.3% from 2011 to 2012, and the sales volume of our cold rolled products and silicon steel sheets produced by us and directly sold to external customers increased by 7.6% and 0.8%, respectively, from 2011 to 2012. On the other hand, our sales volume of wire rods, plates and hot rolled products produced by us and directly sold to external customers decreased by 9.2%, 5.2% and 4.1%, respectively, from 2011 to 2012. For a discussion of changes in sales volume of each of our principal product lines, see Item 4.B. Business Overview Major Products.

Total revenue from the Steel Segment, which includes internal revenue from inter-company transactions, decreased by 6.1%, or Won 3,422 billion, from Won 56,291 billion in 2011 to Won 52,869 billion in 2012, as internal revenue from inter-company transactions increased from 2011 to 2012 due to an increased reliance on Daewoo International for our sale of steel products.

Trading Segment. External revenue from the Trading Segment, which does not include internal revenue from inter-company transactions that are eliminated during consolidation, decreased by 10.2%, or Won 2,152 billion, from Won 21,097 billion in 2011 to Won 18,946 billion in 2012 primarily due to a decrease in external revenue of Daewoo International from 2011 to 2012, reflecting market conditions related to the prolonged slowdown of the global economy that has been characterized by weaker demand and falling prices for export and import products and reduced trading volume.

Total revenue from the Trading Segment, which includes internal revenue from inter-company transactions, decreased by 7.7%, or Won 2,209 billion, from Won 28,623 billion in 2011 to Won 26,414 billion in 2012, primarily due to the reasons stated above, which was offset in part by an increase in reliance on Daewoo International by us on our steel trading activities.

Construction Segment. External revenue from the Construction Segment, which does not include internal revenue from inter-company transactions that are eliminated during consolidation, decreased by 14.6%, or Won 801 billion, from Won 5,476 billion in 2011 to Won 4,676 billion in 2012 primarily due to a general slowdown in the domestic construction market resulting in weaker demand.

Total revenue from the Construction Segment, which includes internal revenue from inter-company transactions, increased by 14.8%, or Won 1,253 billion, from Won 8,473 billion in 2011 to

Table of Contents

Won 9,726 billion in 2012 primarily due to an increase in revenue of POSCO E&C by 15.0%, or Won 1,129 billion, from Won 7,508 billion in 2011 to Won 8,637 billion in 2012. POSCO E&C s revenue increased primarily due to increases in revenues from plant works and architectural works operations, the impact of which was partially offset by a decrease in revenue from civil and environmental works operations.

Others Segment. The Others Segment includes power generation, LNG production, network and system integration, logistics and magnesium coil and sheet production. External revenue from the Others Segment, which does not include internal revenue from inter-company transactions that are eliminated during consolidation, increased by 47%, or Won 1,511 billion, from Won 3,213 billion in 2011 to Won 4,724 billion in 2012 primarily due to an increase in revenue of POSCO Energy Corporation. Revenue of POSCO Energy Corporation increased by 49.0%, or Won 939 billion, from Won 1,918 billion in 2011 to Won 2,857 billion in 2012 as it substantially increased its power generation capacity in 2012.

Total revenue from the Others Segment, which includes internal revenue from inter-company transactions, increased by 33.9%, or Won 1,921 billion, from Won 5,660 billion in 2011 to Won 7,581 billion in 2012, primarily due to the increase in revenue of POSCO Energy Corporation discussed above as well as increases in the revenues of POSCO Chemtech and POSCO M-Tech.

Cost of Sales

Our cost of sales decreased by 6.2%, or Won 3,681 billion, from Won 59,824 billion in 2011 to Won 56,143 billion in 2012. The decrease in cost of sales was primarily due to decreases in our sales volume of steel and non-steel products and trading activities as discussed above, as well as decreases in the average price in Won terms of key raw materials that were used to manufacture our finished goods sold.

The following table presents a breakdown of our cost of sales by segment, prior to adjusting for inter-company transactions that are eliminated during consolidation, and changes therein for 2011 and 2012.

	For the Year Ended December 31,		Changes 2011 versus 2012	
	2011	2012	Amount	%
	(In billions of Won)			
Steel Segment	49,459	47,616	(1,843)	(3.7)%
Trading Segment	27,453	25,287	(2,166)	(7.9)
Construction Segment	7,706	8,937	1,231	16.0
Others Segment	5,301	6,771	1,470	27.7
Consolidation adjustments	(30,095)	(32,468)	(2,373)	7.9
Cost of sales	59,824	56,143	(3,681)	(6.2)

Steel Segment. The cost of sales of our Steel Segment, prior to consolidation adjustments, decreased by 3.7%, or Won 1,843 billion, from Won 49,459 billion in 2011 to Won 47,616 billion in 2012, primarily due to decreases in the average price in Won terms of key raw materials that were used to manufacture our finished goods sold, the impact of which was partially offset by an increase in our sales volume of the principal steel products produced by us and directly sold to external customers as well as. For a discussion of fluctuations in prices of our key raw materials, see Item 4.B. Business Overview Raw Materials.

Trading Segment. The cost of sales of our Trading Segment, prior to consolidation adjustments, decreased by 7.9%, or Won 2,166 billion, from Won 27,453 billion in 2011 to Won 25,287 billion in 2012, primarily due to a decrease in our trading volumes.

Table of Contents

Construction Segment. The cost of sales of our Construction Segment, prior to consolidation adjustments, increased by 16.0%, or Won 1,231 billion, from Won 7,706 billion in 2011 to Won 8,937 billion in 2012, primarily due to an increase in the construction activities of POSCO E&C.

Others Segment. The cost of sales of our Others Segment, prior to consolidation adjustments, increased by 27.7%, or Won 1,470 billion, from Won 5,301 billion in 2011 to Won 6,771 billion in 2012, primarily due to costs related to substantial increase in POSCO Energy Corporation s power generation activities in 2012.

Gross Profit

Our gross profit decreased by 18.1%, or Won 1,654 billion, from Won 9,115 billion in 2011 to Won 7,461 billion in 2012. Our gross margin decreased from 13.2% in 2011 to 11.7% in 2012 as the decrease in revenue from 2011 to 2012 more than outpaced the decrease in cost of sales from 2011 to 2012, as described above. Our gross margin was negatively affected primarily by a decrease in the gross margin of our Steel Segment as described below.

The following table presents our gross profit by segment, prior to adjusting for inter-company transactions that are eliminated during consolidation, and changes therein for 2011 and 2012.

	For the Year Ended December 31,		Changes 2011 versus 2012	
	2011	2012	Amount	%
	(In billions of Won)			
Steel Segment	6,832	5,253	(1,579)	(23.1)%
Trading Segment	1,170	1,127	(43)	(3.7)
Construction Segment	767	789	22	2.8
Others Segment	359	810	452	125.8
Consolidation adjustments	(13)	(518)	(505)	4,025.9
Gross profit	9,115	7,461	(1,654)	(18.1)

Steel Segment. As a result of the factors described above, the gross margin of our Steel Segment, which is gross profit as a percentage of total revenue prior to consolidation adjustments, decreased from 12.1% in 2011 to 9.9% in 2012.

Trading Segment. The gross margin of our Trading Segment, prior to consolidation adjustments, increased from 4.1% in 2011 to 4.3% in 2012 primarily due to Daewoo International s efforts to streamline its trading operations to focus on higher margin trades.

Construction Segment. The gross margin of our Construction Segment, prior to consolidation adjustments, decreased from 9.1% in 2011 to 8.1% in 2012 due to further weakening of market conditions in the domestic construction industry in 2012 that resulted in an increase in competition, which in turn increased the portion of construction contracts with lower profit margins.

Others Segment. The gross margin of our Others Segment, prior to consolidation adjustments, increased from 6.3% in 2011 to 10.7% in 2012 primarily due to an increase in gross margin of POSCO Energy Corporation, which initiated operations of additional power plants and substantially increased its power generation capacity in 2012.

Table of Contents

Selling and Administrative Expenses

The following table presents a breakdown of our selling and administrative expenses and changes therein for 2011 and 2012.

	For the Year Ended December 31,		Changes 2011 versus 2012	
	2011	2012	Amount	%
	(In billions of Won)			
Freight	1,406	1,473	67	4.7%
Sales commissions	85	74	(11)	(13.0)
Sales insurance premium	20	32	12	61.0
Contract cost	63	52	(11)	17.2
Others	38	47	10	26.0
Total selling expenses	1,612	1,679	67	4.1
Wages and salaries	607	695	88	14.5%
Expenses related to defined benefit plan	60	61	1	1.6
Other employee benefits	165	171	6	3.8
Depreciation	173	219	46	26.6
Taxes and public dues	51	60	9	17.9
Rental	66	93	28	42.3
Advertising	71	56	(15)	(21.4)
Research and development	212	192	(20)	(9.5)
Service fees	287	264	(22)	(7.7)
Bad debt allowance	92	79	(13)	(14.0)
Others	252	239	(13)	(5.1)
Total administrative expenses	2,035	2,129	94	4.6
Total selling and administrative expenses	3,647	3,808	161	4.4

Our selling and administrative expenses increased by 4.4%, or Won 161 billion, from Won 3,647 billion in 2011 to Won 3,808 billion in 2012 primarily due to increases in labor-related expenses and freight expense. Such factors were principally attributable to the following:

- Our labor-related expenses included in selling and administrative expenses, which consist of wages and salaries, expenses related to defined benefit plans and other employee benefits, increased by 11.4%, or Won 95 billion, from Won 832 billion in 2011 to Won 927 billion in 2012 primarily due to an increase in the number of employees and a rise in their wages.

- Our freight expense increased by 4.7%, or Won 67 billion, from Won 1,406 billion in 2011 to Won 1,473 billion in 2012 primarily due to an increase in freight rates, which was offset in part by a decrease in our export volume.

Table of Contents

Other Operating Income and Expenses

The following table presents a breakdown of our other operating income and expenses and changes therein for 2011 and 2012.

	For the Year Ended December 31,		Changes 2011 versus 2012	
	2011	2012	Amount	%
	(In billions of Won)			
Gain on disposals of property, plant and equipment	14	42	28	206.2%
Gain on disposals of investment in associates	2	39	37	1,655.3
Gain on disposals of assets held for sale		193	193	N.A.
Reversal of other bad debt allowance	58		(58)	(100.0)
Outsourcing income	42	29	(13)	(30.9)
Gain on disposals of wastes	11	39	27	240.1
Gain from claim compensation	69	32	(37)	(54.1)
Penalty income from early termination of contracts	39	15	(23)	(61.0)
Others	72	59	(13)	(18.1)
Total other operating income	307	448	141	46.0

N.A. means not applicable.

Our other operating income increased by 46.0%, or Won 141 billion, from Won 307 billion in 2011 to Won 448 billion in 2012 primarily due to our gain on disposals of assets held for sale of Won 193 billion in 2012. We recognized a gain of Won 146 billion from Daewoo International s disposal of Daewoo Cement (Shandong) Co., Ltd. to China United Cement Group Co., Ltd. in June 2012. In addition, we recognized a gain of Won 46 billion from Daewoo International s disposal of its interest in Kyobo Life Insurance Co., Ltd. (Kyobo Life Insurance), subsequent to our impairment of Won 258 billion of such asset as described below.

Loss on disposals of property, plant and equipment	61	65	5	8.2%
Idle tangible assets expenses	17	31	14	85.4
Impairment loss of assets held for sale		258	258	N.A.
Other bad debt expenses	11	44	33	295.5
Donations	67	74	7	11.1
Loss on disposal of wastes	31	45	15	48.7
Penalty and default losses	40	149	110	277.8
Impairment loss of property, plant and equipment and others	99	72	(27)	(27.1)
Others	42	69	27	63.5
Total other operating expenses	367	809	443	120.8

N.A. means not applicable.

Our other operating expenses increased by Won 443 billion, from Won 367 billion in 2011 to Won 809 billion in 2012, primarily due to our impairment loss of assets held for sale in 2012 as well as an increase in our penalty and default losses. In 2012, we recorded an impairment loss of assets held for sale of Won 258 billion related to a decrease in market value of Daewoo International s interest in Kyobo Life Insurance. Our penalty and default losses increased by Won 110 billion, from Won 40 billion in 2011 to Won 149 billion in 2012, primarily due to a fine of Won 118 billion imposed by the Korea Fair Trade Commission for price fixing galvanized steel sheets.

Operating Profit

Due to the factors described above, our operating profit decreased by 39.1%, or Won 2,116 billion, from Won 5,408 billion in 2011 to Won 3,292 billion in 2012. Our operating margin decreased from 7.8% in 2011 to 5.2% in 2012.

Table of Contents

Share of Profit of Equity-Accounted Investees

We recognized a net profit for our proportionate share of equity-accounted investees of Won 51 billion in 2011 primarily due to our share of profit of Kyobo Life Insurance, SNNC Co., Ltd. and KOBRASCO, which were offset in part by our share of loss of Sungjin Geotec, AMCI (WA) Pty Ltd. and USS-POSCO Industries. However, we recognized a net loss for our proportionate share of equity-accounted investees of Won 23 billion in 2012 primarily due to our share of loss of AMCI (WA) Pty Ltd. and Busan-Gimhae Light Rail Transit Co., Ltd., which were offset in party by our share of profit of Kyobo Life Insurance and KOBRASCO. For a discussion of our share of profits or losses of equity-accounted investees, see Note 10 of Notes to Consolidated Financial Statements.

Finance Income and Finance Costs

The following table presents a breakdown of our finance income and costs and changes therein for 2011 and 2012.

	For the Year Ended December 31,		Changes 2011 versus 2012	
	2011	2012	Amount	%
	(In billions of Won)			
Interest income	216	279	63	28.9%
Dividend income	144	124	(19)	(13.5)
Gain on foreign currency transactions	1,454	935	(519)	(35.7)
Gain on foreign currency translations	259	937	678	261.7
Gain on transactions of derivatives	549	408	(142)	(25.8)
Gain on valuations of derivatives	112	94	(17)	(15.4)
Gain on disposals of available-for-sale investments	455	112	(342)	(75.3)
Others	2	7	6	359.3
Total finance income	3,190	2,897	(293)	(9.2)
Interest expenses	788	871	83	10.5%
Loss on foreign currency transactions	1,620	839	(781)	(48.2)
Loss on foreign currency translations	530	243	(287)	(54.1)
Loss on transactions of derivatives	513	309	(204)	(39.7)
Loss on valuations of derivatives	189	160	(29)	(15.4)
Impairment loss on available-for-sale investments	153	224	71	46.7
Loss on disposals of available-for-sale investments	1	36	35	3,517.7
Loss on Financial guarantee	1	38	37	3,744.2
Others	72	76	5	6.5
Total finance costs	3,867	2,798	(1,069)	(27.6)

We recognized a net loss on foreign currency translations of Won 271 billion in 2011 compared to a net gain on foreign currency translations of Won 694 billion in 2012 and a net loss on foreign currency transactions of Won 166 billion in 2011 compared to a net gain on foreign currency transactions of Won 96 billion in 2012 as the Won depreciated against the Dollar and Yen in 2011 while it appreciated against the Dollar and Yen in 2012. In terms of the market average exchange rates announced by Seoul Money Brokerage Services, Ltd., the Won depreciated from Won 1,138.9 to US$1.00 as of December 31, 2010 to Won 1,153.3 to US$1.00 as of December 31, 2011 but appreciated to Won 1,071.1 to US$1.00 as of December 31, 2012. The Won depreciated against the Yen from Won 1,397.1 per Yen 100 as of December 31, 2010 to Won 1,485.2 per Yen 100 as of December 31, 2011 but appreciated to Won 1,247.5 per Yen 100 as of December 31, 2012. Against such fluctuations, we recognized an increase of 170.1% in net gain on transactions of derivatives, or Won 62 billion, from Won 37 billion in 2011 to Won 99 billion in 2012 as well as a decrease of 15.6% in net loss on valuation of derivatives, or Won 12 billion, from Won 77 billion in 2011 to Won 65 billion in 2012.

Table of Contents

On the other hand, our gain on disposals of available-for-sale investments decreased significantly from Won 455 billion in 2011 to Won 112 billion in 2012 primarily due to the recognition of a Won 332 billion gain in 2011 from our disposal of a minority investment in an iron ore manufacturer in Australia, compared to no comparable disposal of available-for-sale investments in 2012.

Our interest expenses increased by 10.5%, or Won 83 billion, from Won 788 billion in 2011 to Won 871 billion in 2012 primarily due to an increase in the average balance of our payables and financial liabilities, which was partially offset by a general decrease in interest rates in Korea.

Our impairment loss on available-for-sale investments increased by 46.7%, or Won 71 billion, from Won 153 billion in 2011 to Won 224 billion in 2012 primarily due to a significant decline in the fair value of shares of Jupiter Mines Ltd., SK Telecom and others for a prolonged period, which was considered as objective evidence of impairment.

Income Tax Expense

Our income tax expense decreased by 8.0%, or Won 85 billion, from Won 1,068 billion in 2011 to Won 983 billion in 2012 primarily due to a 29.6% decrease in profit before income tax expense, which was partially offset by increases in adjustments related to difference in tax rate and unrealized deferred tax assets. See Note 32 of Notes to Consolidated Financial Statements. Our effective tax rates increased from 22.3% in 2011 to 29.2% in 2012 primarily due to our disposition of Daewoo International s interest in Kyobo Life Insurance in September 2012.

Profit for the Period

Due to the factors described above, our profit for the period decreased by 35.8%, or Won 1,329 billion, from Won 3,714 billion in 2011 to Won 2,386 billion in 2012. Our net profit margin decreased from 5.4% in 2011 to 3.8% in 2012.

The following table presents our profit for the period by segment, prior to adjusting for inter-company transactions that are eliminated during consolidation, and changes therein for 2011 and 2012.

	For the Year Ended December 31,		Changes 2011 versus 2012	
	2011	2012	Amount	%
	(In billions of Won)			
Steel	3,689	2,246	(1,443)	(39.1)%
Trading	195	325	130	66.5
Construction	155	345	191	123.3
Others	155	301	146	94.3
Consolidation adjustments	(480)	(833)	(352)	73.3
Profit for the period	3,714	2,386	(1,329)	(35.8)

61

Table of Contents

Operating Results 2010 Compared to 2011

The following table presents our income statement information and changes therein for 2010 and 2011.

	For the Year Ended December 31,		Changes 2010 versus 2011	
	2010	2011	Amount	%
	(In billions of Won)			
Revenue	47,887	68,939	21,051	44.0%
Cost of sales	39,722	59,824	20,101	50.6
Gross profit	8,165	9,115	950	11.6
Administrative expenses	1,492	2,035	543	36.4
Selling expenses	1,120	1,612	492	43.9
Other operating income	223	307	84	37.7
Other operating expenses	342	367	25	7.2
Operating profit	5,434	5,408	(25)	(0.5)
Share of profit of equity-accounted investees	183	51	(132)	(72.3)
Finance income	1,739	3,190	1,452	83.5
Finance costs	2,088	3,867	1,779	85.2
Profit before income tax	5,267	4,782	(485)	(9.2)
Income tax expense	1,081	1,068	(13)	(1.2)
Profit for the period	4,186	3,714	(471)	(11.3)
Profit for the period attributable to owners of the controlling company	4,106	3,648	(458)	(11.1)
Profit for the period attributable to non-controlling interests	80	66	(14)	(17.3)

Revenue

The following table presents our revenue by segment and changes therein for 2010 and 2011.

	For the Year Ended December 31,		Changes 2010 versus 2011	
	2010	2011	Amount	%
	(In billions of Won)			
Steel Segment:				
External revenue	35,527	39,152	3,625	10.2%
Internal revenue	10,726	17,139	6,413	59.8
Total revenue from Steel Segment	46,253	56,291	10,038	21.7
Trading Segment:				
External revenue	6,236	21,097	14,861	238.3
Internal revenue	3,174	7,526	4,351	137.1
Total revenue from Trading Segment	9,410	28,623	19,213	204.2
Construction Segment:				
External revenue	4,349	5,476	1,127	25.9
Internal revenue	3,575	2,997	(578)	(16.2)
Total revenue from Construction Segment	7,923	8,473	550	6.9

Others Segment:				
External revenue	1,775	3,213	1,438	81.0
Internal revenue	1,104	2,446	1,342	121.5
Total revenue from Others Segment	2,879	5,660	2,780	96.6
Total revenue prior to consolidation adjustments	66,466	99,046	32,580	49.0
Consolidation adjustments	(18,579)	(30,108)	(11,529)	62.1
Revenue	47,887	68,939	21,051	44.0

Table of Contents

Our revenue increased by 44.0%, or Won 21,051 billion, from Won 47,887 billion in 2010 to Won 68,939 billion in 2011 due to increases in external revenues from the Trading Segment and to a lesser extent, the Steel Segment and the Construction Segment. Specifically:

Steel Segment. External revenue from the Steel Segment, which does not include internal revenue from inter-company transactions that are eliminated during consolidation, increased by 10.2%, or Won 3,625 billion, from Won 35,527 billion in 2010 to Won 39,152 billion in 2011 primarily due to an increase in the average unit sales price per ton of the principal steel products produced by us and directly sold to external customers and, to a lesser extent, an increase in our sales volume of such steel products. The weighted average unit sales price per ton of the principal steel products produced by us and directly sold to external customers increased by 13.1% from Won 1,058,707 per ton in 2010 to Won 1,197,661 per ton in 2011, and our overall sales volume of such steel products increased by 2.9% from 28.7 million tons in 2010 to 29.5 million tons in 2011. Such factors were principally attributable to the following:

- The unit sales prices in Won for all of our principal product lines of steel products produced by us and directly sold to external customers increased from 2010 to 2011, ranging from an increase of 5.9% for silicon steel sheets to 34.6% for wire rods. For a discussion of changes in the unit sales price of each of our principal product lines, see Overview Sales Volume, Prices and Product Mix above.

- The sales volume of our principal product lines of plates, wire rods and stainless steel products produced by us and directly sold to external customers increased by 27.3%, 8.2% and 2.8%, respectively, from 2010 to 2011. On the other hand, our sales volume of silicon steel sheets, hot rolled products and cold rolled products produced by us and directly sold to external customers decreased by 3.4%, 1.7%, and 0.9%, respectively, from 2010 to 2011. For a discussion of changes in sales volume of each of our principal product lines, see Item 4.B. Business Overview Major Products.

Total revenue from the Steel Segment, which includes internal revenue from inter-company transactions, increased by 21.7%, or Won 10,038 billion, from Won 46,253 billion in 2010 to Won 56,291 billion in 2011, as internal revenue from inter-company transactions also increased significantly from 2010 to 2011 reflecting consolidation of our sale of steel products through Daewoo International in 2010 only from the date of its acquisition on September 20, 2010 compared to consolidation for the full year in 2011.

Trading Segment. External revenue from the Trading Segment, which does not include internal revenue from inter-company transactions that are eliminated during consolidation, increased by 238.3%, or Won 14,861 billion, from Won 6,236 billion in 2010 to Won 21,097 billion in 2011 primarily due to the consolidation of results of Daewoo International in 2010 only from the date of its acquisition on September 20, 2010 compared to consolidation for the full year in 2011 and, to a lesser extent, increases in the sales volume of steel and metal products sold by our trading and sales subsidiaries as well as an increase in third-country trades by Daewoo International. Daewoo International generated revenue of Won 4,272 billion in 2010 subsequent to the acquisition, compared to revenue of Won 19,457 billion in 2011.

Total revenue from the Trading Segment, which includes internal revenue from inter-company transactions, increased by 204.2%, or Won 19,213 billion, from Won 9,410 billion in 2010 to Won 28,623 billion in 2011, primarily due to the reasons discussed above.

Construction Segment. External revenue from the Construction Segment, which does not include internal revenue from inter-company transactions that are eliminated during consolidation, increased by 25.9%, or Won 1,127 billion, from Won 4,349 billion in 2010 to Won 5,476 billion in 2011 primarily due to increases in engineering services provided by POSCO Engineering and sales from POSCO E&C s overseas construction contracts.

Table of Contents

Total revenue from the Construction Segment, which includes internal revenue from inter-company transactions, increased by 6.9%, or Won 550 billion, from Won 7,923 billion in 2010 to Won 8,473 billion in 2011 primarily due to an increase in revenue of POSCO E&C by 4.4%, or Won 314 billion, from Won 7,194 billion in 2010 to Won 7,508 billion in 2011. POSCO E&C s revenue increased primarily due to increases in revenues from engineering services and energy works and civil and environmental works operations, the impact of which was partially offset by a decrease in revenue from plant works operation.

Others Segment. The Others Segment includes power generation, LNG production, network and system integration, logistics and magnesium coil and sheet production. External revenue from the Others Segment, which does not include internal revenue from inter-company transactions that are eliminated during consolidation, increased by 81.0%, or Won 1,438 billion, from Won 1,775 billion in 2010 to Won 3,213 billion in 2011 primarily due to an increase in revenue of POSCO Energy Corporation. Revenue of POSCO Energy Corporation increased by 117.5%, or Won 1,036 billion, from Won 882 billion in 2010 to Won 1,918 billion in 2011 as it substantially increased its power generation capacity in 2011.

Total revenue from the Others Segment, which includes internal revenue from inter-company transactions, increased by 96.6%, or Won 2,780 billion, from Won 2,879 billion in 2010 to Won 5,660 billion in 2011, primarily due to an increase in revenue of POSCO Energy Corporation discussed above as well as increases in the revenues of POSCO Chemtech and POSCO M-Tech.

Cost of Sales

Our cost of sales increased by 50.6%, or Won 20,101 billion, from Won 39,722 billion in 2010 to Won 59,824 billion in 2011. The increase in cost of sales was primarily due to the consolidation of cost of sales of Daewoo International in 2010 only from the date of its acquisition on September 20, 2010 compared to consolidation for the full year in 2011 and, to a lesser extent, an increase in our sales volume of steel and non-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.

The following table presents our cost of sales by segment, prior to adjusting for inter-company transactions that are eliminated during consolidation, and changes therein for 2010 and 2011.

	For the Year Ended December 31,		Changes 2010 versus 2011	
	2010	2011	Amount	%
	(In billions of Won)			
Steel Segment	39,033	49,459	10,426	26.7%
Trading Segment	9,054	27,453	18,399	203.2
Construction Segment	7,172	7,706	534	7.5
Others Segment	2,947	5,301	2,353	79.9
Consolidation adjustments	(18,483)	(30,095)	(11,612)	62.8
Cost of sales	39,722	59,824	20,101	50.6

Steel Segment. The cost of sales of our Steel Segment, prior to consolidation adjustments, increased by 26.7%, or Won 10,426 billion, from Won 39,033 billion in 2010 to Won 49,459 billion in 2011, primarily due to increases in the average price in Won terms of key raw materials that were used to manufacture our finished goods sold as well as an increase in our sales volume of the principal steel products produced by us and directly sold to external customers, the impact of which was offset in part by a decrease in depreciation and amortization. For a discussion of fluctuations in prices of our key raw materials, see Item 4.B. Business Overview Raw Materials. Depreciation and amortization of our Steel Segment, prior to consolidation adjustments, decreased by 27.8%, or Won 821 billion, from Won 2,949 billion in 2010 to Won 2,128 billion in 2011 primarily due to a change in our estimated useful lives for certain machinery and equipment in our Steel Segment from the previous eight years to fifteen years based on an asset life study performed in 2011.

Table of Contents

Trading Segment. The cost of sales of our Trading Segment, prior to consolidation adjustments, increased by 203.2%, or Won 18,399 billion, from Won 9,054 billion in 2010 to Won 27,453 billion in 2011, primarily due to the consolidation of results of Daewoo International in 2010 only from the date of its acquisition on September 20, 2010 compared to consolidation for the full year in 2011 and, to a lesser extent, increases in the sales volume of steel and metal products sold by our trading and sales subsidiaries as well as an increase in third-country trades by Daewoo International.

Construction Segment. The cost of sales of our Construction Segment, prior to consolidation adjustments, increased by 7.5%, or Won 534 billion, from Won 7,172 billion in 2010 to Won 7,706 billion in 2011, primarily due to an increase in the construction activities of POSCO E&C.

Others Segment. The cost of sales of our Others Segment, prior to consolidation adjustments, increased by 79.9%, or Won 2,353 billion, from Won 2,947 billion in 2010 to Won 5,301 billion in 2011, primarily due to costs related to a substantial increase in POSCO Energy Corporation s power generation activities in 2011.

Gross Profit

Our gross profit increased by 11.6%, or Won 950 billion, from Won 8,165 billion in 2010 to Won 9,115 billion. Our gross margin decreased from 17.1% in 2010 to 13.2% in 2011 as the increase in revenue was outpaced by the increase in cost of sales in 2010, as described above. Daewoo International, as a global trading company that primarily engages in trading of steel and raw materials, typically enters into trading transactions as a principal where the selling price is recorded as sales and the purchase price is recorded as cost of sales, which results in relatively lower margin levels compared to our other businesses. Due to such accounting treatment, an increase in the revenue of Daewoo International generally has a negative impact on our gross margin on a consolidated basis. Our gross margin for 2010 was negatively affected by the consolidation of results of Daewoo International only from the date of its acquisition on September 20, 2010 compared to a full year of such negative effect for 2011.

The following table presents our gross profit by segment, prior to adjusting for inter-company transactions that are eliminated during consolidation, and changes therein for 2010 and 2011.

	For the Year Ended December 31,		Changes 2010 versus 2011	
	2010	2011	Amount	%
	(In billions of Won)			
Steel Segment	7,220	6,832	(389)	(5.4)%
Trading Segment	357	1,170	813	228.0
Construction Segment	752	767	15	2.0
Others Segment	(68)	359	427	N.A.
Consolidation adjustments	(96)	(13)	84	(86.9)
Gross profit	8,165	9,115	950	11.6

N.A. means not applicable.

Steel Segment. As a result of the factors described above, the gross margin of our Steel Segment, which is gross profit as a percentage of total revenue prior to consolidation adjustments, decreased from 15.6% in 2010 to 12.1% in 2011.

Trading Segment. The gross margin of our Trading Segment, prior to consolidation adjustments, increased from 3.8% in 2010 to 4.1% in 2011 primarily due to the consolidation of revenue of Daewoo International in 2010 only from the date of its acquisition on September 20, 2010 compared to consolidation for the full year in 2011.

Table of Contents

Construction Segment. The gross margin of our Construction Segment, prior to consolidation adjustments, decreased from 9.5% in 2010 to 9.1% in 2011 as the market conditions in the domestic construction industry further weakened in 2011 that resulted in an increase in competition.

Others Segment. The gross margin of our Others Segment, prior to consolidation adjustments, increased from (2.4)% in 2010 to 6.3% in 2011 primarily due to an increase in gross margin from POSCO Energy Corporation, which completed construction of two additional power plants in 2011. Depreciation and amortization of the Others Segment, prior to consolidation adjustments, increased by 140.9%, or Won 104 billion, from Won 74 billion in 2010 to Won 178 billion in 2011 primarily due to the construction of two additional power plants.

Selling and Administrative Expenses

The following table presents a breakdown of our selling and administrative expenses and changes therein for 2010 and 2011.

	For the Year Ended December 31,		Changes 2010 versus 2011	
	2010	2011	Amount	%
	(In billions of Won)			
Freight	949	1,406	457	48.2%
Sales commissions	70	85	16	22.3
Sales insurance premium	15	20	5	36.6
Contract cost	58	63	5	22.3
Others	29	38	9	8.0
Total selling expenses	1,120	1,612	492	43.9
Wages and salaries	446	607	161	36.1%
Expenses related to defined benefit plan	37	60	24	64.2
Other employee benefits	116	165	48	41.5
Depreciation	110	173	63	57.0
Taxes and public dues	35	51	16	45.2
Rental	55	66	11	19.8
Advertising	96	71	(25)	(26.3)
Research and development	141	212	71	50.4
Service fees	193	287	94	48.5
Bad debt allowance	47	92	45	94.6
Others	215	252	37	17.3
Total administrative expenses	1,492	2,035	548	36.4
Total selling and administrative expenses	2,612	3,647	1,035	39.6

Our selling and administrative expenses increased by 39.6%, or Won 1,035 billion, from Won 2,612 billion in 2010 to Won 3,647 billion in 2011 primarily due to increases in freight expenses, labor-related expenses, service fees and research and development expense. Such factors were principally attributable to the following:

Freight expenses increased by 48.2%, or Won 457 billion, from Won 949 billion in 2010 to Won 1,406 billion in 2011 primarily due to the consolidation of freight expenses of Daewoo International in 2010 only from the date of its acquisition on September 20, 2010 compared to consolidation for the full year in 2011, as well as an increase in our sales volume resulting from increased demand for, and shipping of, our products.

Our labor-related expenses included in selling and administrative expenses, which consist of wages and salaries, expenses related to defined benefit plans and other employee benefits, increased by 38.8%, or Won 233 billion, from Won 599 billion in 2010 to Won

832 billion in 2011, primarily due to the consolidation of labor-related expenses of Daewoo International in 2010 only from the date of its acquisition on September 20, 2010 compared to consolidation

Table of Contents

for the full year in 2011. Service fees increased by 48.5%, or Won 94 billion, from Won 193 billion in 2010 to Won 287 billion in 2011 primarily due to the consolidation of service fees of Daewoo International in 2010 only from the date of its acquisition on September 20, 2010 compared to consolidation for the full year in 2011. Service fees of Daewoo International consisted primarily of fees paid to financial institutions in connection with accounts receivable-related financing activities.

Research and development expenses increased by 50.4%, or Won 71 billion, from Won 141 billion in 2010 to Won 212 billion in 2011 primarily due to an increase in our efforts to develop new steel products with enhanced performance features.

Other Operating Income and Expenses

The following table presents a breakdown of our other operating income and expenses and changes therein for 2010 and 2011.

	For the Year Ended December 31,		Changes 2010 versus 2011	
	2010	2011	Amount	%
	(In billions of Won)			
Gain on disposal of property, plant and equipment	26	14	(13)	(47.6)%
Gain on disposal of investment in associates	3	2	(1)	(23.6)
Reversal of other bad debt allowance		58	58	N.A.
Reversal of other provisions		36	36	N.A.
Outsourcing income	49	42	(7)	(14.5)
Gain on disposal of wastes	21	11	(10)	(46.6)
Gain from claim compensation	58	69	11	18.3
Penalty income from early termination of contracts	43	39	(5)	(10.9)
Others	21	36	15	69.6
Total other operating income	223	307	84	37.7

N.A. means not applicable.

Our other non-operating income increased by 37.7%, or Won 84 billion, from Won 223 billion in 2010 to Won 307 billion in 2011 primarily due to our recognition of reversal of other bad debt allowance of Won 58 billion and reversal of other provisions of Won 36 billion in 2011 compared to no such reversals in 2010.

	For the Year Ended December 31,		Changes 2010 versus 2011	
	2010	2011	Amount	%
	(In billions of Won)			
Loss on disposal of property, plant and equipment	83	61	(23)	(27.5)%
Idle intangible assets expenses	1	17	16	2,023.4
Other bad debt expenses	13	11	(2)	13.4
Donations	74	67	(8)	(10.5)
Loss on disposal of wastes	15	31	15	100.6
Penalty and default losses	1	40	38	3,363.3
Impairment loss of property, plant and equipment and others	128	99	(29)	(22.7)
Others	26	42	16	62.4
Total other operating expenses	342	367	24	7.2

Our other non-operating expenses increased by 7.2%, or Won 24 billion, from Won 342 billion in 2010 to Won 367 billion in 2011 primarily due to our recognition of penalty and default losses of Won 40 billion in 2011 compared to Won 1 billion of such expenses in 2010.

Table of Contents

Operating Profit

Due to the factors described above, our operating profit decreased by 0.5%, or Won 25 billion, from Won 5,434 billion in 2010 to Won 5,408 billion in 2011. Our operating margin decreased from 11.3% in 2010 to 7.8% in 2011.

Share of Profit of Equity-Accounted Investees

Our share of profit of equity-accounted investees decreased by 72.3%, or Won 132 billion, from Won 183 billion in 2010 to Won 51 billion in 2011 primarily due to worsening of the results of operations of our foreign associates, particularly AMCI (WA) Pty Ltd., BX Steel POSCO Cold Rolled Sheet Co., Ltd. and USS-POSCO Industries, as well as an increase in our proportionate net loss from Sungjin Geotec. These decreases were partially offset by increases in our share of profit of Kyobo Life Insurance.

Finance Income and Finance Costs

The following table presents a breakdown of our finance income and costs and changes therein for 2010 and 2011.

	For the Year Ended December 31, 2010	2011	Changes 2010 versus 2011 Amount	%
	(In billions of Won)			
Interest income	293	216	(77)	(26.2)%
Dividend income	102	144	42	40.8
Gain on foreign currency transactions	844	1,454	610	72.2
Gain on foreign currency translations	205	259	54	26.6
Gain on derivatives transactions	181	549	369	203.7
Gain on valuation of derivatives	87	112	25	28.6
Gain on disposal of available-for-sale financial assets	3	455	452	17,449.9
Others	24	2	(23)	(93.6)
Total finance income	1,739	3,190	1,452	83.5
Interest expenses	587	788	201	34.3%
Loss on foreign currency transactions	809	1,620	812	100.4
Loss on foreign currency translations	423	530	106	25.1
Loss on derivatives transactions	175	513	338	192.7
Loss on valuation of derivatives	18	189	171	961.3
Impairment loss on available-for-sale financial assets	57	153	96	167.3
Loss on disposals of available-for-sale investments	2	1	1	(50.0)
Loss on Financial guarantee	2	1	1	(39.8)
Others	15	72	57	376.9
Total finance costs	2,088	3,867	1,779	85.2

Our gain on disposal of available-for-sale financial assets increased significantly from Won 3 billion in 2010 to Won 455 billion in 2011 primarily due to recognition of a Won 332 billion gain from our disposal of a minority investment in an iron ore manufacturer in Australia, which was previously impaired due to a significant decline in its fair value below acquisition cost. Upon disposal, the related unrecognized gain recorded in other comprehensive income was reclassified to profit or loss.

We recognized a net gain on foreign currency transactions of Won 36 billion in 2010 compared to net loss of Won 166 billion in 2011 and our net loss on foreign currency translations increased by 23.8%, or Won 52 billion, from Won 219 billion in 2010 to Won 271 billion in 2011 as the Won appreciated against the Dollar in 2010 while it depreciated against the Dollar in 2011. The Won depreciated at a greater level against the Yen in 2010 compared to 2011. In terms of the market average exchange rates announced by Seoul Money Brokerage Services, Ltd., the Won appreciated

Table of Contents

from Won 1,167.6 to US$1.00 as of December 31, 2009 to Won 1,138.9 to US$1.00 as of December 31, 2010, while it depreciated against the Dollar to Won 1,153.3 to US$1.00 as of December 30, 2011. The Won depreciated against the Yen from Won 1,262.8 per Yen 100 as of December 31, 2009 to Won 1,397.1 per Yen 100 as of December 31, 2010 and depreciated further to Won 1,485.2 per Yen 100 as of December 31, 2011. Against such fluctuations, we recognized a net gain on valuation of derivatives of Won 69 billion in 2010 compared to a net loss of Won 77 billion in 2011, as well as a 537.2% increase, or Won 31 billion, in net gain on derivative transactions from Won 6 billion in 2010 to Won 37 billion in 2011.

Our interest expenses increased by 34.3%, or Won 201 billion, from Won 587 billion in 2010 to Won 788 billion in 2011 primarily due to the consolidation of interest expenses of Daewoo International in 2010 only from the date of its acquisition on September 20, 2010 compared to consolidation for the full year in 2011, as well as an increase in the average balance of our borrowings, which was partially offset by a general decrease in interest rates in Korea.

Our impairment of available-for-sale financial assets increased by 167.3%, or Won 96 billion, from Won 57 billion in 2010 to Won 153 billion in 2011 primarily due to impairment loss of Won 107 billion in 2011 resulting from a decrease in the fair value of our investment in SK Telecom.

Income Tax Expense

Income tax expense decreased by 1.2%, or Won 13 billion, from Won 1,081 billion in 2010 to Won 1,068 billion in 2011. Our effective tax rates were 20.5% in 2010 and 22.3% in 2011. The effective tax rate increased in 2011 primarily due to decreases in tax credits from Won 269 billion in 2010 to Won 194 billion in 2011.

Profit for the Period

Due to the factors described above, our profit for the period decreased by 11.3%, or Won 471 billion, from Won 4,186 billion in 2010 to Won 3,714 billion in 2011. Our net profit margin decreased from 8.7% in 2010 to 5.4% in 2011.

The following table presents our profit for the period by segment, prior to adjusting for inter-company transactions that are eliminated during consolidation, and changes therein for 2010 and 2011.

	For the Year Ended December 31,		Changes 2010 versus 2011	
	2010	2011	Amount	%
	(In billions of Won)			
Steel Segment	4,089	3,689	(399)	(9.8)%
Trading Segment	94	195	101	107.7
Construction Segment	256	155	(102)	(39.6)
Others Segment	13	155	142	1,102.5
Consolidation adjustments	(266)	(480)	(214)	80.5
Profit for the period	4,185	3,714	(471)	(11.3)

Table of Contents

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,		
	2010	2011	2012
	(In billions of Won)		
Net cash provided by operating activities	3,582	1,692	7,319
Net cash used in investing activities	(6,915)	(5,517)	(6,169)
Net cash provided by (used in) financing activities	4,588	4,900	(908)
Effect of exchange rate fluctuations on cash held	(7)	3	(161)
Cash and cash equivalents at beginning of period	2,273	3,521	4,599
Cash and cash equivalents at end of period	3,521	4,599	4,681
Net increase in cash and cash equivalents	1,248	1,078	82

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 the acquisition of treasury shares.

Net cash used in investing activities was Won 6,915 billion in 2010, Won 5,517 billion in 2011 and Won 6,169 billion in 2012. These amounts included acquisition of property, plant and equipment of Won 5,792 billion in 2010, Won 5,331 billion in 2011 and Won 7,055 billion in 2012. We plan to spend between Won 7 trillion to Won 8 trillion in capital expenditures in 2013, 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 disposal of short-term financial instruments of Won 3,030 billion in 2010, Won 1,238 billion in 2011 and Won 232 billion in 2012. We also recorded net acquisition of available-for-sale securities of Won 302 billion in 2010 and net disposal of available-for-sale securities of Won 89 billion in 2011 and Won 393 billion in 2012.

In our financing activities, we used cash of Won 882 billion in 2010, Won 1,746 billion in 2011 and Won 1,884 billion in 2012 for repayments of borrowings. We paid dividends on common stock in the amount of Won 693 billion in 2010, Won 771 billion in 2011 and Won 752 billion in 2012.

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, we acquired a controlling interest in Daewoo International on September 20, 2010 for Won 3.37 trillion, and we spent Won 390 billion in 2011 to acquire a controlling interest in Thainox Stainless Public Company Limited, a major stainless steel manufacturer in Thailand. 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.

Table of Contents

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. The following table sets forth the amount of long-term debt, capital lease and operating lease obligations as of December 31, 2012.

		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)	17,321	2,801	6,160	4,070	4,289
Interest payments on long-term debt (b)	2,398	524	1,037	368	469
Capital lease obligations (c)	63	19	21	22	1
Operating lease obligations (d)	29	15	13	1	
Purchase obligations (e)	40,585	17,737	17,124	9,147	2,849
Accrued severance benefits (f)	1,392	60	171	240	921
Total	61,788	21,156	24,526	13,848	8,529

(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, 2012, a portion of our long-term debt carried variable interest rates. We used the interest rate in effect as of December 31, 2012 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 Orix Rentec Korea Co., Ltd. and others.

(e) Our purchase obligations include supply contracts to purchase iron ore, coal, LNG and other raw materials. These contracts generally have terms of one to ten years and the long-term contracts provide for periodic price adjustments according to the market prices. As of December 31, 2012, 217 million tons of iron ore and 27 million tons of coal remained to be purchased under long-term contracts. In addition, we entered into an agreement with Tanggun LNG Consortium in Indonesia to purchase LNG 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 and exchange rate in effect as of December 31, 2012 in calculating the iron ore, coal and LNG purchase obligations described above for the periods indicated.

(f) Represents, as of December 31, 2012, 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 and our holdings in available-for-sale securities.

Our net cash provided by operating activities decreased by 52.8%, or Won 1,890 billion, from Won 3,582 billion in 2010 to Won 1,692 billion in 2011. Our gross cash inflow from our sales activities increased as discussed above. However, our cash outflows also increased due to an increase in the price of raw materials in 2011 as well as the buildup of semi-finished and finished goods due to increase in uncertainties in the global economy from difficulties affecting the European Union, which led to an increase in our inventory and a delay in recoupment of cash used in production activities, including cash spent on purchase of raw materials.

Our net cash provided by operating activities increased by 332.7%, or Won 5,628 billion, from Won 1,692 billion in 2011 to Won 7,319 billion in 2012. Our gross cash inflow from our sales activities decreased as discussed above. However, our overall net cash provided by operating activities increased as a result of a decrease in our inventory and better management of outstanding trade accounts and notes receivables. Our inventory decreased primarily due to a decrease in the price of raw materials as well as our management of inventory reserve levels in preparation for a decrease in demand due to continuing uncertainties in the global economy.

Net proceeds from borrowings, after deducting for repayment of borrowings, were Won 3,485 billion in 2010, Won 5,322 billion in 2011 and Won 1,123 billion in 2012. Net proceeds from short-term borrowings, after deducting for repayment of short-term borrowings, were Won 1,201 billion in 2010 and Won 52 billion in 2011. In 2012, we recorded net repayment of short-term borrowings of Won 1,412 billion. Long-term borrowings, excluding current installments, were Won 10,664 billion as of December 31, 2010, Won 16,020 billion as of December 31, 2011 and Won 14,412 billion as of December 31, 2012. Total short-term borrowings and current installments of long-term borrowings were Won 10,476 billion as of December 31, 2010, Won 10,792 billion as of December 31, 2011 and Won 10,509 billion as of December 31, 2012. Our net borrowings-to-equity ratio, which is calculated by deducting cash and cash equivalents from total borrowings and dividing net amount with our total equity, was 45.72% as of December 31, 2010, 54.54% as of December 31, 2011 and 47.70% as of December 31, 2012.

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 7 billion in 2010 and Won 164 billion in 2011 from the sale of our treasury shares. In April 2012, we also generated cash of Won 580 billion from our disposal of a portion of our holdings of shares in SK Telecom, KB Financial Group and Hana Financial Group in block trade transactions. In addition, we generated cash of Won 1,151 billion in September 2012 from Daewoo International s disposal of its interest in Kyobo Life Insurance.

We believe that we have sufficient working capital for our current requirements and that we have a variety of alternatives available to us to satisfy our liquidity 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

We had working capital (current assets minus current liabilities) of Won 9,396 billion as of December 31, 2010, Won 13,952 billion as of December 31, 2011 and Won 11,791 billion as of December 31, 2012. Our holding of cash and cash equivalents were Won 3,521 billion as of December 31, 2010, Won 4,599 billion as of December 31, 2011 and Won 4,681 billion as of December 31, 2012. Our holding of other receivables and other short-term financial assets were Won 4,383 billion as of December 31, 2010, Won 3,656 billion as of December 31, 2011 and Won 3,846 billion as of December 31, 2012. As of December 31, 2012, approximately 32.4% of our cash and cash equivalents, other receivables and other short-term financial assets were held outside of Korea, which we expect to use in our operations abroad, including capital expenditure activities. In the event that such assets are needed for our operations in Korea, such amounts are typically not restricted under local laws from being used in Korea. POSCO had unused credit lines of Won 1,906 billion out of total available credit lines of Won 2,464 billion as of December 31, 2012. 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.

Our liquidity is affected by exchange rate fluctuations. See Overview Exchange Rate Fluctuations.

Table of Contents

Capital Expenditures and Capacity Expansion

Cash used for acquisitions of property, plant and equipment was Won 5,792 billion in 2010, Won 5,331 billion in 2011 and Won 7,055 billion in 2012. We plan to spend between Won 7 trillion to Won 8 trillion in capital expenditures in 2013, 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, 2012:

Project	Expected Completion Date	Total Cost of Project	Estimated Remaining Cost of Completion as of December 31, 2012
		(In billions of Won)	
Pohang Works:			
Optimization of the facilities	January 2014	2,203	1,087
Renovation of the first stainless steel sheets rolling facilities	July 2014	218	193
Gwangyang Works:			
Construction of no. 4 hot rolled steel plant	October 2014	1,626	1,171
Renovation of the first and fifth furnace	September 2017	1,060	738
Pohang and Gwangyang Works:			
Raw materials treatment facility upgrades	September 2016	1,301	302

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, 2012, Pohang University of Science & Technology and the Research Institute of Industrial Science and Technology employed a total of 1,012 researchers. In 1994, we founded the POSCO Technical Research Laboratory to carry out applied research and technology development activities. As of December 31, 2012, the Technical Research Laboratory employed a total of 445 researchers.

We recorded research and development expenses of Won 380 billion as cost of goods sold in 2011 and Won 385 billion in 2012, as well as research and development expenses of Won 212 billion as selling and administrative expenses in 2011 and Won 192 billion in 2012.

Our research and development program has filed over thirty-one thousand industrial rights applications relating to steel-making technology, approximately one-fourth of which were registered as of December 31, 2012, 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.

Table of Contents

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

As of December 31, 2011 and 2012, 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.

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. Our board consists of five directors who are our executive officers (Inside Directors) and six directors who are outside directors (Outside Directors). Our shareholders elect both the Inside Directors and Outside Directors at a general meeting of shareholders. Candidates for Inside Directors are recommended to shareholders by the board of directors after the board reviews such candidates qualifications, and candidates for Outside Directors 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.

Table of Contents

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 Director		9	38	65	March 2015
Park, Ki-Hong	President and Representative Director	Chief Financial and Planning Officer	1	7	55	March 2014
Kim, Joon-Sik	President and Representative Director	Head of Growth and Investment Division	1	32	59	March 2014
Chang, In-Hwan	Senior Executive Vice President and Representative Director	Head of Carbon Steel Business Division	0	30	58	March 2015
Kim, Yeung Gyu	Senior Executive Vice President	Head of Corporate Staff Division	0	30	58	March 2015

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

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 of Korea (the FSCMA).

Name	Position	Principal Occupation	Years as Director	Age	Expiration of Term of Office
Lee, Young-Sun	Director	Former President, Hallym University	4	65	March 2014
Han, Joon-Ho.	Director	CEO, Samchully Co., Ltd.	4	67	March 2014
Lee, Chang-Hee	Director	Professor, Seoul National University	4	53	March 2015
James B. Bemowski	Director	Vice Chairman, Doosan Co., Ltd.	1	59	March 2015
Shin, Chae-Chol	Director	Former Chairman and CEO, IBM Korea Inc.	0	65	March 2015
Lee, Myung-Woo	Director	Professor, Hanyang University	0	59	March 2016

The term of office of the Directors elected in March 2013 is up to three (3) 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.

Table of Contents

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, Oh-Joon	President	Chief Technology Officer	24	62
Baek, Sung-Kwan	Senior Executive Vice President	General Superintendent, Gwangyang Works	32	57
Woo, Jong-Soo	Senior Executive Vice President	General Superintendent (Technical Research Laboratories)	33	57
Hwang, Eun-Yeon	Senior Executive Vice President	Head of Corporate Relations Division	26	54
Song, Sebin	Executive Vice President	Legal Affairs Department	2	50
Yoon, Dong-Jun	Executive Vice President	Corporate Strategy Department II	26	54
Lee, Jung-Sik	Executive Vice President	General Superintendent, Pohang Works	33	58
Suh, Young-Sea	Executive Vice President	Head of Stainless Steel Business Division	29	58
Choi, Jeong-Woo	Executive Vice President	Corporate Audit Department	28	55
Park, Kui-Chan	Executive Vice President	Department of External Affairs	9	55
Park, Sung-Ho	Executive Vice President	Steel Technology Strategy Department	30	56
Oh, In-Hwan	Executive Vice President	Head of Carbon Steel Marketing Division	30	54
Jeon, Woo-Sig	Executive Vice President	Corporate Strategy Department I	27	53
An, Tong-Il	Executive Vice President	Deputy General Superintendent (Maintenance, Gwangyang Works)	26	53
Seo, Myung-Deuk	Executive Vice President	Raw Materials Division	28	57
Yae, Jae-Hen	Senior Vice President	Labor and Outside Services Department	28	56
Min, Kyung-Zoon	Senior Vice President	PT KRAKATU POSCO Co.,Ltd.	29	54
Kim, Won-Ki	Senior Vice President	Order Processing and Technical Service Department	31	56
Nam, Sik	Senior Vice President	Steel Business Dept. II.	30	56
Ko, Suk-Bum	Senior Vice President	Deputy General Superintendent (Administration, Gwangyang Works)	28	55
Kim, Jae-Seok	Senior Vice President	Gas & Coal Chemical Business Department	28	55
Kim, Sun-Won	Senior Vice President	POSCO-South Asia Co., Ltd.	30	54
Kim, Dong-Chul	Senior Vice President	Steel Business Department I	27	57
Kim, Jhi-Yong	Senior Vice President	Advanced Materials Business Department	20	51
Jeon, Cheol	Senior Vice President	Stainless Steel Production and Technology	30	55
Kim, Yong-Min	Senior Vice President	Zhangjiagang Pohang Stainless Steel Co., Ltd.	30	55
Lee, Young-Ki	Senior Vice President	POSCO-Japan Co., Ltd.	27	53
Yu-Seong	Senior Vice President	Nonferrous Metal Business Department	27	56
Kim, Se-Hyun	Senior Vice President	Productivity Research Center	3	53
Hwang, Seok-Joo	Senior Vice President	Information Planning Department	27	50
Yim, Chang-Hee	Senior Vice President	General Superintendent (Gwangyang Research Lab)	27	56
Chang, In-Hwa	Senior Vice President	New Business Department	2	57
Shim, Tong-Wook	Senior Vice President	Finance Department	27	53
Kwon, Suk-Chul	Senior Vice President	POSCO-China Co., Ltd.	29	58
Lee, Tae-Ju	Senior Vice President	European Union Office	30	55

Table of Contents

Name	Position	Responsibility and Division	Years with POSCO	Age
Yun, Ki-mok	Senior Vice President	Stainless Steel Raw Materials Department	29	55
Kim, Jae-Yeol	Senior Vice President	Marketing Strategy Department	27	53
Kim, Hong-Soo	Senior Vice President	Investment Management Dept.	30	55
Bae, Chung-Hun	Senior Vice President	POSCO-VST Co., Ltd.	28	56
Kim, Dong-Soo	Senior Vice President	Deputy General Superintendent (Iron and Steel Making, Pohang Works)	30	54
Son, Chang Hwan	Senior Vice President	Automotive Materials Marketing Dept.	28	52
Chon, Jung-Son	Senior Vice President	Raw Materials Procurement Dept.	26	50
Sung, Gee-Woong	Senior Vice President	Environment & Energy Planning Dept.	18	53
Shin, Geon	Senior Vice President	Engineering Research Center	31	55
Cho Young-Ki	Senior Vice President	POSCO-Mexico Co., Ltd.	27	54
Lee, Bok-Sung	Senior Vice President	Deputy General Superintendent (Administration, Pohang Works)	27	55
Cho, Yong-Doo	Senior Vice President	Management Monitoring Dept.	3	52
Jeong, Tak	Senior Vice President	Overseas Marketing Dept.	1	53
Chung, Chang-Hwa	Senior Vice President	Communication Dept.	17	51
Kim, Kwan Young	Senior Vice President	Human Resources and Innovation Dept.	25	51
Yi, Kyung-Jo	Senior Vice President	Deputy General Superintendent (Hot and Cold Rolling, Gwangyang Works)	27	52
Ha, Young-Sul	Senior Vice President	Procurement Service Center	26	54
Nam, Cheol-Soon	Senior Vice President	Stainless Steel Marketing Department	0	52
Hwangbo, Won	Senior Vice President	Hot Rolled Products Marketing Department.	23	49
Kim, Byung-Hwi	Senior Vice President	Plate Products & Wire Rod Marketing Department	23	49
Choi, Seung-Deug	Senior Vice President	New Growth Technology Strategy Department	5	51
Cho, Il-Hyun	Senior Vice President	FINEX Research & Development Project Department	26	51
Kim, Jun-Hyung	Senior Vice President	Deputy General Superintendent (Hot and Cold Rolling, Pohang Works)	27	50
Oh, Hyoung-Soo	Senior Vice President	POSCO-Thainox. Co., Ltd.	27	52
Han, Ki-Won	Senior Vice President	Deputy General Superintendent (Iron and Steel Making, Pohang Works)	25	51
Park, Joo-Cheul	Senior Vice President	Deputy General Superintendent (Maintenance, Pohang Works)	26	52
Yoo, Sun-Hee	Senior Vice President	Corporate Future Creation Academy	1	51

Item 6.B. ***Compensation***

Compensation of Directors and Officers

Salaries and bonuses for Inside Directors and salaries for Outside 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 32.3 billion in 2012 and the aggregate amount set aside or accrued by us to provide pension and retirement benefits to such persons was Won 6.6 billion in 2012.

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), James B. Bemowski, Shin, Chae-Chol and one Inside Director, Kim, Yeung Gyu. 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, Han, Joon-Ho (committee chair), Lee, Young-Sun, Shin, Chae-Chol and Lee, Myung-Woo. 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), James B. Bemowski, Lee, Myung-Woo and two Inside Directors, Park, Ki-Hong and Kim, Joon-Sik. 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.

Executive Management Committee

The Executive Management Committee is composed of five Inside Directors, Chung, Joon-Yang (committee chair), Park, Ki-Hong, Kim, Joon-Sik, Chang, In-Hwan and Kim, Yeung Gyu. 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), Lee, Young-Sun and Shin, Chae-Chol.

The duties of the Audit Committee include:

- engaging independent auditors;
- approving independent audit fees;
- approving audit and non-audit services;

78

Table of Contents

- 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), Lee, Young-Sun and Shin, Chae-Chol. 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, 2012, we had 35,094 employees, including 17,471 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 34,936 employees, including 17,383 persons employed by our subsidiaries, as of December 31, 2011, and 33,557 employees, including 17,148 persons employed by our subsidiaries, as of December 31, 2010. 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.

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, 2012, only 10 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

Table of Contents

plan, with a total unfunded portion of Won 346 billion as of December 31, 2012. 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, 2012, our employees owned, through our employee stock ownership association, approximately 0.01% of our common stock in their association accounts and 1.90% 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, 20,787 common shares as of April 23, 2013, 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.

Chung, Joon-Yang	1,814
Kim, Joon-Sik	1,300
Kwon, Oh-Joon	1,000
Park, Joo-Cheul	650
Jeon, Cheol	560
Shim, Tong-Wook	520
Woo, Jong-Soo	501
Park, Ki-hong	500
Hwang, Seok-Joo	480
Yim, Chang-Hee	469
Yae, Jae-Hen	450
Min, Kyung-Zoon	430
Kim, Dong-Chul	420
Kwon, Suk-Chul	420
Cho, Young-Ki	411
Lee, Jung-Sik	396
Park, Sung-Ho	396
Kim, Dong-Soo	380
Lee, Bok-Sung	380
Kim, Sun-Won	372
Kim, Jae-Seok	370
Kim, Kwan-Young	370
Lee, Tae-Ju	347
Nam, Sik	341
Kim, Hong-Soo	341
Suh, Young-Sea	336
Jeon, Woo-Sig	332
Baek, Sung-Kwan	311
Yoon, Dong-Jun	311
Lee, Young-Ki	310
Ko, Suk-Bum	306
Chang, In-Hwan	304
Song, Sebin	300
Kim, Won-Ki	292
Seo, Myung-Deuk	292
Hwang, Eun-Yeon	271
Yu-Seong	268
Cho, Il-Hyun	251
Kim, Jhi-Yong	243

Table of Contents

Kim, Yong-Min	202
Sung, Gee-Woong	202
Hwangbo, Won	202
An, Tong-Il	200
Han, K i-Won	182
Kim, Yeung-Gyu	170
Oh, In-Hwan	150
Oh, Hyuong-Soo	143
Park, Kui-Chan	136
Yi, Kyung-Jo	130
Choi, Jeong-Woo	120
Bae, Chung-Hun	113
Yun, Kimok	112
Son, Chang-Hwan	104
Chang, In-Hwa	100
Kim, Se-Hyun	100
Kim, Jae-Yeol	100
Kim, Byung-Hwi	99
Kim, Jun-Hyung	99
Chon, Jung-Son	94
Shin, Geon	94
Chung, Chang-Hwa	78
Cho, Yong-Doo	50
Jeong, Tak	50
Ha, Young-Sul	12
Total	20,787

Stock Options

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. Currently, there are no outstanding exercisable stock options. The following table sets forth information regarding the stock options we have granted to our current Directors and executive officers as of April 30, 2013.

		Exercise Period		Exercise	Granted	Exercised	Exercisable
Directors	Grant Date	From	To	Price	Options	Options	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

		Exercise Period		Exercise	Granted	Exercised	Exercisable
Executive Officers	Grant Date	From	To	Price	Options	Options	Options
Kwon, Oh-Joon	April 26, 2003	4/27/2005	4/26/2010	102,900	9,604	9,604	0

Table of Contents

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, 2012.

Shareholders	Number of Shares Owned	Percentage
National Pension Service	5,225,654	5.99
Nippon Steel & Sumitomo Metal Corporation (1)	4,394,712	5.04
KB Financial Group Inc. and subsidiaries	1,919,773	2.20
Pohang University of Science and Technology	1,905,000	2.18
Shinhan Financial Group Inc. and subsidiaries	1,845,054	2.12
Directors and executive officers as a group	23,458	0.03
Public (2)	61,930,793	71.03
POSCO (held in the form of treasury stock)	7,449,117	8.54
POSCO (held through treasury stock fund)	2,493,274	2.86
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, 2012, there were 13,823,736 shares of common stock outstanding in the form of ADRs, representing 15.86% of the total issued shares of common stock.

Item 7.B. *Related Party Transactions*

We have issued guarantees of Won 3,588 billion as of December 31, 2010, Won 7,366 billion as of December 31, 2011 and Won 9,140 billion as of December 31, 2012 in favor of affiliated and related companies. We have also engaged in various transactions with our subsidiaries and affiliated companies. See Notes 34 and 35 of Notes to Consolidated Financial Statements.

As of December 31, 2010, 2011 and 2012, 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-107.

Legal Proceedings

We are subject to a number of anti-dumping duties in India, Russia, Indonesia, Australia and Malaysia and a number of anti-dumping investigations in Brazil, Australia, Thailand, Mexico and Taiwan. The anti-dumping proceedings have not had a material adverse impact 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 exports 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.

Table of Contents

In 2012, the Korea Fair Trade Commission imposed a fine of Won 118 billion on us and POSCO Coated & Color Steel Co., Ltd., our consolidated subsidiary, for alleged antitrust violations, including price fixing of galvanization surcharge rates. We intend to vigorously defend against such administrative action and filed for judicial review of such administrative action in the Seoul High Court on February 28, 2013, which ruling is currently pending.

In April 2012, Nippon Steel & Sumitomo Metal Corporation filed civil lawsuits in Japan and the United States relating to claims of alleged improper acquisition and infringement of intellectual property rights related to production of grain oriented electrical steel sheets. Nippon Steel & Sumitomo Metal Corporation is seeking an injunction to prohibit us from manufacturing and selling the allegedly infringing products as well as seeking compensation of Won 1,230 billion. We plan to vigorously defend against such claims. Due to the early stage of the lawsuits and their inherent uncertainties, we are not able to reliably estimate the amount of compensation and timing, if any, that might be awarded to Nippon Steel & Sumitomo Metal Corporation. We have not recorded any provision for these lawsuits.

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, shares or other form of property 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.

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 as of December 31, 2012. Of these shares and as of such date, 77,244,444 shares were outstanding and 7,449,117 shares were held by us in treasury and 2,493,274 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)	
2008	7,500	2,500	10,000
2009	6,500	1,500	8,000
2010	7,500	2,500	10,000
2011	7,500	2,500	10,000
2012	6,000	2,000	8,000

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.

Table of Contents

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.

	Price		Average Daily Trading Volume
	High	Low	
	(In Won)		(Number of Shares)
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
Second Quarter	565,000	421,000	282,070
Third Quarter	480,000	358,500	277,876
Fourth Quarter	351,000	308,000	235,063
2012			
First Quarter	424,000	376,000	198,239
Second Quarter	385,000	351,500	169,135
Third Quarter	391,000	353,500	159,508
Fourth Quarter	367,000	308,000	202,895
October	367,000	342,000	217,592
November	337,500	308,000	181,654
December	355,500	318,500	211,708
2013			
First Quarter	371,000	321,500	169,232
January	370,000	355,500	174,413
February	371,000	352,500	149,208
March	343,000	321,500	182,556
Second Quarter (through April 26)	325,000	311,500	177,316
April (through April 26)	325,000	311,500	177,316

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

Table of Contents

PKX. One ADS represents one-fourth of one share of common stock. As of December 31, 2012, 55,294,944 ADSs representing 13,823,736 common shares were outstanding, representing 15.86% 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.

	Price High	Price Low	Average Daily Trading Volume
	(In US$)		(Number of ADSs)
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			
First Quarter	117.57	100.50	403,646
Second Quarter	116.83	95.86	348,986
Third Quarter	112.41	76.01	344,454
Fourth Quarter	89.16	72.51	366,073
2012			
First Quarter	94.06	80.28	268,347
Second Quarter	85.09	74.82	262,176
Third Quarter	85.55	77.21	190,260
Fourth Quarter	82.97	71.85	187,932
October	82.44	78.11	171,533
November	78.49	71.85	181,833
December	82.97	73.81	211,555
2013			
First Quarter	86.69	72.41	258,130
January	86.69	81.19	232,395
February	83.79	80.54	213,579
March	80.36	72.41	327,475
Second Quarter (through April 26)	73.00	68.82	304,405
April (through April 26)	73.00	68.82	304,405

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

85

Table of Contents

(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, 2012, the aggregate market value of equity securities listed on the KRX KOSPI Market and the KRX KOSDAQ Market was approximately Won 1,263 trillion, and the average daily trading volume of equity securities for 2012 was approximately 1,076 million shares with an average transaction value of Won 6,952 billion. The 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.

					Period Average	
Year	**Opening**	**High**	**Low**	**Closing**	**Dividend Yield [(1)(2)] (Percent)**	**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

Year	Opening	High	Low	Closing	Period Average Dividend Yield [1][2] (Percent)	Period Average Price Earnings Ratio [2][3]
2010	1,681.71	2,052.97	1,552.79	2,051.00	1.1	19.0
2011	2,063.69	2,231.47	1,644.11	1,825.12	1.3	13.1
2012	1,831.69	2,057.28	1,758.99	1,997.05	1.3	12.9
2013 (through April 26)	2,013.74	2,042.48	1,888.30	1,944.56	1.4	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:

		Market Capitalization on the Last Day of Each Period		Average Daily Trading Volume, Value		
Year	Number of Listed Companies	(Billions of Won)	(Millions of US$) [1]	Thousands of Shares	(Millions of Won)	(Thousands of US$) [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	1,006,243	380,859	5,619,768	4,952,210
2011	791	1,041,999	904,670	353,760	6,836,146	5,935,185
2012	930	1,154,294	1,078,578	486,479	4,823,642	4,507,234
2013 (through April 26)	919	1,132,526	1,018,184	396,904	4,059,447	4,133,876

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 FSCMA. In July 2007, the National Assembly of Korea enacted the FSCMA. The FSCMA, 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.

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)

Table of Contents

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 FSCMA, 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 FSCMA, 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 FSCMA. 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 Preferred Shares). Our Non-Voting Preferred Shares have a preferential right to dividend payments. Common Shares and Non-Voting Preferred Shares together are referred to as Shares. Under our articles of incorporation, we are authorized to issue Non-Voting Preferred Shares up to the limit prescribed by applicable law, the aggregate of which currently is one-quarter of our total issued and outstanding capital stock. As of December 31, 2012, 87,186,835 Common Shares were issued, of which 7,449,117 shares were held by us in treasury and an additional 2,493,274 shares were held by our treasury stock fund. We have never issued any Non-Voting Preferred 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 Preferred 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 Preferred 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 Preferred 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, Shares or other form of property. 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, (iii) the legal reserve to be set aside for annual dividend, and (iv) unrealized profits determined in the Presidential Decree to the Commercial Code. 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.

Table of Contents

In addition, we may issue convertible bonds or bonds with warrants, each up to an aggregate principal amount of Won 2 trillion, 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, 2012, our employees owned, through our employee stock ownership association, approximately 0.01% of our common stock in their association accounts and 1.90% 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 Preferred Shares may request a general meeting of shareholders only after the Non-Voting Preferred 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 Preferred 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 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;
- acquisition of all or a part of the business of any other company that may have a material impact on our business;
- 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 Preferred 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 Preferred Shares, approval of the holders of Non-Voting Preferred Shares is required. We may obtain the approval by a resolution of holders of at least two-thirds of the Non-Voting Preferred Shares present or represented at a class meeting of the holders of Non-Voting Preferred Shares, where the affirmative votes also represent at least one-third of our total issued and outstanding Non-Voting Preferred Shares.

Shareholders may exercise their voting rights by proxy. When a shareholder is a corporate entity, such shareholder may give proxies to its officers or directors.

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 Preferred 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 15 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 Financial Services Commission 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 Financial Services Commission 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 acquire our own Shares, subject to the approval by the general meeting of shareholders. In addition, we may acquire Shares through purchases on the Korea Exchange or

Table of Contents

through a tender offer or by acquiring the interests in a trust account holding 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.

In accordance with the Commercial Code, we may resell or transfer any Shares acquired by us to a third party, subject to the approval by the Board of Directors. 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.

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 Preferred 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 Financial Services Commission 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, a foreign exchange stabilization fund, certain other governmental agencies or financial companies; 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 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, a foreign exchange stabilization fund, certain other governmental agencies or financial companies.

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 Financial Services Commission 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 Financial Services Commission 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) certain professional investors, as specified 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 Financial Services Commission 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.

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

Table of Contents

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 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 Financial Supervisory Service (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 Financial Services Commission regulations, effective as of November 30, 2006, we are required to file a securities registration statement with the Financial Services Commission 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 the Financial Services Commission 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

Table of Contents

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 Financial Supervisory Service 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 Financial Supervisory Service 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.

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 Trade, Industry & Energy. 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 is a summary of the principal Korean tax consequences to owners of the common shares or ADSs, as the case may be, who are non-resident individuals or non-Korean corporations without a permanent establishment in Korea to which the relevant income is attributable or with which the relevant income is effectively connected (Non-resident Holders). The statements regarding Korean tax laws set forth below are based on the laws in force and as interpreted by the Korean taxation authorities as of the date hereof. This summary is not exhaustive of all possible tax considerations which may apply to a particular investor and potential investors are advised to satisfy themselves as to the overall tax consequences of the acquisition, ownership and disposition of the common shares or ADSs, including specifically the tax consequences under Korean law, the laws of the jurisdiction of which they are resident, and any tax treaty between Korea and their country of residence, by consulting their own tax advisers.

Tax on Dividends

Dividends on the common shares or ADSs paid (whether in cash or in shares) to a Non-resident Holder will be subject to Korean withholding taxes at the rate of 22% (including local income tax) or such lower rate as is applicable under a treaty between Korea and such Non-resident Holder s country of tax residence. Free distributions of shares representing a capitalization of certain capital surplus reserves may be subject to Korean withholding taxes.

The tax is withheld by the payer of the dividend. Since the payer is required to withhold the tax, Korean law does not entitle the person who was subject to the withholding of Korean tax to recover from the Government any part of the Korean tax withheld, even if it subsequently produces evidence that it was entitled to have tax withheld at a lower rate, except in certain limited circumstances.

Tax on Capital Gains

As a general rule, capital gains earned by Non-resident Holders upon transfer of the common shares or ADSs are subject to Korean withholding tax at the lower of (i) 11% (including local income tax) of the gross proceeds realized or (ii) 22% (including local income tax) of the net realized gains (subject to the production of satisfactory evidence of the acquisition costs and certain direct transaction costs), unless exempt from Korean income taxation under the effective Korean tax treaty with the Non-resident Holder s country of tax residence.

However, a Non-resident Holder will not be subject to Korean income taxation on capital gains realized upon the sale of the common shares through the KRX KOSPI Market if the Non-resident Holder (i) has no permanent establishment in Korea and (ii) did not or has not owned (together with any shares owned by any entity with a specified special relationship with such Non-resident Holder) 25% or more of the total issued and outstanding shares of us 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.

It should be noted that capital gains earned by you (regardless of whether you have a permanent establishment in Korea) from a transfer of ADSs outside Korea will generally be exempt from Korean income taxation, provided that the ADSs are deemed to have been issued overseas. If and when an owner of the underlying common shares transfers the ADSs following the conversion of the underlying shares for ADSs, such person will not be exempt from Korean income taxation.

Inheritance Tax and Gift Tax

Korean inheritance tax is imposed upon (1) all assets (wherever located) of the deceased if at the time of his death he was domiciled in Korea and (2) all property located in Korea which passes on death (irrespective of the domicile of the deceased). Gift tax is imposed in similar circumstances to the above. The taxes are imposed if the value of the relevant property is above a certain limit and vary according to the identity of the parties involved.

Under Korean inheritance and gift tax laws, securities issued by a Korean corporation are deemed to be located in Korea irrespective of where they are physically located or by whom they are owned.

Table of Contents

Securities Transaction Tax

Securities transaction tax is imposed on the transfer of shares issued by a Korean corporation or the right to subscribe for such shares generally at the rate of 0.5% of the sales price. In the case of the transfer of shares listed on the KRX KOSPI Market (such as the common shares), the securities transaction tax is imposed generally at the rate of (i) 0.3% of the sales price of such shares (including agricultural and fishery special surtax thereon) if traded on the KRX KOSPI Market or (ii) subject to certain exceptions, 0.5% of the sales price of such shares if traded outside the KRX KOSPI Market.

Securities transaction tax or the agricultural and fishery special surtax is not applicable if (i) the shares or rights to subscribe for shares are listed on a designated foreign stock exchange and (ii) the sale of the shares takes place on such exchange.

Securities transaction tax, if applicable, must be paid by the transferor of the shares or rights, in principle. When the transfer is effected through a securities settlement company, such settlement company is generally required to withhold and pay (to the tax authority) the tax, and when such transfer is made through a financial investment company with a brokerage license only, such company is required to withhold and pay the tax. Where the transfer is effected by a Non-resident Holder 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. Failure to do so will result in the imposition of penalties equal to the sum of (i) between 10% to 40% of the tax amount due, depending on the nature of the improper reporting, and (ii) 10.95% per annum on the tax amount due for the default period.

Tax Treaties

Currently, Korea has income tax treaties with a number of countries, inter alia, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Luxembourg, Ireland, the Netherlands, New Zealand, Norway, Singapore, Sweden, Switzerland, the United Kingdom and the United States of America under which the rate of withholding tax on dividend and interest is reduced, generally to between 5% and 16.5% (including local income tax), and the tax on capital gains derived by a non-resident from the transfer of securities issued by a Korean company is often eliminated.

Each Non-resident Holder of common shares should inquire for itself whether it is entitled to the benefits of a tax treaty with Korea. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest, dividend, capital gains or other income to submit to us (or our agent), the purchaser or the financial investment company with a brokerage license, as the case may be, prior to or at the time of payment, such evidence of tax residence of the party claiming the treaty benefit as the Korean tax authorities may require in support of its claim for treaty protection. In the absence of sufficient proof, we (or our agent), the purchaser or the financial investment company with a brokerage license, as the case may be, must withhold tax at the normal rates.

Furthermore, in order for a non-resident of Korea to obtain the benefits of tax exemption on certain Korean source income (e.g., capital gains and interest) under an applicable tax treaty, Korean tax law requires such non-resident (or its agent) to submit to the payer of such Korean source income an application for a tax exemption along with a certificate of tax residency of such non-resident issued by a competent authority of the non-resident s country of tax residence, subject to certain exceptions. The payer of such Korean source income, in turn, is required to submit such application to the relevant district tax office by the ninth day of the month following the date of the first payment of such income.

For a non-resident of Korea to obtain the benefits of treaty-reduced tax rates on certain Korean source income (e.g, capital gains and interest) under an applicable tax treaty, Korean tax law requires such non-resident (or its agents) to submit to the payer of such Korean source income an application for treaty-reduced tax rates prior to receipt of such Korean source income; provided, however, that an

Table of Contents

owner of ADSs who is a non-resident of Korea is not required to submit such application, if the Korean source income on the ADSs is paid through an account opened at the Korea Securities Depository by a foreign depository.

At present, Korea has not entered into any tax treaty relating to inheritance or gift 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 Dollar;
- a person that owns or is deemed to own 10% or more of any class of our stock; or
- a partnership that holds shares of common stock or ADSs, or partners therein.

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.

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 are the beneficial owner of ADSs, you will be treated as the beneficial owner 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.

Table of Contents

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 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 Dollar amount of dividends received by an individual with respect to the ADSs and common stock will be subject to taxation at a preferential rate applicable to long-term capital gains 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 2011 or 2012 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 2013 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.

Sales and Other Dispositions

For U.S. federal income tax purposes, you will recognize taxable gain or loss on any sale, exchange or other taxable disposition of common stock or ADSs equal to the difference, if any, between the amount realized (Dollars) on the sale or exchange and your adjusted tax basis in the common stock or ADSs. This gain or loss 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

Table of Contents

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.

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

Table of Contents

value of our equity investments. Following evaluation of these positions, we selectively enter into derivative financial instruments to manage the related risk exposures, primarily with respect to foreign exchange rate and interest rate risks, which are entered into with major financial institutions in order to minimize the risk of credit loss. Our market risk management policy determines the market risk tolerance level, measuring period, controlling responsibilities, management procedures, hedging period and hedging ratio very specifically. We also prohibit all speculative hedging transactions and evaluate and manage foreign exchange exposures to receivables and payables.

None of our loss exposures related to derivative contracts are unlimited, and we do not believe that our net derivative positions could result in a material loss to our profit before income tax or total equity due to significant fluctuations of major currencies against the Korean Won. Due to the nature of our derivative contracts primarily as hedging instruments that manage foreign exchange risks, net gain or net loss on derivatives transactions and valuation of derivatives are typically offset by net loss or net gain on foreign currency transaction and translation. We recorded net gain on derivatives transactions of Won 37 billion and net loss on valuation of derivatives of Won 77 billion in 2011, and we recorded net gain on derivatives transactions of Won 98 billion and net loss on valuation of derivatives of Won 65 billion in 2012.

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 strive to naturally offset our foreign exchange risk by matching foreign currency receivables with our foreign currency payables and our overseas subsidiaries have sought to further mitigate the adverse impact of exchange rate fluctuations by conducting business transactions in the local currency of the respective market in which the transactions occur. In particular, Daewoo International s exposure to fluctuations in exchange rates, including the Won/Dollar exchange rate, is limited because trading transactions typically involve matched purchase and sale contracts, which result in limited settlement exposure, and because Daewoo International s contracts with domestic suppliers of products for export and with domestic purchasers of imported products are generally denominated in Dollars. Although the impact of exchange rate fluctuations is partially mitigated by such strategies, we and our subsidiaries, particularly Daewoo International and POSCO E&C, also periodically enter into derivative contracts, primarily foreign currency swaps and forward exchange contracts, to further hedge our foreign exchange risks.

Our foreign currency exposure and changes in gain or loss resulting from a 10% foreign exchange rate change against the Korean Won are as follows:

	For the Years Ended December 31,					
	2010		2011		2012	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
	(In billions of Won)					
US Dollars	(495)	495	(706)	706	(519)	519
Japanese Yen	(245)	245	(212)	212	(178)	178
Euro	(14)	14	(34)	34	(1)	1

Interest Rate Risk

We are also subject to market risk exposure arising from changing interest rates. In particular, we are exposed to interest rate risk on our existing floating rate borrowings and on additional debt financings that we may periodically undertake for various reasons, including capital expenditures and

Table of Contents

refinancing of our existing borrowings. A rise in interest rates will increase the cost of our existing variable rate borrowings. If interest rates on borrowings with floating rates had been 1% higher or lower with all other variables held constant, the impact on the gain or loss of the applicable period would be as follows:

	For the Years Ended December 31, 2010	2011	2012
	(In billions of Won)		
Increase or decrease in annual profit and net equity	16	26	96

A reduction of interest rates also 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.

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, 2012 which are sensitive to exchange rates and/or interest rates. The information is presented in Won, which is our reporting currency.

	Maturities						December 31, 2012		December 31, 2011	
	2013	2014	2015	2016	2017	Thereafter	Total	Fair Value	Total	Fair Value
	(In billions of Won except rates)									
Local currency:										
Fixed rate	1,506	891	1,638	1,763	255	942	6,995	7,113	11,643	11,766
Average weighted rate [(1)]	4.21%	3.49%	3.28%	3.20%	4.62%	4.32%	3.68%		4.2%	
Variable rate	2,782	210	125	32	24	143	3,316	3,316	1,448	1,450
Average weighted rate [(1)]	2.26%	4.66%	4.72%	2.83%	2.85%	3.45%	2.56%		2.95%	
Sub-total	4,288	1,101	1,763	1,795	279	1,085	10,311	10,429	13,091	13,216
Foreign currency, principally Dollars and Yen:										
Fixed rate	2,446	1,399	274	1,008	165	2,374	7,666	8,069	12,950	13,115
Average weighted rate [(1)]	1.72%	3.56%	3.48%	3.62%	3.52%	3.31%	2.90%		2.24%	13,115
Variable rate	3,478	927	523	504	393	357	6,182	6,089	1,189	1,203
Average weighted rate [(1)]	1.73%	3.42%	2.24%	2.02%	2.11%	2.53%	2.12%		2.16%	
Sub-total	5,924	2,326	797	1,512	558	2,731	13,848	14,158	14,139	14,318
Total	10,212	3,427	2,560	3,307	837	3,816	24,159	24,587	27,230	27,534

(1) Weighted average rates of the portfolio at the period end.

Equity Price Risk

We are exposed to equity price risk primarily from changes in the stock price of our available-for-sale financial assets, particularly our interests in Nippon Steel & Sumitomo Metal Corporation, KB Financial Group, Inc., Hyundai Heavy Industries, Co., Ltd. and SK Telecom. As of December 31, 2012, we hold a 2.38% interest in Nippon Steel & Sumitomo Metal Corporation with a market value of Won 624 billion, a 3.00% interest in KB Financial Group, Inc. with a market value of Won 439 billion, and a 1.94% interest in Hyundai Heavy Industries, Co., Ltd. with a market value of Won 357 billion. In addition, a special purpose vehicle created by us holds a 2.84% interest in SK Telecom with a market value of Won 350 billion, which are placed as collateral for exchangeable bonds issued in August 2011. We have not entered into any derivative instruments or any other arrangements to manage our equity price risks.

Table of Contents

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 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

Table of Contents

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 2012, we received the following payments from the depositary

Reimbursement of NYSE listing fees:	$ 51,256
Reimbursement of London Stock Exchange listing fees:	$ 21,907
Reimbursement of proxy process expenses (printing, postage and distribution):	$ 76,743
Contributions toward our investor relations efforts:	$ 532,822

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.

PART II

Item 13. *Defaults, Dividend Arrearages and Delinquencies*

Not applicable

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, 2012. 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, 2012 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, 2012.

c. Attestation Report of the Independent Registered Public Accounting Firm

KPMG Samjong Accounting Corp. (KPMG Samjong), an independent registered public accounting firm, which audited our consolidated financial statements as of, and for the year ended, December 31, 2012, has issued an attestation report on the effectiveness of our internal control over financial reporting, which report is included 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.

Table of Contents

Item 16. ***[Reserved]***

Item 16A. ***Audit Committee Financial Expert***

The board of directors has approved the members of our 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 2010, 2011 and 2012:

	For the Year Ended December 31,		
	2010	2011	2012
		(In millions of Won)	
Audit fees	5,198	5,846	6,501
Audit-related fees	750	946	170
Tax fees	477	687	1,730
Other fees	439	222	48
Total fees	6,864	7,701	8,449

Audit fees in 2012 as set forth in the above table are the aggregate fees billed by KPMG in connection with the audit of our annual financial statements and the annual financial statements of other related companies and review of interim financial statements.

Audit-related fees in 2012 as set forth in the above table are the aggregate fees billed by KPMG for comfort letter services related to a proposed securities offering by one of our subsidiaries.

Tax fees in 2012 as set forth in the above table are fees billed by KPMG for our tax compliance and tax planning, as well as tax planning and preparation of other related companies.

Other fees in 2012 as set forth in the above table are fees billed by KPMG primarily related to research on expected return rates of natural resources development 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

Table of Contents

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, 2012:

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.

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 6 out of 11 directors are Outside Directors. Under our articles of incorporation, we may have up to five Inside Directors and seven 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.

Table of Contents

NYSE Corporate Governance Standards	POSCO s Corporate Governance Practice
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.*

Item 16H. *Mine Safety Disclosure*

Not applicable

Table of Contents

PART III

Item 17. ***Financial Statements***

Not applicable

Item 18. ***Financial Statements***

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

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

POSCO:

We have audited the accompanying consolidated statements of financial position of POSCO and subsidiaries as of December 31, 2011 and 2012 and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2012. These consolidated financial statements are the responsibility of POSCO 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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, 2011 and 2012 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

As described in note 12 to the consolidated financial statements, POSCO changed the useful life of major machinery and equipment from 8 years to 15 years from January 1, 2011. For the year ended December 31, 2011, this change resulted in a reduction in depreciation expenses of 1,227,169 million.

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, 2012, 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 April 26, 2013 expressed an unqualified opinion on the effectiveness of POSCO`s internal control over financial reporting.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea

April 26, 2013

F-1

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

POSCO:

We have audited POSCO s internal control over financial reporting as of December 31, 2012, 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 POSCO 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, 2012, based on criteria established in Internal Control Integrated Framework issued by the COSO.

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, 2012, and 2011, and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2012, and our report dated April 26, 2013 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea

April 26, 2013

Table of Contents

POSCO and Subsidiaries

Consolidated Statements of Financial Position

As of December 31, 2011 and 2012

	Notes	December 31, 2011	December 31, 2012
		(in millions of Won)	
Assets			
Cash and cash equivalents	5,20	4,598,682	4,680,526
Trade accounts and notes receivable, net	6,15,20,24,25,32	11,450,515	11,037,973
Other receivables	7,20,32	1,433,508	1,591,439
Other short-term financial assets	7,20,32	2,222,762	2,254,994
Inventories	8	12,283,644	10,584,646
Current income tax assets	30	18,621	17,168
Assets held for sale	9	329,037	1,190
Other current assets	14,15	1,220,142	1,398,180
Total current assets		33,556,911	31,566,116
Long-term trade accounts and notes receivable, net	6,20	183,061	142,204
Other receivables	7,20	347,401	699,024
Other long-term financial assets	7,20	4,778,271	3,970,845
Investments in associates	10	3,831,659	3,039,261
Investment property, net	11	527,533	521,191
Property, plant and equipment, net	12,15	28,453,184	32,276,379
Intangible assets, net	13	5,244,928	5,662,361
Deferred tax assets	30	855,603	994,684
Other long-term assets	14,15	630,287	393,786
Total non-current assets		44,851,927	47,699,735
Total assets		78,408,838	79,265,851

See accompanying notes to the consolidated financial statements.

Table of Contents

POSCO and Subsidiaries

Consolidated Statements of Financial Position

As of December 31, 2011 and 2012

	Notes	December 31, 2011	December 31, 2012
		(in millions of Won)	
Liabilities			
Trade accounts and notes payable	20,32	4,397,279	4,389,195
Short-term borrowings and current installments of long-term borrowings	15,20	10,791,510	10,509,348
Other payables	16,20,32	1,505,966	1,605,817
Other short-term financial liabilities	16,20,32	305,224	321,828
Current income tax liabilities	30	509,709	559,328
Liabilities related to assets held for sale	9	226,607	
Provisions	17	69,432	77,831
Other current liabilities	19,25	1,799,631	2,311,654
Total current liabilities		19,605,358	19,775,001
Long-term trade accounts and notes payable	20	383	2,593
Long-term borrowings,excluding current installments	15,20	16,020,207	14,412,085
Other payables	16,20	169,375	142,412
Other long-term financial liabilities	16,20	181,185	219,223
Defined benefits liabilities	18	340,467	345,688
Deferred tax liabilities	30	1,168,097	1,461,519
Long-term provisions	17	109,343	100,098
Other long-term liabilities	19	84,503	377,814
Total non-current liabilities		18,073,560	17,061,432
Total liabilities		37,678,918	36,836,433
Equity			
Share capital	21	482,403	482,403
Capital surplus	21	1,150,452	1,104,814
Reserves	22	405,426	(88,150)
Treasury shares	23	(2,391,406)	(2,391,406)
Retained earnings		38,709,475	40,346,481
Equity attributable to owners of the controlling company		38,356,350	39,454,142
Non-controlling interests		2,373,570	2,975,276
Total equity		40,729,920	42,429,418
Total liabilities and equity		78,408,838	79,265,851

See accompanying notes to the consolidated financial statements.

F-4

Table of Contents

POSCO and Subsidiaries

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2010, 2011 and 2012

	Notes	2010	2011	2012
	(in millions of Won, except per share information)			
Revenue	24,32,36	47,887,255	68,938,725	63,604,151
Cost of sales	29,32	(39,722,461)	(59,823,850)	(56,142,892)
Gross profit		8,164,794	9,114,875	7,461,259
Selling and administrative expenses				
Administrative expenses	26,29	(1,491,942)	(2,035,053)	(2,129,463)
Selling expenses	26,29	(1,120,340)	(1,612,128)	(1,678,688)
		(2,612,282)	(3,647,181)	(3,808,151)
Other operating income	27	222,959	306,941	448,120
Other operating expenses	27,29	(341,951)	(366,533)	(809,465)
Operating profit		5,433,520	5,408,102	3,291,763
Share of profit (loss) of equity-accounted investees	10	182,657	50,569	(22,702)
Finance income	20,28	1,738,804	3,190,419	2,897,063
Finance costs	20,28	(2,087,858)	(3,866,695)	(2,797,638)
Profit before income tax		5,267,123	4,782,395	3,368,486
Income tax expense	30	(1,081,472)	(1,068,109)	(982,879)
Profit for the period		4,185,651	3,714,286	2,385,607
Other comprehensive income (loss)				
Capital adjustment arising from investments in equity-method investees		(40,877)	(11,240)	(130,836)
Net changes in the unrealized fair value of available-for-sale investments	20	589,601	(1,231,758)	(81,471)
Foreign currency translation differences		183,190	1,666	(363,088)
Defined benefit plan actuarial losses		(152,125)	(30,577)	(62,527)
Other comprehensive income (loss), net of tax		579,789	(1,271,909)	(637,922)
Total comprehensive income for the period		4,765,440	2,442,377	1,747,685
Profit (loss) attributable to:				
Owners of the controlling company		4,105,623	3,648,136	2,462,081
Non-controlling interests		80,028	66,150	(76,474)
Profit for the period		4,185,651	3,714,286	2,385,607
Total comprehensive income (loss) attributable to:				
Owners of the controlling company		4,639,672	2,530,437	1,911,506
Non-controlling interests		125,768	(88,060)	(163,821)
Total comprehensive income for the period		4,765,440	2,442,377	1,747,685

Basic and diluted earnings per share	31	53,297	47,224	31,874

See accompanying notes to the consolidated financial statements.

Table of Contents

POSCO and Subsidiaries

Consolidated Statements of Changes in Equity

For the years ended December 31, 2010, 2011 and 2012

	Attributable to owners of the controlling company							
	Share capital	Capital surplus	Reserves	Treasury shares	Retained earnings	Sub total	Non-controlling interests	Total
	(in millions of Won)							
Balance as of January 1, 2010	482,403	1,199,666	833,806	(2,403,263)	32,567,352	32,679,964	653,717	33,333,681
Comprehensive income:								
Profit for the period					4,105,623	4,105,623	80,028	4,185,651
Net changes in accumulated comprehensive income of investments in associates, net of tax			(37,656)			(37,656)	(3,221)	(40,877)
Net changes in the unrealized fair value of available-for-sale investments, net of tax			576,950			576,950	12,651	589,601
Foreign currency translation differences, net of tax			136,669			136,669	46,521	183,190
Defined benefit plan actuarial losses, net of tax					(141,914)	(141,914)	(10,211)	(152,125)
Total comprehensive income			675,963		3,963,709	4,639,672	125,768	4,765,440
Transactions with owners of the controlling company,								
Year-end dividends					(500,714)	(500,714)	(16,580)	(517,294)
Interim dividends					(192,582)	(192,582)		(192,582)
Acquisition of subsidiaries							1,099,349	1,099,349
Changes in ownership interests in subsidiaries		(92,994)				(92,994)	103,193	10,199
Others		(5,111)	(2,481)		49,932	42,340	(3,966)	38,374
Total transactions with owners of the controlling company		(98,105)	(2,481)		(643,364)	(743,950)	1,181,996	438,046
Balance as of December 31, 2010	482,403	1,101,561	1,507,288	(2,403,263)	35,887,697	36,575,686	1,961,481	38,537,167

See accompanying notes to the consolidated financial statements.

F-6

Table of Contents

POSCO and Subsidiaries

Consolidated Statements of Changes in Equity

For the years ended December 31, 2010, 2011 and 2012

	Attributable to owners of the controlling company							
	Share capital	Capital surplus	Reserves	Treasury shares	Retained earnings	Sub total	Non-controlling interests	Total
				(in millions of Won)				
Balance as of January 1, 2011	482,403	1,101,561	1,507,288	(2,403,263)	35,887,697	36,575,686	1,961,481	38,537,167
Comprehensive income:								
Profit for the period					3,648,136	3,648,136	66,150	3,714,286
Net changes in accumulated comprehensive income of investments in associates, net of tax			(12,276)			(12,276)	1,036	(11,240)
Net changes in the unrealized fair value of available-for-sale investments, net of tax			(1,227,050)			(1,227,050)	(4,708)	(1,231,758)
Foreign currency translation differences, net of tax			146,622			146,622	(144,956)	1,666
Defined benefit plan actuarial losses, net of tax					(24,995)	(24,995)	(5,582)	(30,577)
Total comprehensive income			(1,092,704)		3,623,141	2,530,437	(88,060)	2,442,377
Transactions with owners of the controlling company, recognized directly in equity:								
Year-end dividends					(577,747)	(577,747)	(16,831)	(594,578)
Interim dividends					(193,111)	(193,111)		(193,111)
Acquisition of subsidiaries							247,483	247,483
Changes in ownership interests in subsidiaries		(20,694)				(20,694)	266,643	245,949
Acquisition of treasury shares				(61,296)		(61,296)		(61,296)
Disposal of treasury shares		69,153		73,153		142,306		142,306
Others		432	(9,158)		(30,505)	(39,231)	2,854	(36,377)
Total transactions with owners of the controlling company		48,891	(9,158)	11,857	(801,363)	(749,773)	500,149	(249,624)
Balance as of December 31, 2011	482,403	1,150,452	405,426	(2,391,406)	38,709,475	38,356,350	2,373,570	40,729,920

See accompanying notes to the consolidated financial statements.

Table of Contents

POSCO and Subsidiaries

Consolidated Statements of Changes in Equity, Continued

For the years ended December 31, 2010, 2011 and 2012

	Attributable to owners of the controlling company							
	Share capital	Capital surplus	Reserves	Treasury shares	Retained earnings	Sub total	Non-controlling interests	Total
	(in millions of Won)							
Balance as of January 1, 2012	482,403	1,150,452	405,426	(2,391,406)	38,709,475	38,356,350	2,373,570	40,729,920
Comprehensive income:								
Profit for the period					2,462,081	2,462,081	(76,474)	2,385,607
Net changes in accumulated comprehensive income of investments in associates, net of tax			(112,974)			(112,974)	(17,862)	(130,836)
Net changes in the unrealized fair value of available-for-sale investments, net of tax			(86,661)			(86,661)	5,190	(81,471)
Foreign currency translation differences, net of tax			(292,015)			(292,015)	(71,073)	(363,088)
Defined benefit plan actuarial losses, net of tax					(58,925)	(58,925)	(3,602)	(62,527)
Total comprehensive income			(491,650)		2,403,156	1,911,506	(163,821)	1,747,685
Transactions with owners of the controlling company, recognized directly in equity:								
Year-end dividends					(579,333)	(579,333)	(19,751)	(599,084)
Interim dividends					(154,489)	(154,489)		(154,489)
Acquisition of subsidiaries							35,870	35,870
Changes in ownership interests in subsidiaries		(41,924)				(41,924)	715,148	673,224
Others		(3,714)	(1,926)		(32,328)	(37,968)	34,260	(3,708)
Total transactions with owners of the controlling company		(45,638)	(1,926)		(766,150)	(813,714)	765,527	(48,187)
Balance as of December 31, 2012	482,403	1,104,814	(88,150)	(2,391,406)	40,346,481	39,454,142	2,975,276	42,429,418

See accompanying notes to the consolidated financial statements.

Table of Contents

POSCO and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2010, 2011 and 2012

	Note	2010	2011	2012
			(in millions of Won)	
Cash flows from operating activities				
Profit for the period		4,185,651	3,714,286	2,385,607
Adjustments for:				
Depreciation		2,960,550	2,133,010	2,405,769
Amortization		75,344	133,289	157,991
Impairment loss of property, plant and equipment and others		128,083	99,072	72,259
Finance income		(879,110)	(1,734,280)	(1,553,200)
Finance costs		1,278,630	2,245,957	1,605,414
Income tax expense		1,081,472	1,068,109	982,879
Gain on disposal of property, plant, and equipment		(26,366)	(13,812)	(42,290)
Loss on disposal of property, plant, and equipment		83,494	60,550	65,486
Share of profit (loss) of equity-accounted investees		(182,657)	(50,569)	22,702
Costs for defined benefit plans		173,971	236,999	226,132
Bad debt expenses		60,266	45,477	123,373
Impairment loss of assets held for sale				258,451
Gain on disposal of assets held for sale				(193,333)
Others, net		(135,763)	40,564	37,469
		4,617,914	4,264,366	4,169,102
Changes in operating assets and liabilities	34	(4,453,470)	(4,850,747)	1,933,358
Interest received		322,659	218,682	238,231
Interest paid		(480,020)	(745,111)	(874,711)
Dividends received		141,017	308,692	178,317
Income taxes paid		(751,746)	(1,218,602)	(710,448)
Net cash provided by operating activities		3,582,005	1,691,566	7,319,456
Cash flows from investing activities				
Proceeds from disposal of short-term financial instruments		17,576,747	5,794,770	3,847,682
Collection of loans		25,946	896,656	318,745
Proceeds from disposal of available-for-sale investments		258,945	411,061	700,686
Proceeds from disposal of other investment assets		27,257		19,566
Proceeds from disposal of property, plant and equipment		165,794	140,221	272,948
Proceeds from disposal of intangible assets		4,964	55,899	10,945
Proceeds from disposal of investments of equity-accounted investees		19,394	2,404	18,428
Proceeds from disposal of assets held for sale				1,268,545
Acquisition of short-term financial instruments		(14,546,301)	(4,556,340)	(3,616,118)
Issuance of loans		(82,079)	(962,099)	(434,156)
Acquisition of available-for-sale investments		(561,030)	(322,046)	(307,712)
Acquisition of other investment assets		(310,154)	(450)	(128)
Acquisition of investments of equity-accounted investees		(914,491)	(740,971)	(492,681)
Acquisition of property, plant and equipment		(5,791,764)	(5,330,968)	(7,054,543)
Acquisition of intangible assets		(246,466)	(574,753)	(448,214)
Payment for acquisition of business, net of cash acquired		(3,079,899)	(437,464)	(98,880)

Cash received from disposal of business	6,747		13,041
Other, net	531,569	107,214	(187,157)
Net cash used in investing activities	(6,914,821)	(5,516,866)	(6,169,003)

See accompanying notes to the consolidated financial statements.

Table of Contents

POSCO and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2010, 2011 and 2012

	Note	2010	2011	2012
			(in millions of Won)	
Cash flows from financing activities				
Proceeds from borrowings		4,367,193	7,068,322	3,007,017
Proceeds from disposal of treasury shares		6,811	164,384	
Proceeds from (repayment of) short-term borrowings, net		1,200,955	51,808	(1,412,138)
Repayment of borrowings		(882,477)	(1,746,487)	(1,884,140)
Acquisition of treasury shares			(61,296)	
Payment of cash dividends		(693,296)	(770,858)	(751,908)
Other, net		588,575	194,012	133,542
Net cash provided by (used in) financing activities		4,587,761	4,899,885	(907,627)
Effect of exchange rate fluctuation on cash held		(6,959)	3,052	(160,982)
Net increase in cash and cash equivalents		1,247,986	1,077,637	81,844
Cash and cash equivalents at beginning of the period		2,273,059	3,521,045	4,598,682
Cash and cash equivalents at end of the period		3,521,045	4,598,682	4,680,526

See accompanying notes to the consolidated financial statements.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements

As of December 31, 2012

1. General Information

General information about POSCO, its 51 domestic subsidiaries including POSCO Engineering & Construction Co., Ltd., 166 foreign subsidiaries including POSCO America Corporation and its 94 associates (collectively, the Company) are as follows:

(a) The controlling company

POSCO, the controlling company, was incorporated on April 1, 1968, under the Commercial Code of the Republic of Korea to manufacture and sell steel rolled products and plates in the domestic and foreign markets.

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

As of December 31, 2011 and 2012, POSCO s shareholders are as follows:

	2011		2012	
Shareholder s name	**Number of shares**	**Ownership (%)**	**Number of shares**	**Ownership (%)**
National Pension Service	5,937,323	6.81%	5,225,654	5.99%
Nippon Steel & Sumitomo Metal Corporation (*1)	4,394,712	5.04%	4,394,712	5.04%
SK Telecom Co., Ltd.	2,481,310	2.85%		
KB Financial Group Inc. and subsidiaries			1,919,773	2.20%
Pohang University of Science and Technology	1,905,000	2.18%	1,905,000	2.18%
Shinhan Financial Group Inc. and subsidiaries	1,870,879	2.15%	1,845,054	2.12%
Others	70,597,611	80.97%	71,896,642	82.47%
	87,186,835	100.00%	87,186,835	100.00%

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

As of December 31, 2012, the shares of POSCO are listed on the Korea Exchange, while its depository shares are listed on the New York, Tokyo and London Stock Exchanges.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

(b) Consolidated subsidiaries

Details of consolidated subsidiaries as of December 31, 2011 and 2012 are as follows:

		Ownership (%)						
		2011			2012			
	Principal operations	POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total	Region
[Domestic]								
POSCO E&C Co., Ltd.	Engineering and construction	89.53		89.53	89.53		89.53	Pohang
POSCO P&S Co., Ltd.	Steel sales and service	95.31		95.31	95.31		95.31	Seoul
POSCO Coated & Color Steel Co., Ltd.	Coated steel manufacturing	56.87		56.87	56.87		56.87	Pohang
POSCO Plant Engineering Co., Ltd.	Steel work maintenance and machinery installation	100.00		100.00	100.00		100.00	Pohang
POSCO ICT Co., Ltd.	Computer hardware and software distribution	72.54		72.54	72.54		72.54	Seongnam
POSCO Research Institute	Economic research and consulting	100.00		100.00	100.00		100.00	Seoul
Seoung Gwang Co., Ltd.	Athletic facilities operation	69.38	30.62	100.00	69.38	30.62	100.00	Suncheon
POSCO Architects & Consultants Co., Ltd.	Architecture and consulting	100.00		100.00	100.00		100.00	Seoul
POSCO Specialty Steel Co., Ltd.	Steel manufacturing and sales	100.00		100.00	94.74		94.74	Changwon
POSTECH Venture Capital Corp.	Investment in venture companies	95.00		95.00	95.00		95.00	Pohang
eNtoB Co., Ltd.	Electronic commerce	32.19	30.20	62.39	32.19	30.20	62.39	Seoul
POSCO Chemtec Company Ltd. (formerly, POSCO Refractories & Environment Co., Ltd.)	Manufacturing and sellings	60.00		60.00	60.00		60.00	Pohang
POSCO Terminal Co., Ltd.	Transporting and warehousing	51.00		51.00	51.00		51.00	Gwangyang
POSCO M-TECH Co., Ltd. (*1)	Packing materials manufacturing	48.85		48.85	48.85		48.85	Pohang
POSCO ENERGY Co., Ltd.	Generation of electricity	100.00		100.00	89.02		89.02	Seoul
Postech 2006 Energy Fund (*2)	Investment in new technologies		22.11	22.11		22.11	22.11	Seoul
PHP Co., Ltd.	Rental houses construction and management		100.00	100.00				Incheon
POSCO TMC Co., Ltd.	Component manufacturing	34.20	33.56	67.76	34.20	33.56	67.76	Cheonan
PNR Co., Ltd.		70.00		70.00	70.00		70.00	Pohang

	Steel manufacturing and sales							
Megaasset Co., Ltd.	Real estate rental and sales		100.00	100.00		100.00	100.00	Cheonan
POSCO Engineering Company	Construction and engineering service		94.14	94.14		95.56	95.56	Seongnam
Pohang Fuel Cell Co. Ltd.	Generation of electricity		100.00	100.00				Pohang
Pohang SPFC Co., Ltd.	Steel manufacturing		90.00	90.00		90.00	90.00	Pohang
POSWITH Co., Ltd.	Industrial clean service	100.00		100.00	100.00		100.00	Pohang
BASYS INDUSTRY Co., Ltd.	Panel board, electric and control panel manufacturing		65.00	65.00				Seongnam
POSTECH BD Newundertaking fund	Bio diesel industries		100.00	100.00				Pohang
POSBRO Co., Ltd.	Video game manufacturing		97.79	97.79				Seongnam
POSCO AST Co., Ltd.	Steel manufacturing and Sales	100.00		100.00	100.00		100.00	Ansan
DaiMyung TMS Co., Ltd.	Cold- rolling of stainless steel and nickel alloy		100.00	100.00				Siheung

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

		Ownership (%)						
		2011			2012			
	Principal operations	POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total	Region
POS-HiMETAL Co., Ltd.	Steel manufacturing and Sales	65.00		65.00	65.00		65.00	Gwangyang
POSCO E&E Co., Ltd.	Handling & disposal of waste matter		100.00	100.00		100.00	100.00	Seoul
POMIC Co., Ltd.	Education services		100.00	100.00				Pohang
POSFINE Co., Ltd.	Non metallic minerals manufacturing	69.23		69.23	69.23		69.23	Gwangyang
POS ECO HOUSING Co., Ltd.	Construction	85.25		85.25	85.25		85.25	Pohang
Mapo high broad parking Co., Ltd.	Construction		71.00	71.00		71.00	71.00	Seoul
Dakos Co., Ltd.	Railway equipment manufacturing		81.00	81.00		81.00	81.00	Seongnam
Kwang Yang SPFC Co., Ltd.	Steel manufacturing		65.84	65.84		65.84	65.84	Gwangyang
POSCALCIUM Company, Ltd.	Non metallic minerals manufacturing		70.00	70.00		86.87	86.87	Pohang
Plant Engineering service Technology Co., Ltd.	Engineering service		100.00	100.00		100.00	100.00	Pohang
9Digit Co., Ltd.	Steel manufacturing		86.49	86.49		86.48	86.48	Incheon
Postech Early Stage Fund (*2)	Financial investment		10.00	10.00		10.00	10.00	Pohang
Busan E&E Co., Ltd.	Handling & disposal of waste matter	70.00		70.00	70.00		70.00	Busan
POSCO Family Strategy Funds	Financial investment	69.93	30.07	100.00	60.79	39.21	100.00	Pohang
POREKA Co., Ltd.	Advertising agency	100.00		100.00	100.00		100.00	Seoul
Songdo SE Co., Ltd.	Cleaning service	100.00		100.00				Incheon
Daewoo International Corporation	Trading, Energy & Resource development	66.56		66.56	60.31		60.31	Seoul
POSCOLED Co., Ltd.	LED lightning	16.70	63.33	80.03	16.70	63.30	80.00	Seongnam
Gunsan SPFC Co., Ltd.	Steel manufacturing		70.09	70.09		70.09	70.09	Gunsan
POSCO NST Co., Ltd.	Steel manufacturing	100.00		100.00				Busan
Pohang Scrap Recycling Center Co., Ltd.	Steel manufacturing		51.00	51.00		51.00	51.00	Pohang
PSC energy global Co., Ltd.	Business service		100.00	100.00		100.00	100.00	Pohang
Suncheon Ecotrans Co., Ltd.	Train manufacturing & management	100.00		100.00	100.00		100.00	Suncheon
Shinan Energy Co., Ltd.	Manufacturing & management		100.00	100.00				Mokpo
Reco Metal Co., Ltd.	Steel manufacturing		88.58	88.58		100.00	100.00	Hwasung
NewAltec Co., Ltd.	Aluminum products manufacturing and sales		60.10	60.10		60.10	60.10	Incheon
PONUTech Co., Ltd.	Nuclear power generation design and repair service		100.00	100.00		100.00	100.00	Ulsan
BLUE O&M Co., Ltd	Service		100.00	100.00		100.00	100.00	Ulsan
Tamra Offshore Wind Power Co., Ltd	Cogeneration plant operation					64.00	64.00	Jeju
POS-HiAL	Aluminum products manufacturing and sales					65.30	65.30	Youngam

MCM Korea	Iron ore sales & mine development					100.00	100.00	Seoul
Tancheon E&E	Sewage heat energy supply				5.00	95.00	100.00	Seoul
[Foreign]								
POSCO America Corporation	Steel trading	99.45	0.55	100.00	99.45	0.55	100.00	USA
POSCO Australia Pty. Ltd.	Iron ore sales & mine development	100.00		100.00	100.00		100.00	Australia
POSCO Canada Ltd.	Coal sales		100.00	100.00		100.00	100.00	Canada
POSCAN Elkveiw Coal Ltd.	Coal sales		100.00	100.00		100.00	100.00	Canada

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

		Ownership (%)						
		2011			2012			
	Principal operations	POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total	Region
POSCO Asia Co., Ltd.	Steel transit trading	100.00		100.00	100.00		100.00	Hong Kong
Dalian POSCO Steel Co., Ltd	Steel manufacturing	30.00	55.00	85.00	30.00	55.00	85.00	China
POSCO-CTPC Co., Ltd.	Steel manufacturing	56.60	43.40	100.00	56.60	43.40	100.00	China
POSCO-JKPC Co., Ltd.	Steel manufacturing		95.00	95.00		95.00	95.00	Japan
International Business Center Corporation	Leasing Service		60.00	60.00		60.00	60.00	Vietnam
POSCO E&C Vietnam Co., Ltd.	Steel manufacturing		100.00	100.00		100.00	100.00	Vietnam
Zhangjiagang Pohang Stainless Steel Co., Ltd.	Stainless steel manufacturing	58.60	23.88	82.48	58.60	23.88	82.48	China
Guangdong Pohang Coated Steel Co., Ltd.	Plating steel sheet manufacturing	84.52	10.01	94.53	87.04	10.04	97.08	China
POSCO (Thailand) Company Ltd.	Steel manufacturing	85.62	14.38	100.00	85.62	14.38	100.00	Thailand
Myanmar POSCO Steel Co., Ltd	Zinc relief manufacturing	70.00		70.00	70.00		70.00	Myanmar
POSCO-JOPC Co., Ltd.	Steel manufacturing		56.84	56.84		56.84	56.84	Japan
POSCO Investment Co., Ltd.	Financial Service	99.99		99.99	100.00		100.00	Hong Kong
POSCO-MKPC SDN BHD.	Steel manufacturing	44.69	25.31	70.00	44.69	25.31	70.00	Malaysia
Qingdao Pohang Stainless Steel Co., Ltd.	Stainless steel manufacturing	70.00	30.00	100.00	70.00	30.00	100.00	China
POSCO (Suzhou) Automotive Processing Center Co., Ltd.	Steel manufacturing	90.00	10.00	100.00	90.00	10.00	100.00	China
POSCO BioVentures L.P.	Bio tech Industry		100.00	100.00		100.00	100.00	USA
PT. POSNESIA	Steel manufacturing	70.00		70.00	70.00		70.00	Indonesia
POSCO E&C Hawaii Inc.	Real estate Industry		100.00	100.00		100.00	100.00	USA
POS-Qingdao Coil Center Co., Ltd.	Steel manufacturing		100.00	100.00		100.00	100.00	China
POS-Ore Pty. Ltd.	Iron ore sales & mine development		100.00	100.00		100.00	100.00	Australia
POSCO-China Holding Corp.	A holding company	100.00		100.00	100.00		100.00	China
POSCO-Japan Co., Ltd.	Steel trading	100.00		100.00	100.00		100.00	Japan
POS-CD Pty. Ltd.	Coal sales		100.00	100.00		100.00	100.00	Australia
POS-GC Pty. Ltd.	Coal sales		100.00	100.00		100.00	100.00	Australia
POSCO-India Private Ltd.	Steel manufacturing	100.00		100.00	100.00		100.00	India
POSCO-India Pune Steel Processing Centre Pvt. Ltd.	Steel manufacturing	65.00		65.00	65.00		65.00	India
POSCO-JEPC Co., Ltd. (formerly, POSCO-JNPC Co., Ltd.)	Steel manufacturing		90.00	90.00		88.02	88.02	Japan
POSCO-Foshan Steel Processing Center Co., Ltd.	Steel manufacturing	39.60	60.40	100.00	39.60	60.40	100.00	China
POSCO E&C (China) Co., Ltd.	Construction and civil engineering		100.00	100.00		100.00	100.00	China
POSCO MPC S.A. de C.V.	Steel manufacturing		90.00	90.00		95.00	95.00	Mexico
Zhangjigang Pohang Port Co., Ltd.	Load and unload industry		100.00	100.00		100.00	100.00	China
Qingdao Pujin Steel Material Co., Ltd	Steel manufacturing		100.00	100.00		100.00	100.00	China
POSCO-Vietnam Co., Ltd.	Steel manufacturing	85.00		85.00	85.00		85.00	Vietnam
POSCO-Mexico Co., Ltd.	Mobile steel sheet manufacturing	80.68	19.32	100.00	84.84	15.16	100.00	Mexico
POSCO-India Delhi Steel Processing Centre Pvt. Ltd	Steel manufacturing	76.40		76.40	66.40	10.00	76.40	India

POSCO-Poland Wroclaw Steel Processing Center Co., Ltd	Steel manufacturing	60.00		60.00	60.00		60.00	Poland
POS-NP Pty. Ltd.	Coal sales		100.00	100.00		100.00	100.00	Australia

F-14

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

		Ownership (%)						
		2011			2012			
	Principal operations	POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total	Region
POSCO-Vietnam Processing Center Co., Ltd.	Steel manufacturing	89.58		89.58	91.63		91.63	Vietnam
POSCO (Chongqing) Automotive Processing Center Co, Ltd.	Steel manufacturing	90.00	10.00	100.00	90.00	10.00	100.00	China
Suzhou POS-CORE Technology Co., Ltd.	Component manufacturing		100.00	100.00		100.00	100.00	China
POSCO-JYPC Co., Ltd.	Steel manufacturing		82.37	82.37				Japan
POSCO-Malaysia SDN. BHD.	Steel manufacturing	80.07	13.34	93.41	80.07	13.34	93.41	Malaysia
POS-Minerals Corporation	Mine development & sales		100.00	100.00		100.00	100.00	USA
POSCO (Wuhu) Automotive Processing Center Co., Ltd.	Steel manufacturing	68.57	31.43	100.00	68.57	31.43	100.00	China
POSCO E&C India Private Ltd.	Construction and engineering		100.00	100.00		100.00	100.00	India
POSCO E&C SMART	Construction and engineering		100.00	100.00		100.00	100.00	Mexico
POSCO-Philippine Manila Processing Center Inc.	Steel manufacturing		100.00	100.00		100.00	100.00	Philippines
POS-GSFC LLC	Steel manufacturing		48.98	48.98		81.93	81.93	UAE
Dalian POSCON Dongbang Automatic Co., Ltd.	Electronical control equipment manufacturing		70.00	70.00		100.00	100.00	China
SANPU TRADING CO.,LTD.	Transit trade		70.04	70.04		70.00	70.00	China
Zhangjiagang BLZ Pohang International Trading Co., Ltd.	Steel transit trading		100.00	100.00		100.00	100.00	China
POSCO Mexico Human Tech.	Service	80.00	20.00	100.00	80.00	20.00	100.00	Mexico
POSCO Mexico East Steel Distribution Center Co., Ltd	Steel product sales		56.81	56.81		56.80	56.80	Mexico
POSCO ICT-China	IT service and DVR business		100.00	100.00		100.00	100.00	China
DWEMEX S.A.DE C.V.	Construction		99.00	99.00		99.00	99.00	Mexico
POS MPC Servicios de C.V.	Steel manufacturing		61.00	61.00		61.00	61.00	Mexico
POSCO-URUGUAY S.A.	Lumber manufacturing & sales	98.00		98.00	98.00		98.00	Uruguay
POSCO South East Asia Pte. Ltd.	Steel transit trading		51.00	51.00		67.54	67.54	Singapore
Europe Steel Distribution Center	Steel product sales	50.00	20.00	70.00	50.00	20.00	70.00	Slovenia
VECTUS Ltd.	PRT test track construction		99.57	99.57		99.57	99.57	England
Zeus (Cayman)	Service	100.00		100.00	100.00		100.00	Cayman Islands
POSCO VST Co., Ltd.	Stainless steel manufacturing	95.65		95.65	95.65		95.65	Vietnam
POSCO Maharashtra Steel Pvt. Ltd.	Steel manufacturing	100.00		100.00	100.00		100.00	India
POSCO India Chennai Steel Processing Centre Pvt. Ltd.	Steel manufacturing	100.00		100.00	100.00		100.00	India

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

		Ownership (%)						
			2011			2012		
	Principal operations	POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total	Region
POSCO Turkey Nilufer Processing Center Co., Ltd.	Steel manufacturing	100.00		100.00	100.00		100.00	Turkey
POSCO Vietnam Ha Noi Processing Center Co., Ltd.	Steel manufacturing	70.00		70.00	70.00		70.00	Vietnam
POSCO (Liaoning) Automotive Processing Center Co., Ltd.	Steel manufacturing	90.00	10.00	100.00	90.00	10.00	100.00	China
POSCO-Indonesia Jakarta Processing Center	Steel manufacturing	65.00	20.00	85.00	65.00	20.00	85.00	Indonesia
POSCO E&C Venezuela C.A	Construction and engineering		100.00	100.00		100.00	100.00	Venezuela
PT. MRI	mine development	65.00		65.00	65.00		65.00	Indonesia
POSCORE-INDIA	Steel manufacturing		100.00	100.00		100.00	100.00	India
POSCO America Alabama Processing Center Co., Ltd.	Steel manufacturing		100.00	100.00		100.00	100.00	USA
PT DEC Indonesia	Construction		95.00	95.00		95.00	95.00	Indonesia
POSCO (Yantai) Automotive Processing Center Co.,Ltd.	Steel manufacturing	90.00	10.00	100.00	90.00	10.00	100.00	China
POSCO India Steel Distribution Center Private Ltd.	Steel Logistics		100.00	100.00		100.00	100.00	India
POSCO China Dalian Plate Processing Center Co., Ltd.	Steel manufacturing	80.00	10.00	90.00	80.00	10.00	90.00	China
POSCO-South Asia Co., Ltd.	Steel product sales	100.00		100.00	100.00		100.00	Thailand
POSCO SS-VINA Co., LTD	Steel manufacturing		100.00	100.00		100.00	100.00	Vietnam
POSCO-NCR Coal Ltd.	Coal sales		100.00	100.00		100.00	100.00	Canada
POSCO WA Pty. Ltd.	Iron ore sales & mine development	100.00		100.00	100.00		100.00	Australia
POSCO E&C UZ	Construction		100.00	100.00		100.00	100.00	Uzbekistan
POSCO Australia GP Limited	Resource development		100.00	100.00		100.00	100.00	Australia
Daewoo International America Corp.	Trading business		100.00	100.00		100.00	100.00	USA
Daewoo International Deutschland GmbH	Trading business		100.00	100.00		100.00	100.00	Germany
Daewoo International Japan Corp.	Trading business		100.00	100.00		100.00	100.00	Japan
Daewoo International Singapore Pte. Ltd.	Trading business		100.00	100.00		100.00	100.00	Singapore
Daewoo Italia S.r.l.	Trading business		100.00	100.00		100.00	100.00	Italia
Daewoo Cement (Shandong) Co., Ltd.	Cement manufacturing		100.00	100.00				China
Daewoo (China) Co., Ltd.	Trading business		100.00	100.00		100.00	100.00	China
PT. RISMAR Daewoo Apparel	Clothing business		100.00	100.00				Indonesia
Daewoo Textile Fergana LLC	Textile manufacturing		100.00	100.00		100.00	100.00	Uzbekistan
Daewoo Textile Bukhara LLC	Textile manufacturing		100.00	100.00		100.00	100.00	Uzbekistan
Daewoo International Australia Holdings Pty. Ltd.	Resource development		100.00	100.00		100.00	100.00	Australia
Daewoo Paper Manufacturing Co., Ltd.	Paper industry		66.70	66.70		66.70	66.70	China
Tianjin Daewoo. Paper Co., Ltd	Paper industry		68.00	68.00		68.30	68.30	China
POSCO Mauritius Ltd.	Mine development & sales		100.00	100.00		100.00	100.00	Mauritius

PT. KRAKATAU POSCO	Steel manufacturing	70.00		70.00	70.00		70.00	Indonesia
MYANMAR Daewoo LTD.	Trading business		100.00	100.00		100.00	100.00	Myanmar
Daewoo International MEXICO S.A. de C.V.	Trading business		100.00	100.00		100.00	100.00	Mexico

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

		Ownership (%)						
		2011			2012			
	Principal operations	POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total	Region
Daewoo International Guangzhou Corp.	Trading business		100.00	100.00		100.00	100.00	China
Daewoo Energy Central Asia	Resource development		100.00	100.00				Uzbekistan
Daewoo STC (& Apparel) Vietnam Ltd.	Textile manufacturing		100.00	100.00		100.00	100.00	Vietnam
MYANMAR Daewoo International Ltd.	Textile manufacturing		55.00	55.00				Myanmar
DAYTEK ELECTRONICS CORP.	Trading business		100.00	100.00				Canada
Daewoo (M) SDN. BHD.	Trading business		100.00	100.00		100.00	100.00	Malaysia
Daewoo CANADA LTD.	Trading business		100.00	100.00		100.00	100.00	Canada
Daewoo EL SALVADOR S.A. DE C.V.	Trading business		88.00	88.00		88.00	88.00	El Salvador
GEZIRA TANNERY CO., LTD.	Leather manufacturing		60.00	60.00		60.00	60.00	Sudan
POSCO (Zhangjiagang) Stainless Steel Processing Center Co., Ltd.	Steel manufacturing		100.00	100.00		100.00	100.00	China
Daewoo International Corporation (M) SDN BHD	Trading business		100.00	100.00		100.00	100.00	Malaysia
Daewoo International SHANGHAI CO., LTD.	Trading business		100.00	100.00		100.00	100.00	China
PGSF, LLC	Bio tech industry		100.00	100.00		100.00	100.00	USA
Xenesys Inc.	Power generation equipment manufacturing	29.58	21.36	50.94	29.58	21.35	50.93	Japan
Daewoo International INDIA Private Ltd.	Trading business		100.00	100.00		100.00	100.00	India
TECHREN Solar, LLC	Electrical industry		99.97	99.97		99.92	99.92	USA
PT. POSCO E&C Indonesia	Construction		100.00	100.00		100.00	100.00	Indonesia
Hume Coal Pty. Ltd.	Raw material manufacturing		70.00	70.00		70.00	70.00	Australia
Daewoo HANDELS GmbH	Trading business		100.00	100.00		100.00	100.00	Germany
POSCO Foundation	Non-profit charitable organization		100.00	100.00		100.00	100.00	India
EPC EQUITIES LLP	Construction		70.00	70.00		70.00	70.00	England
SANTOS CMI Construction Trading LLP	Construction		99.90	99.90		99.90	99.90	England
SANTOS CMI INC. USA	Construction		100.00	100.00		100.00	100.00	USA
SANTOS CMI ENGENHARIA E CONSTRUCOES LTDA	Construction		99.98	99.98		99.98	99.98	Brazil
SANTOS CMI PERU S.A.	Construction		99.99	99.99		99.99	99.99	Peru
SANTOS CMI COSTA RICA S.A.	Construction		100.00	100.00		100.00	100.00	Coasta Rica
SANTOS CMI CONSTRUCCIONES S.A. (URUGUAY)	Construction		100.00	100.00		100.00	100.00	Uruguay
GENTECH International INC.	Construction		90.00	90.00		90.00	90.00	Panama
EPC INVESTMENTS C.V.	Construction		99.99	99.99		99.99	99.99	Netherlands
INGENIERiA Y CONSTRUCCION HOLAND CO S.A.	Construction		99.90	99.90		99.90	99.90	Ecuador
ASESORiA Y SERVICIOS EPC S.A CHILE	Construction		99.00	99.00		99.00	99.00	Chile
SANTOS CMI S.A.	Construction		70.00	70.00		70.00	70.00	Ecuador
SANTOS CMI CONSTRUCCIONES DE CHILE S.A.	Construction		99.00	99.00		99.00	99.00	Chile
S&K -SANTOS CMI S.A. DE C.V. (MEXICO)	Construction		99.00	99.00		99.00	99.00	Mexico

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

		Ownership (%)						
			2011			2012		
	Principal operations	POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total	Region
COMPANIA DE AUTOMATIZACION & CONTROL, GENESYS S.A.	Construction		90.00	90.00		90.00	90.00	Ecuador
VAUTIDAMERICAS S.A.	Construction		51.00	51.00		51.00	51.00	Ecuador
SANTOS CMI Constructions Argentina S.A.	Construction		95.00	95.00		95.00	95.00	Argentina
POSCO E&C Brazil Ltd.	Construction		100.00	100.00		100.00	100.00	Brazil
POSCO Electrical Steel India Private Limited	Electrical steel manufacturing	100.00		100.00	100.00		100.00	India
Daewoo International Cameroon PLC	Resource development		100.00	100.00		100.00	100.00	Cameroon
POSCO ASSAN TST STEEL Industry	Resource development	60.00	10.00	70.00	60.00	10.00	70.00	Turkey
HONG KONG POSCO E&C (CHINA) Investment Co., Ltd.	Investment		100.00	100.00		100.00	100.00	Hong Kong
POSCO Klappan Coal Ltd.	Coal sales		100.00	100.00		100.00	100.00	Canada
DAESAN (Cambodia) Co., Ltd.	Investment		100.00	100.00		100.00	100.00	Cambodia
Brazil Sao Paulo Steel Processing Center Co., Ltd	Steel manufacturing		76.00	76.00		76.00	76.00	Brazil
POSCO(Dalian) IT Center Development Co., Ltd.	Investment		100.00	100.00		100.00	100.00	China
PT.POSCO Resources Indonesia	Mine development	100.00		100.00	100.00		100.00	Indonesia
PT. POSCO ICT Indonesia	IT service and electric control engineering		100.00	100.00		66.99	66.99	Indonesia
PT. POSCO M-Tech Indonesia	Steel manufacturing		100.00	100.00		60.00	60.00	Indonesia
PT. KRAKATAU POSCOPOWER	Manufacturing & management		70.00	70.00		90.00	90.00	Indonesia
POSCO RUS LLC.	Trading business	90.00	10.00	100.00	90.00	10.00	100.00	Russia
POSCO-Thainox Public Company Limited.	Steel manufacturing	94.93		94.93	84.93		84.93	Thailand
Daewoo International Shanghai Waigaoqiao Co., Ltd.	Merchandising trade		100.00	100.00		100.00	100.00	China
PT. Bio Inti Agrindo	Forest resources development		85.00	85.00		85.00	85.00	Indonesia
POSCO E&C Australia Pty Ltd.	Iron ore sales		100.00	100.00		100.00	100.00	Australia
POSCO-TISCO (Jilin) Processing Center Co., Ltd.	Steel manufacturing	73.53	14.71	88.24	50.00	10.00	60.00	China
Hunchun POSCO Logistics Co., Ltd.	Logistics		80.00	80.00		78.15	78.15	China
USA SRDC Corporation	Scrap sale		100.00	100.00		100.00	100.00	USA
Daewoo International Vietnam Co., Ltd.	Trading business		100.00	100.00		100.00	100.00	Vietnam
PT. Krakatau POSCO Chemtech Calcination	Manufacturing and selling					80.00	80.00	Indonesia
POSCO-Africa	Trading business				100.00		100.00	South Africa
E.P.C. INGENIERIA & SERVICIOS DE COSTA RICA S. A.	Construction and engineering service					100.00	100.00	Costa Rica
POSCO ICT BRASIL PARTICIPACOES	IT service and engineering					100.00	100.00	Brazil
LA-SCRAP RECYCLING DISTRIBUTION CENTER, LLC.	Scrap manufacturing					68.41	68.41	USA
EEC, GmbH	Construction and engineering service							Germany
Posco Center Beijing	Real estate development, rental and management					99.00	99.00	China

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

		Ownership (%)						
		2011			2012			
	Principal operations	POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total	Region
POSCO AMERICA COMERCIALIZADORA S DE RL DE C.V.	Steel sale					100.00	100.00	Mexico
POSCO AMERICA PRODUCTOS, OFERTAS, SISTEMAS Y COMERCIALIZADORA ORIENTAL S DE RL DE C.V.	Human-resource service					100.00	100.00	Mexico
Guangdong Pohang Car Steel Co., Ltd.	Steel manufacturing and selling				83.64	10.00	93.64	China
POSCO Mexico Aguascalientes Processing Center Co., Ltd.	Steel manufacturing and selling				80.00	20.00	100.00	Mexico

(*1) Included as a subsidiary from 2011 as the Company has the power over more than half of the voting rights by virtue of an agreement with Postech, which has a 4.72% ownership interest.

(*2) These subsidiaries are included in the consolidated financial statements as the controlling company has control over them in consideration of the board of directors composition and others.

The amount recognized in equity as a result of changes in the Company s ownership interests in subsidiaries that did not result in a loss of control (2010: POSCO ICT Co., Ltd., POSCO-Malaysia SDN. BHD., POSCO E&C Vietnam Co., Ltd., etc., 2011 : POSCO ENGINEERING CO., LTD, Guangdong Pohang Coated Steel Co., Ltd., POSCO VST Co., Ltd., etc.; 2012 : POSCO Specialty Steel Co., Ltd., POSCO ENERGY Co., Ltd., POSCO-Thainox Public Company Limited , etc.) were 92,994 million, 20,694 million and 41,924 million for the years ended December 31, 2010, 2011 and 2012, respectively.

Cash flows from increase in non-controlling interest, net for the years ended December 31, 2010, 2011 and 2012 amounted to 19,988 million, 155,785 million and 375,850 million, respectively.

Cash dividends paid to POSCO by subsidiaries for the years ended December 31, 2010, 2011 and 2012 amounted to 47,302 million, 45,675 million and 22,581 million, respectively.

As of December 31, 2012, there are no restrictions on the ability of subsidiaries to transfer funds to the controlling company, such as in the form of cash dividends, repayment of loans or payment of advances.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

(c) Summarized financial information of subsidiaries as of December 31, 2010, 2011 and 2012 are as follows:

1) December 31, 2010

Company	Sales	Net income (loss)
	(in millions of Won)	
[Domestic]		
POSCO E&C Co., Ltd.	6,248,379	174,483
POSCO P&S Co., Ltd.	2,062,495	4,311
POSCO Coated & Color Steel Co., Ltd.	1,001,774	6,409
POSCO Plant Engineering Co., Ltd.	439,529	11,986
POSCO ICT Co., Ltd.	839,802	17,929
POSCO Research Institute	23,207	319
Seoung Gwang Co., Ltd.	15,567	2,601
POSCO Architects & Consultants Co., Ltd.	128,118	4,431
POSCO Specialty Steel Co., Ltd.	1,543,122	101,901
POSTECH Venture Capital Corp.		274
eNtoB Co., Ltd.	603,684	2,516
POSCO Chemtec Company Ltd.	756,053	57,191
POSCO Terminal Co., Ltd.	78,478	14,475
POSCO ENERGY Co., Ltd.	827,534	(35,641)
Postech 2006 Energy Fund		(964)
PHP Co., Ltd.	2,091	(583)
POSCO TMC Co., Ltd.	189,686	6,138
PNR Co., Ltd.	27,281	(17,813)
Megaasset Co., Ltd.	100,865	4,559
POSCO Engineering Company	774,791	45,099
Pohang Fuel Cell Co. Ltd.	4,049	(276)
Pohang SPFC Co., Ltd.	28,933	(32)
POSWITH Co., Ltd.	12,317	442
BASYS INDUSTRY Co., Ltd.	990	72
POSTECH BD Newundertaking fund		(1)
POSBRO Co., Ltd.		(78)
POSCO AST Co., Ltd.	330,425	7,285
DaiMyung TMS Co., Ltd.	15,985	(3,059)
POS-HiMETAL Co., Ltd.		(5,771)
POSCO E&E Co., Ltd.		405
POMIC Co., Ltd.	19,922	403
POSFINE Co., Ltd.		(883)
POS ECO HOUSING Co., Ltd.	2,231	(738)
Mapo high broad parking Co., Ltd.		(237)
Dakos Co., Ltd.	4,314	274
Kwang Yang SPFC Co., Ltd.		52
POSCALCIUM Company, Ltd.		(226)
Plant Engineering service Technology Co., Ltd.	3,063	472

Postech Early Stage Fund		
Busan E&E Co., Ltd.		(140)
POSCO Family Strategy Funds		(62)
POREKA Co., Ltd.	6,274	100
Songdo SE Co., Ltd.	1,021	(7)
Posgreen Co., Ltd.		(22)
Daewoo International Corporation	4,094,039	94,359
POSCOLED Co., Ltd.	138	(1,763)

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

Company	Sales	Net income (loss)
	(in millions of Won)	
Gunsan SPFC Co., Ltd.	89	(196)
POSCO NST Co., Ltd.	33,164	55
Pohang Scrap Recycling Center Co., Ltd.		(80)
[Foreign]		
POSCO America Corporation	288,907	9,039
POSCO Australia Pty. Ltd.	106,387	50,288
POSCO Canada Ltd.	170,421	65,299
POSCAN Elkveiw Coal Ltd.		
POSCO Asia Co., Ltd.	2,335,842	1,376
Dalian POSCO Steel Co., Ltd	68,149	(4,932)
POSCO-CTPC Co., Ltd.	149,810	2,398
POSCO-JKPC Co., Ltd.	75,831	2,391
International Business Center Corporation	28,354	13,884
POSCO E&C Vietnam Co., Ltd.	72,865	3,753
Zhangjiagang Pohang Stainless Steel Co., Ltd.	2,461,020	44,034
Guangdong Pohang Coated Steel Co., Ltd.	251,416	25,547
POSCO (Thailand) Company Ltd.	224,630	10,117
Myanmar POSCO Steel Co., Ltd	24,321	3,481
POSCO-JOPC Co., Ltd.	76,947	766
POSCO Investment Co., Ltd.		4,451
POSCO-MKPC SDN BHD.	135,852	3,395
Qingdao Pohang Stainless Steel Co., Ltd.	542,446	5,047
POSCO (Suzhou) Automotive Processing Center Co., Ltd.	352,367	13,688
POSCO BioVentures L.P.		(10,536)
PT. POSNESIA		(14)
POSCO E&C Hawaii Inc.		(793)
POS-Qingdao Coil Center Co., Ltd.	149,653	1,089
POS-Ore Pty. Ltd.	118,687	55,491
POSCO-China Holding Corp.	148,503	459
POSCO-Japan Co., Ltd.	1,490,633	9,850
POS-CD Pty. Ltd.	15,214	(1,771)
POS-GC Pty. Ltd.	12,475	664
POSCO-India Private Ltd.		(21,612)
POSCO-India Pune Steel Processing Centre Pvt. Ltd.	206,138	8,761
POSCO-JNPC Co., Ltd.	179,031	2,499
POSCO-Foshan Steel Processing Center Co.,Ltd.	518,268	6,229
POSCO E&C (China) Co., Ltd.	117,558	889
POSCO MPC S.A. de C.V.	240,277	(2,161)
Zhangjiagang Pohang Port Co., Ltd.	5,200	(789)
Qingdao Pujin Steel Material Co., Ltd	73,408	114
POSCO-Vietnam Co., Ltd.	813,637	(64,111)
POSCO-Mexico Co., Ltd.	302,595	(24,004)
POSCO-India Delhi Steel Processing Centre Pvt. Ltd	113,056	8,919
POSCO-Poland Wroclaw Steel Processing Center Co., Ltd	53,941	1,929
POS-NP Pty. Ltd.	44,773	5,282
POSCO-Vietnam Processing Center Co., Ltd.	85,698	4,419
POSCO (Chongqing) Automotive Processing Center Co, Ltd.	84,385	694

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

Company	Sales	Net income (loss)
	(in millions of Won)	
Suzhou POS-CORE Technology Co., Ltd.	89,248	1,559
POSCO-JYPC Co., Ltd.	74,565	(1,017)
POSCO-Malaysia SDN. BHD.	125,209	(6,022)
POS-Minerals Corporation		(1,188)
POSCO (Wuhu) Automotive Processing Center Co., Ltd.	124,687	2,872
POSCO E&C India Private Ltd.	463	(1,508)
POSCO E&C SMART		(203)
POSCO-Philippine Manila Processing Center Inc.	37,558	1,462
Dalian POSCON Dongbang Automatic Co., Ltd.	4,013	393
SANPU TRADING CO., LTD.	89	(156)
Zhangjiagang BLZ Pohang International Trading Co., Ltd.	70,923	29
POSCO Mexico Human Tech.	4,206	166
POSCO Mexico East Steel Distribution Center Co., Ltd	5,547	696
POSCO Gulf Logistics LLC.	40	(86)
POSCO ICT-China	3,884	26
DWEMEX S.A.DE C.V.	2,084	45
POS MPC Servicios de C.V.	4,837	115
EUROTALY S.A.	32	(846)
POSCO South East Asia Pte. Ltd.	34,196	121
Europe Steel Distribution Center	11,789	513
VECTUS Ltd.	1,886	(2,352)
Zeus(Cayman)		
POSCO VST Co., Ltd.	210,656	(8,333)
POSCO Maharashtra Steel Pvt. Ltd.		(895)
POSCO India Chennai Steel Processing Centre Pvt. Ltd.	52,221	73
POSCO Turkey Nilufer Processing Center Co., Ltd.	3,032	(2,220)
POSCO Vietnam Ha Noi Processing Center Co., Ltd.	39,675	(836)
POSCO (Liaoning) Automotive Processing Center Co., Ltd.	45,933	
POSCO-Indonesia Jakarta Processing Center	42,882	1,023
POSCO E&C Venezuela C.A		
PT. MRI	1,738	(931)
POSCORE-INDIA	2,936	(113)
POSCO America Alabama Processing Center Co., Ltd.	29,350	(1,443)
PT DEC Indonesia		(208)
POSCO (Yantai) Automotive Processing Center Co., Ltd.		(885)
POSCO India Steel Distribution Center Private Ltd.	7	(67)
POSCO China Dalian Plate Processing Center Co., Ltd.		(3,631)
POSCO-South Asia Co., Ltd.	2,954	(479)
POSCO SS-VINA Co., LTD		166
POSCO-NCR Coal Ltd.		
POSCO WA Pty. Ltd.		(637)

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

Company	Sales	Net income (loss)
	(in millions of Won)	
POSCO E&C UZ		1
POSCO Australia GP Limited		3
Daewoo International America Corp.	163,615	(769)
Daewoo International Deutschland GmbH	115,421	428
Daewoo International Japan Corp.	184,725	(638)
Daewoo International Singapore Pte. Ltd.	259,530	109
Daewoo Italia S.r.l.	96,203	139
Daewoo Cement (Shandong) Co., Ltd.		
Daewoo (China) Co., Ltd.	1,417	(874)
PT. RISMAR Daewoo Apparel	12,843	(2,278)
Daewoo Textile Fergana LLC	38,614	3,486
Daewoo Textile Bukhara LLC	15,156	(887)
Daewoo International Australia Holdings Pty. Ltd.	293	139
Daewoo Paper Manufacturing Co., Ltd.	22,311	(18,788)
Tianjin Daewoo. Paper Co., Ltd	8,388	(368)
POSCO Mauritius Ltd.		
PT. KRAKATAU STEEL POSCO		(198)
MYANMAR Daewoo LTD.	203	(17)
Daewoo International MEXICO S.A. de C.V.	50,566	(118)
Daewoo International Guangzhou Corp.	4,702	(30)
Daewoo Energy Central Asia		
Daewoo STC & Apparel Vietnam Ltd.	2,262	(27)
MYANMAR Daewoo International Ltd.	2,233	35
DAYTEK ELECTRONICS CORP.		
Daewoo (M) SDN. BHD.		
Daewoo CANADA LTD.		
Daewoo EL SALVADOR S.A. DE C.V.		
GEZIRA TANNERY CO., LTD.		
POSCO (Zhangjiagang) Stainless Steel Processing Center Co., Ltd.		
Daewoo International Corporation (M) SDN BHD		
Daewoo International SHANGHAI CO., LTD.		
PGSF, LLC		(619)
Xenesys Inc.	935	(3,624)
Daewoo International INDIA Private Ltd.		
TECHREN Solar, LLC		
PT. POSCO E&C Indonesia		(235)
Hume Coal Pty. Ltd.		
Daewoo HANDELS GmbH		
POSCO Foundation		(12)

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

2) December 31, 2011

Company	Assets	Liabilities	Equity (deficit) (in millions of Won)	Sales	Net income (loss)
[Domestic]					
POSCO E&C Co., Ltd.	6,819,542	4,260,627	2,558,915	6,142,026	109,921
POSCO P&S Co., Ltd.	1,017,070	472,175	544,895	3,141,999	19,234
POSCO Coated & Color Steel Co., Ltd.	521,471	297,947	223,524	956,179	(24,713)
POSCO Plant Engineering Co., Ltd.	208,084	117,629	90,455	597,508	6,758
POSCO ICT Co., Ltd.	687,657	446,640	241,017	983,649	30,578
POSCO Research Institute	29,320	6,304	23,016	30,844	216
Seoung Gwang Co., Ltd.	82,671	34,868	47,803	14,652	2,522
POSCO Architects & Consultants Co., Ltd.	93,268	40,458	52,810	196,794	7,236
POSCO Specialty Steel Co., Ltd.	1,582,832	691,581	891,251	1,662,896	127,573
POSTECH Venture Capital Corp.	34,222	1,094	33,128		1,041
eNtoB Co., Ltd.	99,382	69,607	29,775	634,830	1,249
POSCO Chemtec Company Ltd. (formerly, POSCO Refractories & Environment Co., Ltd.)	479,615	152,416	327,199	1,186,623	92,391
POSCO Terminal Co., Ltd.	96,806	15,145	81,661	100,710	22,955
POSCO M-TECH Co., Ltd.	316,953	153,876	163,077	602,155	12,447
POSCO ENERGY Co., Ltd.	2,891,382	2,327,398	563,984	1,863,670	25,152
Postech 2006 Energy Fund	21,662	1,042	20,620		(202)
PHP Co., Ltd.	66,461	58,521	7,940	4,456	483
POSCO TMC Co., Ltd.	204,738	113,595	91,143	219,580	5,746
PNR Co., Ltd.	159,076	129,198	29,878	74,013	13,366
Megaasset Co., Ltd.	23,757	9,354	14,403	63,667	5,794
POSCO Engineering Company (formerly Daewoo Engineering Company)	508,290	341,946	166,344	980,340	3,225
Pohang Fuel Cell Co. Ltd.	12,061	8,592	3,469	2,235	(286)
Pohang SPFC Co., Ltd.	10,021	4,221	5,800	38,117	1,170
POSWITH Co., Ltd.	5,129	2,460	2,669	13,745	151
BASYS INDUSTRY Co., Ltd.	967	266	701	2,500	369
POSTECH BD Newundertaking fund	90		90		(1)
POSBRO Co., Ltd.	126		126		(54)
POSCO AST Co., Ltd.	316,695	163,548	153,147	365,682	4,972
DaiMyung TMS Co., Ltd.	28,350	52,497	(24,147)	6,265	(3,695)
POS-HiMETAL Co., Ltd.	309,369	268,788	40,581	34,682	(28,857)
POSCO E&E Co., Ltd.	22,435	127	22,308		508
POMIC Co., Ltd.	4,411	2,431	1,980	21,111	317
POSFINE Co., Ltd.	62,775	48,146	14,629	2,285	(3,847)
POS ECO HOUSING Co., Ltd.	8,190	1,846	6,344	13,629	265
Mapo high broad parking Co., Ltd.	1,676	110	1,566		(355)
Dakos Co., Ltd.	783	321	462	225	(58)
Kwang Yang SPFC Co., Ltd.	68,279	52,806	15,473	4,686	(2,156)
POSCALCIUM Company, Ltd.	8,403	7,004	1,399	106	(1,353)
Plant Engineering service Technology Co., Ltd.	2,327	500	1,827	6,259	354

9Digit Co., Ltd.	33,820	27,091	6,729	58,341	(308)
Postech Early Stage Fund	10,034	65	9,969		(31)
Busan E&E Co., Ltd.	44,731	1,687	43,044		127
POSCO Family Strategy Funds	57,678	250	57,428		290
POREKA Co., Ltd.	15,131	12,880	2,251	20,785	1,158
Songdo SE Co., Ltd.	1,652	282	1,370	2,761	77
Posgreen Co., Ltd.	8,225	4,280	3,945	2,944	(33)
Daewoo International Corporation	7,823,738	6,302,994	1,520,744	18,758,511	160,088
POSCOLED Co., Ltd.	28,717	5,917	22,800	14,063	(5,355)
Gunsan SPFC Co., Ltd.	51,483	30,673	20,810	53,797	(236)

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

Company	Assets	Liabilities	Equity (deficit) (in millions of Won)	Sales	Net income (loss)
POSCO NST Co., Ltd.	158,470	121,493	36,977	202,334	(803)
Pohang Scrap Recycling Center Co., Ltd.	17,842	2,863	14,979	1,748	143
PSC energy global Co., Ltd.	38,780		38,780		(1,595)
Suncheon Ecotrans Co., Ltd.	25,526	2,878	22,648		48
Shinan Energy Co., Ltd.	8,494		8,494		(56)
Reco Metal Co., Ltd.	15,043	13,280	1,763	6,761	(2,658)
NewAltec Co., Ltd.	114,744	17,171	97,573	92,849	638
PONUTech Co., Ltd.	9,919	182	9,737		(263)
BLUE O&M Co., Ltd	988		988		(12)
[Foreign]					
POSCO America Corporation	416,078	223,968	192,110	419,258	8,866
POSCO Australia Pty. Ltd.	1,161,366	462,383	698,983	136,144	283,875
POSCO Canada Ltd.	565,424	82,867	482,557	304,274	133,660
POSCAN Elkveiw Coal Ltd.					
POSCO Asia Co., Ltd.	540,685	504,059	36,626	2,968,097	6,523
Dalian POSCO Steel Co., Ltd	49,104	58,254	(9,150)	90,990	(8,711)
POSCO-CTPC Co., Ltd.	84,966	52,546	32,420	134,930	1,320
POSCO-JKPC Co., Ltd.	93,668	75,512	18,156	87,203	1,405
International Business Center Corporation	90,577	51,831	38,746	25,889	11,655
POSCO E&C Vietnam Co., Ltd.	77,583	77,679	(96)	114,350	6,670
Zhangjiagang Pohang Stainless Steel Co., Ltd.	1,569,551	986,798	582,753	2,808,722	4,444
Guangdong Pohang Coated Steel Co., Ltd.	394,452	163,785	230,667	275,521	(7,849)
POSCO (Thailand) Company Ltd.	140,260	98,044	42,216	231,144	1,227
Myanmar POSCO Steel Co., Ltd	27,519	9,580	17,939	30,967	5,885
POSCO-JOPC Co., Ltd.	80,896	76,118	4,778	92,296	768
POSCO Investment Co., Ltd.	787,069	688,482	98,587	10,792	10,509
POSCO-MKPC SDN BHD.	165,789	116,928	48,861	177,822	1,763
Qingdao Pohang Stainless Steel Co., Ltd.	268,411	155,877	112,534	615,532	(3,110)
POSCO (Suzhou) Automotive Processing Center Co., Ltd.	305,690	220,468	85,222	384,705	11,046
POSCO BioVentures L.P.	16,851		16,851		(4,226)
PT. POSNESIA	14,129	20	14,109		(28)
POSCO E&C Hawaii Inc.	914	503	411		(304)
POS-Qingdao Coil Center Co., Ltd.	56,062	40,314	15,748	117,470	65
POS-Ore Pty. Ltd.	75,312	66,851	8,461	250,347	132,737
POSCO-China Holding Corp.	427,447	160,423	267,024	173,639	3,617
POSCO-Japan Co., Ltd.	1,157,755	1,017,990	139,765	1,686,385	13,518
POS-CD Pty. Ltd.	72,582	68,030	4,552	22,575	557
POS-GC Pty. Ltd.	79,517	32,397	47,120	10,263	(4,344)
POSCO-India Private Ltd.	147,359	421	146,938		(1,034)
POSCO-India Pune Steel Processing Centre Pvt. Ltd.	168,309	145,655	22,654	211,417	(16,626)
POSCO-JNPC Co., Ltd.	192,177	176,268	15,909	207,654	716
POSCO-Foshan Steel Processing Center Co., Ltd.	178,488	135,213	43,275	529,788	227
POSCO E&C (China) Co., Ltd.	120,135	82,361	37,774	104,055	1,898

POSCO MPC S.A. de C.V.	192,538	182,180	10,358	316,446	(6,587)
Zhangjiagang Pohang Port Co., Ltd.	26,801	11,327	15,474	6,244	222
Qingdao Pujin Steel Material Co., Ltd	14,209	11,997	2,212	79,732	13
POSCO-Vietnam Co., Ltd.	659,931	576,657	83,274	962,490	(46,976)
POSCO-Mexico Co., Ltd.	488,782	422,155	66,627	396,897	(43,298)
POSCO-India Delhi Steel Processing Centre Pvt. Ltd	85,349	75,582	9,767	129,434	(9,824)

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

Company	Assets	Liabilities	Equity (deficit) (in millions of Won)	Sales	Net income (loss)
POSCO-Poland Wroclaw Steel Processing Center Co., Ltd	62,709	49,981	12,728	71,871	(1,483)
POS-NP Pty. Ltd.	57,890	15,003	42,887	48,404	9,480
POSCO-Vietnam Processing Center Co., Ltd.	71,203	50,417	20,786	159,369	26
POSCO (Chongqing) Automotive Processing Center Co, Ltd.	69,253	59,468	9,785	62,795	(1,622)
Suzhou POS-CORE Technology Co., Ltd.	60,082	33,980	26,102	96,008	781
POSCO-JYPC Co., Ltd.	67,587	64,165	3,422	102,700	781
POSCO-Malaysia SDN. BHD.	88,635	112,566	(23,931)	140,709	(4,114)
POS-Minerals Corporation	113,694		113,694		(808)
POSCO (Wuhu) Automotive Processing Center Co., Ltd.	69,613	45,766	23,847	92,554	618
POSCO E&C India Private Ltd.	35,982	31,304	4,678	4,966	1,135
POSCO E&C SMART	4,670	4,034	636	4,421	135
POSCO-Philippine Manila Processing Center Inc.	27,412	17,492	9,920	45,680	266
Dalian POSCON Dongbang Automatic Co., Ltd.	8,083	2,996	5,087	5,104	382
SANPU TRADING CO., LTD.	1,842	5	1,837	73	3
Zhangjiagang BLZ Pohang International Trading Co., Ltd.	15,720	10,881	4,839	100,833	116
POSCO Mexico Human Tech.	787	481	306	5,378	221
POSCO Mexico East Steel Distribution Center Co., Ltd	13,186	1,353	11,833	5,638	110
POSCO Gulf Logistics LLC.					
POSCO ICT-China	1,737	1,294	443	4,920	114
DWEMEX S.A.DE C.V.	226	62	164	2	(29)
POS MPC Servicios de C.V.	667	458	209	4,902	90
EUROTALY S.A.	16,733	127	16,606	24	(898)
POSCO South East Asia Pte. Ltd.	5,232	2,633	2,599	62,235	256
Europe Steel Distribution Center	6,775	991	5,784	13,354	322
VECTUS Ltd.	3,066	5,126	(2,060)	3,560	(1,530)
Zeus(Cayman)					
POSCO VST Co., Ltd.	356,484	268,005	88,479	264,616	(10,669)
POSCO Maharashtra Steel Pvt. Ltd.	372,434	149,442	222,992	44	2,036
POSCO India Chennai Steel Processing Centre Pvt. Ltd.	89,782	80,514	9,268	134,409	(3,232)
POSCO Turkey Nilufer Processing Center Co., Ltd.	49,588	40,578	9,010	38,729	(3,971)
POSCO Vietnam Ha Noi Processing Center Co., Ltd.	47,931	40,500	7,431	55,239	902
POSCO (Liaoning) Automotive Processing Center Co., Ltd.	84,315	61,131	23,184	117,395	3,267
POSCO-Indonesia Jakarta Processing Center	62,550	55,069	7,481	64,597	216
POSCO E&C Venezuela C.A	138		138		
PT. MRI	12,251	17,626	(5,375)	458	(3,854)
POSCORE-INDIA	10,917	8,446	2,471	15,186	(48)

POSCO America Alabama Processing Center Co., Ltd.	63,014	50,007	13,007	85,381	(858)
PT DEC Indonesia	4,577	4,752	(175)	13,962	(267)
POSCO (Yantai) Automotive Processing Center Co., Ltd.	40,586	24,355	16,231	32,301	172
POSCO India Steel Distribution Center Private Ltd.	5,224	2,204	3,020	786	(427)

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

Company	Assets	Liabilities	Equity (deficit) (in millions of Won)	Sales	Net income (loss)
POSCO China Dalian Plate Processing Center Co., Ltd.	106,525	65,888	40,637	66,113	(165)
POSCO-South Asia Co., Ltd.	13,703	199	13,504	8,015	1,039
POSCO SS-VINA Co., LTD	74,438	409	74,029		(1,122)
POSCO-NCR Coal Ltd.					
POSCO WA Pty. Ltd.	212,984	9	212,975		(33,142)
POSCO E&C UZ	2,279	1,789	490	2,046	104
POSCO Australia GP Limited	97,196	5	97,191		(8)
Daewoo International America Corp.	283,653	241,259	42,394	984,378	5,372
Daewoo International Deutschland GmbH	115,256	105,288	9,968	482,585	314
Daewoo International Japan Corp.	245,086	236,533	8,553	804,864	981
Daewoo International Singapore Pte. Ltd.	43,647	38,982	4,665	902,315	481
Daewoo Italia S.r.l.	63,859	60,247	3,612	361,821	145
Daewoo Cement (Shandong) Co., Ltd.	221,807	291,000	(69,193)	133,502	20,361
Daewoo (China) Co., Ltd.	150,079	101,449	48,630	54,521	726
PT. RISMAR Daewoo Apparel	17,767	18,417	(650)	58,182	1,246
Daewoo Textile Fergana LLC	64,437	65,968	(1,531)	132,866	(11,994)
Daewoo Textile Bukhara LLC	51,939	49,630	2,309	51,312	(11,500)
Daewoo International Australia Holdings Pty. Ltd.	151,462	12,964	138,498	1,935	199
Daewoo Paper Manufacturing Co., Ltd.	76,855	72,385	4,470	76,632	(5,210)
Tianjin Daewoo. Paper Co., Ltd	14,589	33,029	(18,440)		
POSCO Mauritius Ltd.	24,648	2,839	21,809		(22)
PT. KRAKATAU STEEL POSCO	819,899	44,918	774,981		(2,385)
MYANMAR Daewoo LTD.	6,030	41	5,989	1,373	152
Daewoo International MEXICO S.A. de C.V.	68,030	64,189	3,841	240,448	299
Daewoo International Guangzhou Corp.	7,666	7,473	193	61,554	(1,265)
Daewoo Energy Central Asia	15,571	322	15,249		
Daewoo STC & Apparel Vietnam Ltd.	3,848	1,313	2,535	9,435	94
MYANMAR Daewoo International Ltd.	7,651	2,240	5,411	11,947	759
DAYTEK ELECTRONICS CORP.					
Daewoo (M) SDN. BHD.					
Daewoo CANADA LTD.					
Daewoo EL SALVADOR S.A. DE C.V.					
GEZIRA TANNERY CO., LTD.					
POSCO (Zhangjiagang) Stainless Steel Processing Center Co., Ltd.	63,505	51,088	12,417	67,175	15
Daewoo International Corporation (M) SDN BHD	8,831	6,469	2,362	21,190	157
Daewoo International SHANGHAI CO., LTD.	63,694	52,656	11,038	91,541	1,286
PGSF, LLC	3,138	1	3,137		280
Xenesys Inc.	11,804	240	11,564	2,494	(3,865)
Daewoo International INDIA Private Ltd.	3,285	1,277	2,008	3,343	69
TECHREN Solar, LLC	5,184		5,184		(506)
PT. POSCO E&C Indonesia	37,495	34,094	3,401	46,665	2,114
Hume Coal Pty. Ltd.	24,316	2,499	21,817		(9)
Daewoo HANDELS GmbH					
POSCO Foundation	213	3	210		3
EPC EQUITIES LLP	11,391	11,283	108	438	(2,743)

SANTOS CMI Construction Trading LLP	13,851	13,742	109	2,750	(1,323)
SANTOS CMI INC. USA	23,418	22,260	1,158	11,604	(155)
SANTOS CMI ENGENHARIA E CONSTRUCOES LTDA	18,771	9,381	9,390	14,823	7,484
SANTOS CMI PERU S.A.	26,074	20,500	5,574	59,091	4,779
SANTOS CMI COSTA RICA S.A.	11,856	11,480	376	1,228	(1,794)
SANTOS CMI CONSTRUCCIONES S.A. (URUGUAY)	122	73	49		(9)

F-27

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

Company	Assets	Liabilities	Equity (deficit) (in millions of Won)	Sales	Net income (loss)
GENTECH International INC.	1,595	1,166	429	1,800	728
EPC INVESTMENTS C.V.	115	18	97		(6)
INGENIERiA Y CONSTRUCCION HOLAND CO S.A.	115	2	113		(2)
ASESORiA Y SERVICIOS EPC S.A CHILE	468	285	183	635	88
SANTOS CMI S.A.	42,766	30,495	12,271	34,879	(5,430)
SANTOS CMI CONSTRUCCIONES DE CHILE S.A.	8,430	2,669	5,761	13,009	1,703
S&K -SANTOS CMI S.A. DE C.V. (MEXICO)	125	14	111	203	(208)
COMPANIA DE AUTOMATIZACION & CONTROL, GENESYS S.A.	10,982	8,392	2,590	14,588	923
VAUTIDAMERICAS S.A.	2,374	1,620	754	1,765	141
SANTOS CMI Constructions Argentina S.A.	82	46	36		1
POSCO E&C Brazil Ltd.	87,817	87,284	533	6,200	(465)
POSCO Electrical Steel Inida Private Limited	26,448	138	26,310		346
Daewoo International Cameroon PLC	1,233		1,233		
POSCO ASSAN TST STEEL Industry	59,415	1,897	57,518		1,724
HONG KONG POSCO E&C (CHINA) Investment Co., Ltd.	171,127	174,814	(3,687)		(3,466)
POSCO Klappan Coal Ltd.					
DAESAN (Cambodia) Co., Ltd.	30,145	35,652	(5,507)		(946)
Brazil Sao Paulo Steel Processing Center Co., Ltd	26,987		26,987		
POSCO(Dalian) IT Center Development Co., Ltd.	152,725	1,271	151,454		(1,464)
PT.POSCO Resources Indonesia	4,048	92	3,956		(415)
PT. POSCO ICT Indonesia	3,480	2,661	819		(80)
PT. POSCO M-Tech Indonesia	2,865	149	2,716	3,329	61
PT. KRAKATAU POSCOPOWER	45,041	42,874	2,167		(134)
POSCO RUS LLC.	3,639	5	3,634		(273)
POSCO Thainox Co., Ltd.	500,214	164,464	335,750	401,257	(22,466)
Daewoo International Shanghai Waigaoqiao Co., Ltd.	13,804	13,256	548	22,354	343
PT. Bio Inti Agrindo	18,900	9,714	9,186		(1,486)
POSCO E&C Australia Pty Ltd.	381	624	(243)		(237)
POSCO-TISCO (Jilin) Processing Center Co., Ltd.	12,587	12	12,575		(375)
Hunchun POSCO Logistics Co., Ltd.	23,725	7	23,718		(229)
USA SRDC Corporation	311		311		
Daewoo International Vietnam Co., Ltd.	4,613		4,613		

F-28

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

3) December 31, 2012

Company	Assets	Liabilities	Equity (deficit) (in millions of Won)	Sales	Net income (loss)
[Domestic]					
POSCO E&C Co., Ltd.	7,893,306	5,007,149	2,886,157	7,041,300	346,107
POSCO P&S Co., Ltd.	1,084,473	456,338	628,135	2,770,764	8,087
POSCO Coated & Color Steel Co., Ltd.	468,910	294,718	174,192	853,499	(47,444)
POSCO Plant Engineering Co., Ltd.	255,831	162,662	93,169	523,227	2,121
POSCO ICT Co., Ltd.	802,675	527,641	275,034	1,017,662	40,089
POSCO Research Institute	34,138	9,239	24,899	46,340	535
Seoung Gwang Co., Ltd.	83,439	33,998	49,441	12,667	685
POSCO Architects & Consultants Co., Ltd.	87,019	40,382	46,637	160,667	(6,227)
POSCO Specialty Steel Co., Ltd.	1,496,939	484,585	1,012,354	1,405,667	69,091
POSTECH Venture Capital Corp.	107,796	501	107,295	6,475	1,438
eNtoB Co., Ltd.	103,000	71,712	31,288	607,230	1,839
POSCO Chemtec Company Ltd.	533,402	134,298	399,104	1,292,356	78,554
POSCO Terminal Co., Ltd.	120,483	14,806	105,677	111,275	25,796
POSCO M-TECH Co., Ltd.	340,877	169,150	171,727	618,316	14,737
POSCO ENERGY Co., Ltd.	3,315,742	2,374,622	941,120	2,805,208	177,796
Postech 2006 Energy Fund	26,000	950	25,050	6,141	385
POSCO TMC Co., Ltd.	253,987	163,175	90,812	268,574	152
PNR Co., Ltd.	149,117	104,272	44,845	72,607	13,380
Megaasset Co., Ltd.	112,729	64,252	48,477	14,274	1,402
POSCO Engineering Company	562,645	383,154	179,491	881,279	1,141
Pohang SPFC Co., Ltd.	29,514	22,941	6,573	75,513	816
POSWITH Co., Ltd.	5,140	2,366	2,774	14,873	105
POSCO AST Co., Ltd.	453,410	298,192	155,218	372,185	4,564
POS-HiMETAL Co., Ltd.	341,640	321,197	20,443	155,274	(19,369)
POSCO E&E Co., Ltd.	22,787	52	22,735		407
POSFINE Co., Ltd.	58,480	46,640	11,840	19,651	(2,304)
POS ECO HOUSING Co., Ltd.	8,274	1,822	6,452	14,513	108
Mapo high broad parking Co., Ltd.	1,561	281	1,280		(285)
Dakos Co., Ltd.	670	191	479	245	16
Kwang Yang SPFC Co., Ltd.	85,814	76,909	8,905	39,472	(6,539)
POSCALCIUM Company, Ltd.	7,637	6,528	1,109	155	(1,790)
Plant Engineering service Technology Co., Ltd.	3,620	1,316	2,304	8,332	477
9Digit Co., Ltd.	27,458	22,798	4,660	289,912	(431)
Postech Early Stage Fund	9,869		9,869	163	(100)
Busan E&E Co., Ltd.	79,054	37,470	41,584	67,419	(745)
POSCO Family Strategy Funds	66,390		66,390	1,368	362
POREKA Co., Ltd.	16,785	12,967	3,818	40,560	1,389
Daewoo International Corporation	6,989,140	4,866,242	2,122,898	17,011,373	306,041
POSCOLED Co., Ltd.	37,735	23,523	14,212	41,278	(8,205)
Gunsan SPFC Co., Ltd.	61,683	41,606	20,077	70,443	(692)
Pohang Scrap Recycling Center Co., Ltd.	19,435	3,207	16,228	5,657	1,270

PSC energy global Co., Ltd.	61,168		61,168		(3,060)
Suncheon Ecotrans Co., Ltd.	49,496	27,118	22,378		(251)
Reco Metal Co., Ltd.	32,959	35,547	(2,588)	42,482	(4,736)
NewAltec Co., Ltd.	126,527	28,488	98,039	95,474	1,376
PONUTech Co., Ltd.	133,854	97,105	36,749	53,662	(5,825)
BLUE O&M Co., Ltd	900	21	879	232	(110)
Tamra Offshore Wind Power Co., Ltd.	20,074	2	20,072		(56)
POS-HiAL	47,314	32,852	14,462		(1,158)
MCM Korea	50		50		

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

Company	Assets	Liabilities	Equity (deficit) (in millions of Won)	Sales	Net income (loss)
Tancheon E&E	5,606	17	5,589		(165)
[Foreign]					
POSCO America Corporation	510,392	333,246	177,146	803,368	(1,338)
POSCO Australia Pty. Ltd.	1,195,398	477,894	717,504	118,874	23,634
POSCO Canada Ltd.	555,972	47,925	508,047	205,885	62,584
POSCO Asia Co., Ltd.	586,971	550,913	36,058	2,616,390	2,148
Dalian POSCO Steel Co., Ltd	29,078	47,280	(18,202)	18,615	(9,958)
POSCO-CTPC Co., Ltd.	82,206	50,391	31,815	132,510	1,481
POSCO-JKPC Co., Ltd.	79,788	61,793	17,995	115,531	3,108
International Business Center Corporation	81,465	46,210	35,255	25,340	10,987
POSCO E&C Vietnam Co., Ltd.	127,161	102,831	24,330	187,325	14,331
Zhangjiagang Pohang Stainless Steel Co., Ltd.	1,340,336	867,576	472,760	2,786,474	(79,016)
Guangdong Pohang Coated Steel Co., Ltd.	141,727	102,418	39,309	221,738	(20,980)
POSCO (Thailand) Company Ltd.	155,836	110,059	45,777	255,611	5,611
Myanmar POSCO Steel Co., Ltd	23,699	7,810	15,889	19,484	2,569
POSCO-JOPC Co., Ltd.	78,402	73,817	4,585	114,432	647
POSCO Investment Co., Ltd.	718,078	621,268	96,810	13,461	6,000
POSCO-MKPC SDN BHD.	159,191	111,749	47,442	232,088	107
Qingdao Pohang Stainless Steel Co., Ltd.	206,941	117,753	89,188	514,354	(17,445)
POSCO (Suzhou) Automotive Processing Center Co., Ltd.	284,046	195,684	88,362	407,513	8,425
POSCO BioVentures L.P.	7,571		7,571		(1,301)
PT. POSNESIA	14,978	1,926	13,052		(55)
POSCO E&C Hawaii Inc.	350	2	348		(35)
POS-Qingdao Coil Center Co., Ltd.	47,351	33,119	14,232	111,017	(623)
POS-Ore Pty. Ltd.	59,784	11,043	48,741	163,407	75,389
POSCO-China Holding Corp.	438,538	184,127	254,411	138,067	3,055
POSCO-Japan Co., Ltd.	852,406	735,583	116,823	1,659,045	16,218
POS-CD Pty. Ltd.	68,681	17,931	50,750	12,869	(9,603)
POS-GC Pty. Ltd.	83,998	49,598	34,400	20,160	(10,905)
POSCO-India Private Ltd.	131,409	306	131,103		(768)
POSCO-India Pune Steel Processing Centre Pvt. Ltd.	179,112	164,386	14,726	252,296	(6,061)
POSCO-JEPC Co., Ltd. (formerly, POSCO-JNPC Co., Ltd.)	221,086	200,769	20,317	351,377	4,769
POSCO-Foshan Steel Processing Center Co.,Ltd.	218,881	177,426	41,455	515,773	727
POSCO E&C (China) Co., Ltd.	145,448	101,733	43,715	169,956	8,459
POSCO MPC S.A. de C.V.	204,770	178,108	26,662	359,768	(7,137)
Zhangjigang Pohang Port Co., Ltd.	23,889	9,070	14,819	6,542	255
Qingdao Pujin Steel Material Co., Ltd	10,429	9,628	801	59,165	(1,313)
POSCO-Vietnam Co., Ltd.	572,453	539,426	33,027	805,214	(46,619)
POSCO-Mexico Co., Ltd.	772,518	538,907	233,611	430,986	(12,354)
POSCO-India Delhi Steel Processing Centre Pvt. Ltd	100,153	81,218	18,935	142,038	977
POSCO-Poland Wroclaw Steel Processing Center Co., Ltd	56,394	37,399	18,995	97,381	5,875
POS-NP Pty. Ltd.	62,868	26,259	36,609	28,872	(4,363)
POSCO-Vietnam Processing Center Co., Ltd.	64,551	39,418	25,133	137,641	58
	63,038	54,523	8,515	93,615	(729)

POSCO (Chongqing) Automotive Processing Center Co, Ltd.					
Suzhou POS-CORE Technology Co., Ltd.	52,746	29,180	23,566	83,910	(1,055)
POSCO-Malaysia SDN. BHD.	74,431	96,028	(21,597)	153,122	1,529

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

Company	Assets	Liabilities	Equity (deficit) (in millions of Won)	Sales	Net income (loss)
POS-Minerals Corporation	213,365	108,246	105,119		(496)
POSCO (Wuhu) Automotive Processing Center Co., Ltd.	62,067	39,958	22,109	86,998	(363)
POSCO E&C India Private Ltd.	33,536	26,578	6,958	56,037	2,990
POSCO E&C SMART	12,607	10,693	1,914	41,717	1,326
POSCO-Philippine Manila Processing Center Inc.	23,737	14,091	9,646	35,897	673
POS-GSFC LLC	41,150	33,676	7,474	24,891	(3,297)
Dalian POSCON Dongbang Automatic Co., Ltd.	6,358	1,418	4,940	5,109	270
SANPU TRADING CO.,LTD.	1,753	2	1,751	86	21
Zhangjiagang BLZ Pohang International Trading Co., Ltd.	9,150	4,408	4,742	61,529	192
POSCO Mexico Human Tech.	693	708	(15)	6,777	(148)
POSCO Mexico East Steel Distribution Center Co., Ltd	12,860	717	12,143	5,654	287
POSCO ICT-China	1,922	1,286	636	6,528	227
DWEMEX S.A.DE C.V.	211	19	192		29
POS MPC Servicios de C.V.	925	697	228	6,077	62
POSCO-URUGUAY S.A.	24,835	226	24,609	3	(1,842)
POSCO South East Asia Pte. Ltd.	9,571	7,126	2,445	90,158	556
Europe Steel Distribution Center	7,270	1,460	5,810	13,054	399
VECTUS Ltd.	2,859	12,164	(9,305)	3,365	(7,325)
POSCO VST Co., Ltd.	405,882	353,058	52,824	348,339	(30,977)
POSCO Maharashtra Steel Pvt. Ltd.	942,982	754,791	188,191	97,948	(41,512)
POSCO India Chennai Steel Processing Centre Pvt. Ltd.	129,030	119,375	9,655	187,797	1,453
POSCO Turkey Nilufer Processing Center Co., Ltd.	51,139	40,429	10,710	53,246	1,841
POSCO Vietnam Ha Noi Processing Center Co., Ltd.	46,382	40,764	5,618	72,321	(1,232)
POSCO (Liaoning) Automotive Processing Center Co., Ltd.	71,502	48,643	22,859	114,046	1,143
POSCO-Indonesia Jakarta Processing Center	79,711	57,569	22,142	76,506	(1,402)
POSCO E&C Venezuela C.A	128		128		
PT. MRI	8,148	15,508	(7,360)	1,109	(1,603)
POSCORE-INDIA	9,004	6,823	2,181	17,192	(45)
POSCO America Alabama Processing Center Co., Ltd.	49,178	37,475	11,703	109,454	(397)
PT DEC Indonesia	6,960	6,936	24	15,296	(101)
POSCO (Yantai) Automotive Processing Center Co.,Ltd.	35,773	20,063	15,710	57,464	442
POSCO India Steel Distribution Center Private Ltd.	4,759	2,698	2,061	57	(72)
POSCO China Dalian Plate Processing Center Co., Ltd.	86,264	55,531	30,733	37,501	(7,020)
POSCO-South Asia Co., Ltd.	13,212	183	13,029	8,354	72
POSCO SS-VINA Co., LTD	156,811	4,050	152,761		(2,602)
POSCO WA Pty. Ltd.	235,224	51	235,173		(39,181)
POSCO E&C UZ	8,589	7,968	621	1,076	334
POSCO Australia GP Limited	62,768	4	62,764		(67,392)
Daewoo International America Corp.	332,620	288,716	43,904	1,040,183	4,767
Daewoo International Deutschland GmbH	104,259	94,087	10,172	324,061	739
Daewoo International Japan Corp.	236,056	228,631	7,425	749,714	273
Daewoo International Singapore Pte. Ltd.	80,294	75,966	4,328	708,613	13

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

Company	Assets	Liabilities	Equity (deficit) (in millions of Won)	Sales	Net income (loss)
Daewoo Italia S.r.l.	103,710	99,911	3,799	262,784	383
Daewoo (China) Co., Ltd.	56,225	9,614	46,611	118,971	683
Daewoo Textile Fergana LLC	86,781	65,730	21,051	127,432	9,214
Daewoo Textile Bukhara LLC	54,780	40,581	14,199	44,382	2,615
Daewoo International Australia Holdings Pty. Ltd.	154,829	26,482	128,347	7,539	(3,464)
Daewoo Paper Manufacturing Co., Ltd.	70,572	70,339	233	69,880	(4,132)
Tianjin Daewoo. Paper Co., Ltd	13,739	31,105	(17,366)		
POSCO Mauritius Ltd.	23,316	2	23,314		(15)
PT. KRAKATAU STEEL POSCO	1,912,134	969,415	942,719		(29,063)
MYANMAR Daewoo LTD.	5,671	3	5,668	1,305	473
Daewoo International MEXICO S.A. de C.V.	80,432	75,226	5,206	262,230	1,412
Daewoo International Guangzhou Corp.	18,292	14,120	4,172	66,808	(4,854)
Daewoo STC & Apparel Vietnam Ltd.	1,736	89	1,647	1,856	96
POSCO (Zhangjiagang) Stainless Steel Processing Center Co., Ltd.	114,433	102,240	12,193	265,850	519
Daewoo International Corporation (M) SDN BHD	9,145	6,689	2,456	37,244	213
Daewoo International SHANGHAI CO., LTD.	38,374	30,621	7,753	63,039	(2,746)
PGSF, LLC	5,669	2	5,667		731
Xenesys Inc.	10,162	1,404	8,758	4,302	(1,083)
Daewoo International INDIA Private Ltd.	2,279	272	2,007	2,382	223
TECHREN Solar, LLC	6,015		6,015		(2,486)
PT. POSCO E&C Indonesia	100,543	78,852	21,691	247,331	20,302
Hume Coal Pty. Ltd.	36,681	1,194	35,487	48	(210)
POSCO Foundation	187	2	185		(4)
EPC EQUITIES LLP	36,602	36,636	(34)		(141)
SANTOS CMI Construction Trading LLP	39,148	30,527	8,621	15,299	8,963
SANTOS CMI INC. USA	43,496	47,350	(3,854)	60,152	(5,013)
SANTOS CMI ENGENHARIA E CONSTRUCOES LTDA	9,338	17,629	(8,291)	20,029	(17,431)
SANTOS CMI PERU S.A.	19,937	39,932	(19,995)	69,415	(26,391)
SANTOS CMI COSTA RICA S.A.	10,720	10,469	251		(99)
SANTOS CMI CONSTRUCCIONES S.A. (URUGUAY)	18	7	11		(25)
GENTECH International INC.	1,972	1,568	404	1,008	227
EPC INVESTMENTS C.V.	107	24	83		(8)
INGENIERiA Y CONSTRUCCION HOLAND CO S.A.	103	4	99		(6)
ASESORiA Y SERVICIOS EPC S.A CHILE	891	468	423	1,691	250
SANTOS CMI S.A.	58,219	44,584	13,635	46,738	1,737
SANTOS CMI CONSTRUCCIONES DE CHILE S.A.	9,533	3,608	5,925	1,608	178
S&K -SANTOS CMI S.A. DE C.V. (MEXICO)	84	149	(65)	335	(158)
COMPANIA DE AUTOMATIZACION & CONTROL, GENESYS S.A.	8,648	6,018	2,630	16,926	465
VAUTIDAMERICAS S.A.	4,866	2,217	2,649	1,445	(451)
SANTOS CMI Constructions Argentina S.A.	58	24	34		4
POSCO E&C Brazil Ltd.	343,882	322,576	21,306	59,862	11,470
POSCO Electrical Steel India Private Limited	132,529	94,046	38,483		(1,343)

Daewoo International Cameroon PLC	2,064	25	2,039	
POSCO ASSAN TST STEEL Industry	377,066	230,778	146,288	1,072
HONG KONG POSCO E&C (CHINA) Investment Co., Ltd.	147,685	172,085	(24,400)	(21,103)
DAESAN (Cambodia) Co., Ltd.	27,979	33,111	(5,132)	(18)

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

Company	Assets	Liabilities	Equity (deficit) (in millions of Won)	Sales	Net income (loss)
Brazil Sao Paulo Steel Processing Center Co., Ltd	39,794	23,210	16,584	4,863	(1,634)
POSCO(Dalian) IT Center Development Co., Ltd.	176,026	37,908	138,118		(4,691)
PT.POSCO Resources Indonesia	2,448	48	2,400		(1,147)
PT. POSCO ICT Indonesia	3,624	3,185	439	4,335	(324)
PT. POSCO M-Tech Indonesia	11,577	6,620	4,957	9,631	(34)
PT. KRAKATAU POSCOPOWER	143,452	55,475	87,977		(949)
POSCO RUS LLC.	12,384	8,324	4,060	4,260	505
POSCO Thainox Co., Ltd.	473,048	153,836	319,212	502,041	(5,532)
Daewoo International Shanghai Waigaoqiao Co., Ltd.	11,003	10,241	762	161,675	255
PT. Bio Inti Agrindo	35,514	21,447	14,067	404	828
POSCO E&C Australia Pty Ltd.	35,552	34,986	566	52,143	836
POSCO-TISCO (Jilin) Processing Center Co., Ltd.	26,258	9,203	17,055	1,497	(514)
Hunchun POSCO Logistics Co., Ltd.	46,923	8	46,915		(829)
USA SRDC Corporation	311	21	290		
Daewoo International Vietnam Co., Ltd.	4,453	149	4,304	2,096	14
PT. Krakatau POSCO Chemtech Calcination	23,217	1,279	21,938		(722)
Posco Africa	3,580	112	3,468		(1,509)
E.P.C INGENIERIA & SERVICIOS DE COSTA RICA S.A	1,497	1,553	(56)	1,973	(73)
POSCO ICT BRASIL PARTICIPACOES LTDA	1,983	1,471	512		(336)
LA-SCRAP RECYCLING DISTRIBUTION	1,274	758	516	5,128	62
Posco Center Beijing	267,838	97,208	170,630		(1,233)
POSCO AMERICA COMERCIALIZADORA S	177	175	2	168	2
POSCO AMERICA PRODUCTOS, OFERTAS, SISTEMAS Y COMERCIALIZADORA ORIENTAL S DE RL DE C.V.	309	649	(340)	339	(408)
Guangdong Pohang Car Steel Co., Ltd.	351,910	203,033	148,877	1,061	(9,197)
POSCO Mexico Aguascalientes Processing Center Co., Ltd.	6,427		6,427		

(d) Consolidated subsidiaries acquired during the year ended December 31, 2012 are as follows:

Company	Date of acquisition	Ownership (%)	Reason
Tamra Offshore Wind Power Co., Ltd.	January 2012	64.00	new acquisitions
PT. Krakatau POSCO Chemtech Calcination	January 2012	80.00	new establishment
POS-HiAL Co., Ltd	January 2012	65.30	new establishment
POSCO-Africa	February 2012	100.00	new establishment
E.P.C. INGENIERIA & SERVICIOS DE COSTA RICA S. A.	May 2012	100.00	new establishment
POSCO ICT BRASIL PARTICIPACOES LTDA	May 2012	100.00	new establishment
LA-SCRAP RECYCLING DISTRIBUTION CENTER, LLC.	May 2012	68.41	new establishment
MCM Korea Co., Ltd.	July 2012	100.00	new acquisitions
Tancheon E&E Co., Ltd.	July 2012	100.00	new establishment
EEC, GmbH	August 2012	100.00	new establishment
Posco Center Beijing	August 2012	99.00	new establishment
POSCO AMERICA COMERCIALIZADORA S DE RL DE C.V.	August 2012	100.00	new acquisitions
POSCO AMERICA PRODUCTOS, OFERTAS, SISTEMAS Y COMERCIALIZADORA ORIENTAL S DE RL DE C.V.	August 2012	100.00	new acquisitions
Guangdong Pohang Car Steel Co., Ltd.	October 2012	93.64	spin off from subsidiary

POSCO Mexico Aguascalientes Processing Center Co., Ltd.	December 2012	100.00	new establishment
POS-GSFC LLC	December 2012	81.93	new acquisitions

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

(e) Cash outflows caused by the acquisitions for the year ended December 31, 2012

	Amounts (in millions of Won)
Consideration transferred	287,085
Less: cash and cash equivalents-acquired	(188,205)
Total	98,880

(f) Subsidiaries that were excluded from consolidation during the year ended December 31, 2012 are as follows:

Company	Date of disposal	Reason
POSCO-JYPC Co., Ltd.	January 2012	Statutory merger by POSCO-JEPC CO., Ltd.
DaiMyung TMS Co., Ltd.	March 2012	Statutory merger by POSCO-AST CO., Ltd.
MYANMAR DAEWOO INT L LTD.	April 2012	Disposal
PT. RISMAR DAEWOO APPAREL	April 2012	Disposal
Daewoo Cement (Shandong) Co., Ltd.	June 2012	Disposal
POMIC Co., Ltd.	July 2012	Statutory merger by POSCO Research Institute
DAEWOO ENERGY CENTRAL ASIA	July 2012	Exclusion by corporate liquidation
BASYS INDUSTRY CO., LTD.	August 2012	Disposal
DAYTEK ELECTRONICS CORP	August 2012	Exclusion by corporate liquidation
PHP Co., Ltd.	November 2012	Statutory merger by Mega-Asset
Pohang Fuel Cell Power Corp.	November 2012	Statutory merger by POSCO ENERGY Co., Ltd.
POSGREEN Company, Ltd	November 2012	Disposal
Shinan Energy Co., Ltd.	November 2012	Statutory merger by POSCO ENERGY Co., Ltd.
EEC, GmbH	November 2012	Exclusion by corporate liquidation
POSTECH BD Newundertaking Fund	December 2012	Exclusion by corporate liquidation
POSBRO COMPANY LTD.	December 2012	Disposal
Songdose co., itd	December 2012	Disposal
POSCONST.CO.,LTD	December 2012	Statutory merger by POSCO-AST CO., Ltd.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

(g) Details of associates

Details of associates as of December 31, 2011 and 2012 are as follows:

Investee	Category of business	Ownership (%) 2011	2012	Region
[Domestic]				
MIDAS Information Technology Co., Ltd. (*8)	Engineering	25.46		Seoul
Metapolis Co., Ltd.	Multiplex development	40.05	40.05	Hwaseong
Songdo New City Development Inc.	Real estate	29.90	29.90	Seoul
POSMATE Co., Ltd.	Services	30.00	45.15	Seoul
Gail International Korea Ltd.	Real estate	29.90	29.90	Seoul
SNNC Co., Ltd.	Raw material manufacturing and sale	49.00	49.00	Gwangyang
CHUNGJU ENTERPRISE CITY _	Real estate	25.10	25.10	Chungju
Taegisan Wind Power Corporation	Wind power plant construction and management	50.00	50.00	Hoengseong
KOREASOLARPARK Co., Ltd. (*8)	Solar power plant construction and management	37.50		Youngam
Garolim Tidal Power Plant Co., Ltd.	Generation of_electricity	32.13	32.13	Seosan
Cheongna IBT Co., Ltd. (*4)	Multiplex development	18.58		Incheon
PSIB Co., Ltd.	Non-resident building lease	49.00	49.00	Seoul
Universal Studios Resort Development Co., Ltd. (*3)	Construction	22.10		Hwaseong
Universal Studios Resort Asset Management Corp.	Real estate services	26.16	26.16	Seoul
Daewoo national car Gwangju selling Co., Ltd.	Real estate	50.00	50.00	Gwangju
Uitrans Co., Ltd.	Transporting	38.19	41.89	Seoul
Suwon Green Environment Co., Ltd.	Construction	27.50	27.50	Hwaseong
Pajoo & Viro Co., Ltd.	Construction	40.00	40.00	Paju
Green Gimpo Co., Ltd.	Construction	31.84	31.84	Gimpo
Busan-Gimhae Light Rail Transit Co., Ltd.	Transporting	25.00	25.00	Gimhae
Incheon-Gimpo Highway Co., Ltd.	Construction	25.82	29.94	Anyang
Green Jangryang Co., Ltd.	Sewerage treatment	25.00	25.00	Pohang
Green Tongyeong Enviro Co., Ltd.	Sewerage treatment	20.40	20.40	Tongyoung
POSPLATE Co., Ltd. (*3)	Services	48.95		Gwangyang
Pure Gimpo.Co., Ltd.	Construction	28.79	28.79	Seoul
Pohang Techno Valley AMC Co., Ltd.	Construction	29.50	29.50	Pohang
Sungjin Geotec Co., Ltd.	Industrial machinery manufacturing	36.69	33.02	Ulsan
Kyobo Life Insurance Co., Ltd. (*6)	Life insurance	24.00		Seoul
POSGREEN Company, Ltd. (*9)	Plastic manufacturing	60.00	19.00	Gwangyang
Dongbang Special Steel Co., Ltd. (*3)	Steel processing and sales	35.82		Pohang
Pure Iksan Co., Ltd.	Construction	23.50	23.50	Pohang
Gyeonggi CES Co., Ltd.	Facility construction	21.84	21.84	Yangju
Innovalley Co., Ltd.	Real estate development	28.77	28.77	Yongin
Applied Science Corp.	Machinery manufacturing	29.30	28.27	Paju
SENTECH KOREA Corp. (*3)	Manufacturing	20.25		Paju
AROMA POSTECH RENEWABLE ENERGY Co., Ltd.	Other science research_	28.57	28.57	Seoul

Hyundai Investment Network Private Equity Fund	Mine investment	50.00	50.00	Seoul
Pohang Techno Valley PFV Corporation	Real estate development	28.65	29.90	Pohang
BLUE OCEAN Private Equity Fund	Private equity financial	27.52	27.52	Seoul
SUNAM Co., Ltd.	Power supply manufacturing	23.91	23.91	Seoul
Kones Corporation	Technical service	41.67	41.67	Gyeongju
DAEHO G.M (*5)	Investment advisory service		35.82	Pohang
Mokpo Deayang Industrial Corporation (*1)	Real estate development		29.90	Mokpo
POSCO ES MATERIALS CO., LTD. (*1)	Secondary battery manufacturing		50.00	Gumi
Gyeonggi Fuel Cell Power Plant Co., Ltd. (*1)	Electricity generation		25.50	Hwaseong
Pohang Special Welding Co., Ltd. (*1)	Welding material and tools manufacturing and sales		50.00	Pohang
Poscochemtech Mitsubishi Carbon Tech (*10)	Steel processing and sales		60.00	Gwangyang

F-35

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

Investee	Category of business	Ownership (%) 2011	Ownership (%) 2012	Region
[Foreign]				
VSC POSCO Steel Corporation	Steel manufacturing and Sale	50.00	50.00	Vietnam
KOBRASCO	Facility lease	50.00	50.00	Brazil
USS-POSCO Industries	Material manufacturing and sale	50.00	50.00	USA
Poschrome Pty. Ltd.	Raw material manufacturing and sale	50.00	50.00	Republic of South Africa
POS-Hyundai Steel Manufacturing India Private Ltd.	Steel processing and sale	29.50	29.50	India
POSVINA Co., Ltd.	Plating steel sheet manufacturing	50.00	50.00	Vietnam
PT. POSMI Steel Indonesia	Steel processing and sale	36.69	36.69	Indonesia
CAML Resources Pty. Ltd.	Raw material manufacturing and sale	33.34	33.34	Australia
Nickel Mining Company SAS	Raw material manufacturing and sale	49.00	49.00	New Caledonia
Liaoning Rongyuan Posco Refractories Co., Ltd.	Manufacturing and sale	35.00	35.00	China
POSK (PingHu)Processing Center Co.,Ltd	Steel processing and sale	20.00	20.00	China
AN KHANH NEW CITY DEVELOPMENT	Highway construction and new town development	50.00	50.00	Vietnam
Henan Tsingpu Ferro Alloy Co., Ltd.	Raw material manufacturing and sale	49.00	49.00	China
United Spiral Pipe, LLC	Material manufacturing and sale	35.00	35.00	USA
Zhongyue POSCO(Qinhuangdau) Tinplate Industrial Co., Ltd.	Plating sheet manufacturing	34.00	34.00	China
BX STEEL POSCO Cold RolledSheet Co., Ltd.	Steel processing and sale	25.00	25.00	China
POSCO-SAMSUNG-Slovakia Processing Center	Steel processing and sale	30.00	30.00	Slovakia
Eureka Moly LLC	Raw material manufacturing and sale	20.00	20.00	USA
POSCO SAMSUNG Suzhou Steel Processing Center Co., Ltd.	Steel processing and sale	30.00	30.00	China
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	Steel processing and sale	25.00	25.00	China
Yingkou Posrec Refractories Co., Ltd.	Refractory manufacturing	25.00	25.00	China
Zhangjiagang Pohang Refractories Co., Ltd.	Refractory manufacturing	50.00	50.00	China
Daewoo Engineering (THAILAND) Co., Ltd.	Development and contract	48.90	48.90	Thailand
Sebang Steel	Scrap sale	49.00	49.00	Japan
NCR LLC	Coal sale	20.00	29.40	Canada
AMCI (WA) Pty. Ltd.	Iron ore sale & mine development	49.00	49.00	Austrailia
POSCO YongXin Rare Earth Metal Co., Ltd.	Energy & resource development	31.00	31.00	China
Shanghai Lansheng Daewoo Coporation	Trading	49.00	49.00	China
Shanghai Waigaogiao Free Trade Zone Lansheng Daewoo Int l Trading Co., Ltd.	Trading	49.00	49.00	China
Hanjung Power Pty. Ltd	Electric power manufacturing and sale	49.00	49.00	Papua New Guinea
Myanmar Korea Timber International Ltd.	Plating sheet manufacturing	45.00	45.00	Myanmar
General Medicines Company Ltd.	Medicine manufacturing and sale	33.00	33.00	Sudan
KOREA LNG Ltd.	Gas production and sale	20.00	20.00	England
DMSA, AMSA (*2)	Energy & resource development	4.00	4.00	Madagascar
KG Power(M) SDN. BHD	Energy & resource development	20.00	20.00	Malaysia
Daewoo (THAILAND) CO., LTD.	Trading	49.00	49.00	Thailand
N.I.CO., LTD.	Trading	50.00	50.00	North Korea
South-East Asia Gas Pipeline Company Ltd.	Pipeline construction	25.04	25.04	Myanmar
GLOBAL KOMSCO Daewoo LLC	Mintage	35.00	35.00	Uzbekistan
POSUK TITANIUM B.V	Steel manufacturing	50.00		Netherland
POSCO-NPS Niobium LLC	Mine development	50.00	50.00	USA

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

Investee	Category of business	Ownership (%) 2011	2012	Region
POSCO-POGEN AMP	Steel manufacturing	26.00	26.00	India
Klappan Coal Joint Venture	Coal sale	20.00	20.00	Canada
AES-VCM Mong Duong Power Company Ltd.	Coal sale	30.00	30.00	Vietnam
CSP	Steel manufacturing and sale	20.00	20.00	Brazil
PT.INDONESIA POS CHOSUN Ref	Refractory manufacturing and sale	30.00	30.00	Indonesia
NS-Thainox Auto Co., Ltd.	Steel manufacturing and sale	49.00	49.00	Vietnam
Korea-Siberia Wood	Forest resources development	50.00	50.00	Russia
PT. Tanggamus Electric Power	Construction and engineering service	20.00	20.00	Indonesia
PT. Wampu Electric Power	Construction and engineering service	20.00	20.00	Indonesia
Boulder Solar Power, LLC (*1)	Electric power manufacturing		25.00	USA
POSUK Titanium (*1)	Titanium manufacturing and sale		50.00	Kazahstan
Roy Hill Holdings Pty Ltd. (*2)	Energy & resource development		12.50	Australia
Li3 Energy Inc. (*7)	Energy & resource development		26.06	Peru
Fifth Combined Heat and Power Plant LLC (*1)	Thermal power generation		30.00	Mongolia
IMFA ALLOYS FINLEASE LTD (*7)	Raw material manufacturing and sale		24.00	India

(*1) These associates were newly established during the year ended December 31, 2012.

(*2) The Company is able to exercise significant influence even though the Company s percentage of ownership is below 20%.

(*3) Excluded from associates due to a decrease in ownership percentage during the year ended December 31, 2012.

(*4) Excluded from associates as the contract on entrusted voting rights expired during the year ended December 31, 2012.

(*5) This entity split off from Dongbang Special Steel Co., Ltd. during the year ended December 31, 2012.

(*6) The Company determined to dispose of the shares of Kyobo Life Insurance Co., Ltd., an associate of Daewoo International Corporation, one of the Company s subsidiaries, in order to secure investment funds and improve the Company s financial structure. The transaction was completed during the year ended December 31, 2012.

(*7) These securities were acquired during the year ended December 31, 2012.

(*8) Excluded from associates due to partial disposal during the year ended December 31, 2012.

(*9) As the controlling company s percentage of ownership dropped below 50% during the year ended December 31, 2012, this investment was reclassified to associates.

(*10) This associate was newly established and the Company is not able to exercise control over the investees, even though the Company s percentage of ownership is above 50%.

Cash dividends paid to POSCO by associates for the years ended December 31, 2010, 2011 and 2012 amounted to 65,212 million, 88,743 million and 43,603 million, respectively.

As of December 31, 2012, there are no restrictions on the ability of associates to transfer funds to the Company, such as in the form of cash dividends, repayment of loans or payment of advances.

2. Statement of Compliance

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

Basis of measurement

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

(a) Derivatives instruments are measured at fair value

(b) Financial instruments at fair value through profit or loss (FVTPL) are measured at fair value

(c) Available-for-sale financial assets are measured at fair value

(d) Defined benefit liabilities are measured at the present value of the defined benefit obligation less the fair value of the plan assets

Functional and presentation currency

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

Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

Note 7 Other financial assets

Note 11	Investment property, net
Note 12	Property, plant and equipment, net
Note 13	Goodwill and other intangible assets

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

Note 17	Provisions
Note 18	Employee Benefits
Note 25	Construction Contracts
Note 33	Commitments and Contingencies

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

Changes in accounting policies

(a) Financial Instruments: Disclosures

The Company has applied the amendments to IFRS No. 7, *Financial Instruments: Disclosures* since January 1, 2012. The amendments require disclosure of the nature of transferred assets, their carrying amount, and the description of risks and rewards for each class of transferred financial assets that are not derecognized in their entirety. If the Company derecognizes transferred financial asset but still retains their specific risks and rewards, the amendments require additional disclosures of their risks.

Approval of financial statements

The consolidated financial statements were authorized for issue by the Board of Directors on February 7, 2013.

3. Summary of Significant Accounting Policies

The significant accounting policies applied by the Company in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except for those as disclosed in note 2.

Basis of consolidation

(a) Subsidiaries

A subsidiary is an entity that is controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of the other entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

If a member of the Company uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

(b) Non-controlling interests

Non-controlling interests in a subsidiary are accounted for separately from the parent s ownership interests in a subsidiary. Each component of net profit or loss and other comprehensive income is attributed to the owners of the parent and non-controlling interest holders, even when the allocation reduces the non-controlling interest balance below zero. There is no such case that the allocation reduces the non-controlling interest balance below zero for all periods presented.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

(c) Changes in ownership interests in subsidiaries

Changes in the controlling company s ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognized in profit or loss. The difference between the consideration and the adjustments made to non-controlling interest is recognized directly in equity attributable to the owners of the controlling company.

Associates and jointly controlled entities

An associate is an entity in which the Company has significant influence, but not control, over the entity s financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity.

Joint ventures are those entities over whose activities the Company has joint control, established by contractual agreement, and require unanimous consent for strategic financial and operating decisions. The Company recognizes its interest in a jointly controlled entity using proportionate consolidation by including separate line items for its share of the assets, liabilities, income and expenses of the jointly controlled entity in the consolidated financial statements.

The investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the Company s share of the profit or loss and changes in equity of the associate after the date of acquisition. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

If an associate or a joint venture uses accounting policies different from those of the Company for like transactions and events in similar circumstances, appropriate adjustments are made to the Company s consolidated financial statements in applying the equity method. No such significant adjustments were made to the Company s consolidated financial statements in applying the equity method.

When the Company s share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has to make payments on behalf of the investee for further losses. The Company has no obligation and does not have to make payments on behalf of the investee for further losses as of December 31, 2012.

Business combinations

(a) Business combinations

A business combination is accounted for by applying the acquisition method as of the acquisition date (i.e., when control is transferred to the Company), unless it is a combination involving entities or businesses under common control.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

Each identifiable asset and liability is measured at its acquisition-date fair value except for below:

Leases and insurance contracts are required to be classified on the basis of their contractual terms and other factors.

Only those contingent liabilities assumed in a business combination that are a present obligation and can be measured reliably are recognized.

Deferred tax assets or liabilities are recognized and measured in accordance with IAS No. 12 Income Taxes .

Employee benefit arrangements are recognized and measured in accordance with IAS No. 19 *Employee Benefits* .

Indemnification assets are recognized and measured on the same basis as the indemnified liability or asset.

Reacquired rights are measured on the basis of the remaining contractual terms of the related contract.

Liabilities or equity instruments related to share-based payment transactions are measured in accordance with IFRS No. 2 *Share-based Payment* .

Assets held for sale are measured at fair value less costs to sell in accordance with IFRS No. 5 *Non-current Assets Held for Sale* .

As of the acquisition date, non-controlling interests in the acquiree are measured as the non-controlling interests proportionate share of the acquiree s identifiable net assets.

The consideration transferred in a business combination is measured at fair value, calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer.

Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder s fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. Acquisition-related costs, other than those associated with the issuance of debt or equity securities, are expensed in the periods in which the costs are incurred and the services are received. The costs to issue debt or equity securities are recognized in accordance with IAS No. 32 *Financial Instruments: Presentation* and IAS No. 39 *Financial Instruments: Recognition and Measurement*.

(b) Goodwill

The Company measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interests in the acquiree; plus

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less

the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

Foreign currency transactions and translation

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

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

Foreign operations

If the presentation currency of the Company is different from a foreign operation s functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and translated at the closing rate.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the translation reserve.

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term investments in highly liquid securities that are readily convertible to known amounts of cash with maturities of three months or less from the acquisition date and which are subject to an insignificant risk of changes in value. Equity investments are excluded from cash and cash equivalents.

Non-derivative financial assets

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

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

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

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

(b) Held-to-maturity financial assets

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

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method unless the effect of discounting is immaterial.

(d) Available-for-sale financial assets

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

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

(e) De-recognition of non-derivative financial assets

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

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

(f) Offsetting a financial asset and a financial liability

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Company currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

Inventories

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

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

Investment property

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

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

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

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

Property, plant and equipment

Property, plant and equipment are initially measured at cost and after initial recognition, are carried at cost less accumulated depreciation and any accumulated impairment losses. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, when the Company has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The cost of replacing a part of an item is recognized in the carrying amount of the item of property, plant and equipment, if the following recognition criteria are met:

(a) it is probable that future economic benefits associated with the item will flow to the Company;and

(b) the cost can be measured reliably.

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

Items of property, plant and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use. Other than land, the costs of an asset less its estimated residual value are depreciated. Land is not depreciated. Depreciation of property, plant and equipment is recognized in profit or loss on a straight-line basis, which most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset, over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

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

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

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

Buildings	10-60 years
Structures	4-50 years
Machinery and equipment	2-25 years
Vehicles	3-10 years
Tools	4-10 years
Furniture and fixtures	3-10 years
Lease assets	3-18 years

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

Borrowing costs

The Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Company borrows funds specifically for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. The Company immediately recognizes other borrowing costs as an expense. To the extent that the Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Company shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset.

The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Company capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period.

Intangible assets

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

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

Intellectual property rights	5-10 years
Development cost	3-10 years
Port facilities usage rights	5-75 years
Other intangible assets	2-25 years

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

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

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

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

Exploration for and evaluation of mineral resources

POSCO is engaged in exploration projects for mineral resources through subsidiaries and associates in the mines or other contractual arrangements. Expenditures related to the development of mineral resources are recognized as exploration or development intangible assets. The nature of these intangible assets are as follows:

(a) Exploration and evaluation assets

Exploration and evaluation assets consist of expenditures for topographical studies, geophysical studies and trenching. These assets are reclassified as development assets when it is proved that the exploration has identified an economically feasible mine.

(b) Development assets

Development assets consist of expenditures for the evaluation of oil fields, facility construction, drilling for viability and others. These development assets are reclassified as industrial rights (mining rights) at inception of the extraction when the technical feasibility and commercial viability of extracting mineral resources are demonstrable.

Government grants

Government grants are not recognized unless there is reasonable assurance that the Company will comply with the grant s conditions and that the grant will be received. Government grants whose primary condition is that the Company purchase, construct or otherwise acquire long-term assets are deducted from the carrying amount of the assets and recognized in profit or loss on a systematic and rational basis over the life of the depreciable assets.

Government grants which are intended to compensate the Company for expenses incurred are deducted from the related expenses.

Leases

The Company classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

(a) Finance leases

At the commencement of the lease term, the Company recognizes as finance assets and finance liabilities the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

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

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

Company adopts for similar depreciable assets that are owned. If there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

(b) Operating leases

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

(c) Determining whether an arrangement contains a lease

Determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset) and the arrangement conveys a right to use the asset.

At inception or reassessment of the arrangement, management of the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If management of the Company concludes for a financial lease that it is impracticable to separate the payments reliably, the Company recognizes an asset and a liability at an amount equal to the fair value of the underlying asset that was identified as the subject of the lease. Subsequently, the liability shall be reduced as payments are made and an imputed finance charge on the liability recognized using the purchaser s incremental borrowing rate of interest.

Impairment for financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

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

(a) significant financial difficulty of the issuer or obligor;

(b) a breach of contract, such as a default or delinquency in interest or principal payments;

(c) the lender, for economic or legal reasons relating to the borrower s financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

(d) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

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

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

(a) Financial assets carried at amortized cost

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

(b) Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

(c) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

Impairments for non-financial assets

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

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

Management estimates the recoverable amount of an individual asset. If it is impossible to measure the individual recoverable amount of an asset, then management estimates the recoverable amount of a cash-generating unit (CGU). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value-in-use and its fair value less costs to sell. The Company determined that individual operating entities are CGUs.

The recoverable amount of an asset or CGU is the greater of its value-in-use and its fair value less costs to sell. The value-in-use is estimated by applying a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

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

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Non-current assets held for sale

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

The Company recognizes an impairment loss for any initial or subsequent write-down of disposal group to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with IAS No. 36 *Impairment of Assets* .

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

Derivative financial instruments and hedges

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

(a) Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria have been met: (a) the economic characteristics and risks of the

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

host contract and the embedded derivatives are not clearly and closely related to a separate instrument with the same terms as the embedded derivative that would meet the definition of a derivative, and (b) the hybrid (combined) instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives from the host contract are recognized immediately in profit or loss. However, convertible rights of convertible bonds are not separated from the host contract and the compound financial instruments of bonds and convertible rights are designated and measured at fair value through profit and loss.

(b) Other derivatives

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

Non-derivative financial liabilities

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

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

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

(b) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit of loss are classified as other financial liabilities.

Financial guarantee liabilities are initially measured at their fair values and, if not designated as financial liabilities at fair value through profit or loss, they are subsequently measured at the higher of:

- the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and

- the amount initially recognized less, cumulative amortization recognized on a straight-line basis over the guarantee period

At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

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

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

Convertible bonds

The convertible bonds issued by the Company can be converted into equity securities at the option of the bond holders. The number of shares to be issued is adjusted according to the fair value of the common shares. The convertible bonds, which are compound financial instruments of bonds and conversion rights, are designated and measured at fair value through profit or loss.

Construction work in progress

Construction work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognized to date less progress billings and recognized losses. Cost includes all expenditures related directly to specific projects and an allocation of fixed and variable overheads incurred in the Company s contract activities based on normal operating capacity.

Construction work in progress is presented as part of trade accounts and notes receivable in the consolidated statement of financial position for all contracts in which costs incurred plus recognized profits exceed progress billings. If progress billings exceed costs incurred plus recognized profits, then the difference is presented as amounts due to customers for contract work in the consolidated statement of financial position.

Employee benefits

(a) Short-term employee benefits

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

(b) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, less the fair value of any related assets. The present value is determined by discounting the expected future cash flows using the interest rate of corporate bonds that have maturity dates approximating the terms of the Company s obligations and that are denominated in the same currency in which the benefits are expected to be paid. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

(c) Retirement benefits: Defined contribution plans

For defined contribution plans, when an employee has rendered service to the Company during a period, the Company recognizes the contribution payable to a defined contribution plan in exchange for that service as an accrued expense, after deducting any contributions

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

already paid. If the contributions already paid exceed the contribution due for service before the end of the reporting period, the Company recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(d) Retirement benefits: Defined benefit plans

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

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

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

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

Provisions

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

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

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

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

A provision is used only for expenditures for which the provision was originally recognized.

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

A provision for warranties is recognized when the underlying products are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Regarding provision for construction warranties, warranty period starts from the completion of construction in accordance with construction contracts. If the Company has an obligation for warranties, provision for warranties which are estimated based on historical warranty data are recorded as cost of construction and provision for warranties during the construction period.

Share capital

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

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

Revenue

Revenue from the sale of goods, services provided and the use of assets is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates, which are not significant for all periods presented.

(a) Sale of goods

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

(b) Services rendered

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(c) Construction contracts

Construction contracts of the Company primarily consist of contracts for the construction of plants and commercial or residential buildings, and revenue recognition for different types of contracts is as follows:

When the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract. Contract

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

revenue includes the initial amount agreed in the contract plus any variation in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. The stage of completion of a contract is determined based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

When the outcome of a construction contract cannot be estimated reliably, the revenue is recognized only to the extent of contract costs incurred that it is probable will be recoverable. An expected loss on the construction contract shall be recognized as an expense immediately.

(d) Rental income

Rental income from investment property, net of lease incentives granted, is recognized in profit or loss on a straight-line basis over the term of the lease.

Finance income and finance costs

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

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

Income taxes

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

(a) Current income tax

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

(b) Deferred income tax

The measurement of deferred income tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

for all taxable temporary differences. A deferred income tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized. However, deferred income tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

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

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

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

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

Earnings per share

Management calculates basic earnings per share (EPS) data for the Company s ordinary shares, which is presented at the end of the statement of comprehensive income. Basic EPS is calculated by dividing profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

Operating segments

An operating segment is a component of the Company that: a) engages in business activities from which it may earn revenues and incur expenditures, including revenues and expenses that relate to transactions with any of the Company s other components, b) whose operating results are regularly reviewed by the Company s chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and c) for which discrete financial information is available. Management has determined that the CODM of the Company is the CEO.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

Segment profit and loss is determined the same way that consolidated net after tax profit for the period is determined under IFRS without any adjustment for corporate allocations. The accounting policies used by each segment are consistent with the accounting policies used in the preparation of the consolidated financial statements. Segment assets and liabilities are measured based on total assets and liabilities in accordance with IFRS without any adjustment for corporate allocations. Also, segment assets and liabilities are based on the separate financial statements of the entities instead of on consolidated basis. In addition, there are varying levels of transactions amongst the reportable segments. These transactions include sales of property, plant and assets, and rendering of construction service and so on. Inter-segment transactions are accounted for on an arm s length basis.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Company for annual periods beginning after January 1, 2012, and the Company has not early adopted them.

(a) IFRS No. 10, *Consolidated Financial Statements*

The standard introduces a single control model to determine whether an investee should be consolidated. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not elected to early adopt this standard.

Adopting the standard from January 1, 2013, the Company may be required to change its consolidation conclusion in respect of its investees as below. The impact of the change is not expected to have a significant impact on the Company s consolidated financial statements.

	Company
Consolidating investees that were not previously consolidated	Daewoo Engineering (THAILAND) Co., Ltd.
Excluding investees that were previously consolidated from the consolidation scope	Postech 2006 Energy Fund, Postech Early Stage Fund

(b) IFRS No. 11, *Joint Arrangements*

The standard classifies joint arrangements into two types joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. The standard requires a joint operator to recognize and measure the assets and liabilities (and recognize the related revenues and expenses) in relation to its interest in the arrangement in accordance with relevant IFRSs applicable to the particular assets, liabilities, revenues and expenses. The standard requires a joint venturer to recognize an investment and to account for that investment using the equity method. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not elected to early adopt this standard. Management believes the impact of the amendments on the Company s consolidated financial statements will not be significant.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

(c) IFRS No. 12, *Disclosure of Interests in Other Entities*

The standard brings together into a single standard all the disclosure requirements about an entity s interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Company is currently assessing the disclosure requirements for interests in subsidiaries, interests in joint arrangements and associates and unconsolidated structured entities in comparison with the existing disclosures. The standard requires the disclosure of information about the nature, risks and financial effects of these interests. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not elected to early adopt this disclosure standard.

(d) Amendments to IAS No. 19 *Employee Benefits*

The standard requires recognition of actuarial gains and losses immediately in other comprehensive income and to calculate expected return on plan assets based on the rate used to discount the defined benefit obligation. The standard will be applied retrospectively for the Company s annual periods beginning on or after January 1, 2013. Management believes the impact of the amendments on the Company s consolidated financial statements will not be significant.

(e) IFRS No. 13 *Fair Value Measurement*

The standard defines fair value and a single framework for fair value, and requires disclosures about fair value measurements. The standard will be applied prospectively for the Company s annual periods beginning on or after January 1, 2013. Management believes the impact of the amendments on the Company s consolidated financial statements will not be significant.

(f) Amendments to IAS No. 1 *Presentation of Financial Statements*

The amendments require presenting in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment is mandatorily effective for annual periods beginning on or after July 1, 2012.

(g) Amendments to IAS No. 32 *Financial Instruments: Presentation* and IFRS No. 7 *Financial Instruments: Disclosures*

On December 16, 2011 the IASB published amendments to IAS No. 32 *Financial Instruments: Presentation* to clarify the application of the offsetting of financial assets and financial liabilities requirement. The IASB also published amendments to IFRS No. 7 *Financial Instruments: Disclosures* including new disclosures requirements regarding the offsetting of financial assets and financial liabilities. These amendments are effective for annual periods beginning on or after January 1, 2014, and January 1, 2013, respectively.

(h) IFRS No. 9, *Financial Instruments*

IFRS No. 9, *Financial Instruments*, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS No. 9 was issued in November 2009 and October 2010. It replaces the parts of IAS No. 39 that relate to the classification and measurement of financial instruments. IFRS No. 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS No. 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity s own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. Management is currently analyzing the effects and intends to adopt IFRS No. 9 for the first financial reporting period beginning in 2013.

4. Financial risk management

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

credit risk

liquidity risk

market risk

capital risk

This note presents information about the Company s exposure to each of the above risks, the Company s objectives, policies and processes for measuring and managing risk, and the Company s management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

(a) Risk management policy

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

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

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company s receivables from customers and investment securities. In addition, credit risk arises from finance guarantees.

The Company implements a credit risk management policy under which the Company only transacts business with counterparties that have a certain level of credit rate evaluated based on financial condition, historical experience, and other factors. The Company s exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of a nation or an industry in which a customer operates its business does not have a significant influence on credit risk. The Company has established a credit policy under which each new customer is analyzed individually for creditworthiness.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for companies of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. Debt securities are analyzed individually, and an expected loss shall be directly deducted from debt securities.

Credit risk also arises from transactions with financial institutions, and such transactions include transactions of cash and cash equivalents, various deposits, and financial instruments such as derivative contracts. The Company manages its exposure to this credit risk by only entering into transactions with banks that have high international credit ratings. The Company s Treasury Department authorizes, manages, and overseas new transactions with financial institutions with whom the Company has no previous relationship. Furthermore, the Company limits its exposure to credit risk of financial guarantee contracts by strictly evaluating their necessity based on internal decision making processes, such as the approval of the board of directors.

(c) Liquidity risk management

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company s reputation.

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

(d) Market risk management

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

1) Currency risk

Each segment is influenced by a risk factor of changes in foreign currency exchange rates for the different directions due to the difference in structure of each industry regarding the cash inflows and cash outflows in foreign currency. The steel segment generally has a lack of foreign currency cash outflows, while the engineering and construction segments generally have excessive foreign currency inflows due to the nature of their respective business. Therefore, the result of the business is affected by the changes of foreign exchange rates. The trading segment is structured such that the cash inflows and outflows of foreign currencies are to be offset; however, the trading

F-60

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

segment is exposed to a risk of changes in foreign currency exchange rates when there are differences in currencies on receiving and paying the foreign currency amount and time differences.

The Company s policy in respect of foreign currency risks is a natural hedge whereby foreign currency income is offset with foreign currency expenditures. The remaining net exposures after the natural hedge have been hedged using derivative contracts such as forward exchange contracts. In addition, the Company s derivative transactions are limited to hedging actual foreign currency transactions and speculative hedging is not permitted. Based on this policy, the Company entities have performed currency risk management specific to various characteristics of different segments. The entities in the steel industry, which has a lack of foreign currency cash flows, has foreign currency borrowings from banks and hedges foreign currency risks of the foreign currency borrowings by using foreign currency swaps. The entities in the engineering and construction segments, which have excessive foreign currency cash flows, have hedged foreign currency risks by using forward exchange contracts. Entities in the trading industry have hedged foreign currency risks by using forward exchange contracts when the foreign currencies received and paid are different.

2) Interest rate risk

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

3) Other market price risk

Equity price risk arises from listed equity securities among available-for-sale equity securities. Management of the Company measures regularly the fair value of listed equity securities and the risk of variance in future cash flow caused by market price fluctuations. Significant investments are managed separately and all buy and sell decisions are approved by management of the Company.

(e) Management of capital risk

The fundamental goal of capital management is the maximization of shareholders value by means of the stable dividend policy and the retirement of treasury shares. The capital structure of the Company consists of equity and net debt, deducting cash and cash equivalents and current financial instruments from borrowings. The Company applied the same financial risk management strategy that was applied in the previous period.

The equity attributable to owners as of December 31, 2011 and 2012 are as follows:

	2011	**2012**
	(in millions of Won)	
Total borrowings	26,811,717	24,921,433

Less: Cash and cash equivalents	4,598,682	4,680,526
Net borrowings	22,213,035	20,240,907
Total equity	40,729,920	42,429,418
Net borrowings-to-equity ratio	54.54%	47.70%

F-61

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

5. Cash and Cash Equivalents

Cash and cash equivalents (which have original maturities of not more than 3 months) as of December 31, 2011 and 2012 are as follows:

	2011	2012
	(in millions of Won)	
Cash	23,954	8,595
Demand deposits and checking accounts	1,855,929	1,609,934
Time deposits	2,664,335	2,945,537
Other financial cash equivalents	54,464	116,460
	4,598,682	4,680,526

6. Trade Accounts and Notes Receivable

(a) Trade accounts and notes receivable as of December 31, 2011 and 2012 are as follows:

	2011	2012
	(in millions of Won)	
Current		
Trade accounts and notes receivable	10,265,421	9,865,436
Capital lease receivables	117,230	44,918
Unbilled due from customers for contract work	1,361,416	1,493,709
Less: Allowance for doubtful accounts	(293,552)	(366,090)
	11,450,515	11,037,973
Non-current		
Trade accounts and notes receivable	45,061	52,763
Capital lease receivables	147,634	102,887
Less: Allowance for doubtful accounts	(9,634)	(13,446)
	183,061	142,204
	11,633,576	11,180,177

Trade accounts and notes receivable sold to financial institution, for which the derecognition conditions were not met, amounted to 132,908 million, 80,258 million, as of December 31, 2011 and 2012, respectively, and are included in bank borrowings (note 15).

(b) Capital lease receivables are as follows:

Customer	Contents	2011	2012
		(in millions of Won)	
Korea Electric Power Corporation	Combined thermal power cycle 1~4	199,141	147,634
Tenant of EXPO Apartment	Lease contract	65,723	171
		264,864	147,805

(c) The gross amount and present value of minimum lease payments as of December 31, 2011 and 2012 are as follows:

	2011	2012
	(in millions of Won)	
Less than 1 year	141,670	62,048
1 year 5 years	169,265	120,135
Greater than 5 year	24,519	11,772
Unrealized interest income	(70,590)	(46,150)
Present value of minimum lease payment	264,864	147,805

F-62

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

7. Other Receivables and Other Financial Assets

(a) Other receivables as of December 31, 2011 and 2012 are as follows:

	2011	2012
	(in millions of Won)	
Current		
Short-term loans	367,330	271,067
Other accounts receivable	1,067,163	1,298,878
Accrued income	59,028	71,076
Allowance for bad debt accounts	(60,013)	(49,582)
	1,433,508	1,591,439
Non-current		
Long-term loans	298,106	574,255
Long-term other accounts receivable	86,923	164,289
Accrued income	956	1,204
Allowance for bad debt accounts	(38,584)	(40,724)
	347,401	699,024
	1,780,909	2,290,463

(b) Other short-term financial assets as of December 31, 2011 and 2012 are as follows:

	2011	2012
	(in millions of Won)	
Financial assets at fair value through profit or loss		
Financial assets held for trading	50,861	
Derivatives assets held for trading	92,055	62,720
Available-for-sale financial assets		
Short-term available-for-sale securities	31,651	133,656
Held-to-maturity investments		
Current portion of held-to-maturity securities (bonds)	876	31,237
Loans and other receivables		
Short-term financial instruments (*1,2,3)	1,757,744	1,621,668
Deposits	73,343	107,208
Other receivables	221,125	302,738
Allowance for bad debt accounts	(4,893)	(4,233)

	2,222,762	2,254,994

(*1) As of December 31, 2011 and 2012, short-term financial instruments of 1,670 million and 3,400 million are secured related to long-term borrowings of forestry association, respectively.

(*2) As of December 31, 2011 and 2012, 17,175 million and 12,699 million, respectively, are restricted for use in a government project.

(*3) As of December 31, 2011 and 2012, short-term financial instruments amounting to 7,650 million are provided as collateral for long-term borrowings.

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

(c) Other long-term financial assets as of December 31, 2011 and 2012 are as follows:

	2011	2012
	(in millions of Won)	
Financial assets at fair value through profit or loss		
Derivatives asstes held for trading	16,696	8,634
Available-for-sale financial assets		
Long-term available-for-sale securities (equity instruments) (*1,2,3)	4,509,197	3,711,169
Long-term available-for-sale securities (bonds)	25,847	26,430
Long-term available-for-sale securities (others)	41,902	43,266
Held-to-maturity investments		
Held-to-maturity securities (bonds)	34,698	3,251
Loan and other receivables		
Long-term financial instruments	37,732	68,215
Deposits	112,244	110,682
Allowance for bad debt accounts	(45)	(802)
	4,778,271	3,970,845

(*1) As of December 31, 2012, 2,294,961 shares equivalent to 20,654,653 American Depository Receipts (ADRs) of SK Telecom Co., Ltd. have been pledged as collateral for exchangeable bonds issued.

(*2) The Company recorded impairment loss for securities of SK Telecom Co., Ltd. amounting to 503,058 million prior to January 1, 2010. During the year ended December 31, 2011, there was a further significant decline in the fair value of shares of SK Telecom Co., Ltd. for a prolonged period, which was considered as objective evidence of impairment. As a result, an impairment losses of 107,377 million was recognized in profit or loss in 2011.

During the year ended December 31, 2012, there was a further significant decline in the fair value of shares of Jupiter mines Ltd., SK Telecom Co., Ltd. and others for a prolonged period, which was considered as objective evidence of impairment. As a result, an impairment losses of 224,171 million was recognized in profit or loss during the year ended December 31, 2012.

(*3) As of December 31, 2012, 28,354 million of long-term available-for-sale securities have been provided as collateral.

8. Inventories

(a) Inventories as of December 31, 2012 and 2011 are as follows:

	2011	2012
	(in millions of Won)	
Finished goods	1,556,573	1,475,832
Merchandise	1,185,496	703,923
Semi-finished goods	2,163,124	1,876,196
Raw materials	2,563,837	2,425,367
Fuel and materials	758,333	893,137
Construction inventories	1,245,546	1,324,873
Materials-in-transit	2,857,434	2,007,106
Others	168,895	93,007
	12,499,238	10,799,441
Less: allowance for inventories valuation	(215,594)	(214,795)
	12,283,644	10,584,646

The amounts of valuation losses of inventories recognized within cost of goods sold during the years ended December 31, 2010, 2011 and 2012 were 38,762 million, 140,391 million and 76,483 million, respectively. The amounts of write-off during years ended December 31, 2010, 2011 and 2012 were 15,723 million, 10,736 million and 71,456 million, respectively. There were no significant reversals of inventory write-downs recognized during the periods presented.

F-64

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

9. Non-Current Assets Held for Sale

Details of non-current assets held for sale and related liabilities as of December 31, 2011 and 2012 are as follows:

	2011 POSCO (*1)	2011 Subsidiaries (*2)	2011 Total	2012 Subsidiaries (*3,4)
	(in millions of Won)			
Assets				
Trade accounts and notes receivable and other financial assets		63,154	63,154	
Inventories		23,186	23,186	
Property, plant and equipment	16,887	172,538	189,425	1,190
Intangible assets		7,389	7,389	
Other assets		45,883	45,883	
	16,887	312,150	329,037	1,190
Liabilities				
Trade accounts and note payables and other financial liabilities		28,509	28,509	
Borrowings		144,920	144,920	
Other liabilities		53,178	53,178	
		226,607	226,607	
Net assets	16,887	85,543	102,430	1,190

(*1) POSCO determined to dispose of equipment of existing steel manufacturing plants due to the completion and expected use of a new plant. The relevant equipment was reclassified as non-current assets held for sale at December 31, 2011. Some of those non-current assets held for sale were disposed of by sale, and others were reclassified as property, plant and equipment due to the cancelation of plans to sell during the year ended December 31, 2012. POSCO recognized a gain of 1,150 million and a loss of 9,391 million from the assets held for sale during the year ended December 31, 2012.

(*2) The Company determined to dispose of Daewoo Cement (Shandong) Co., Ltd., a subsidiary of Daewoo International Corporation, one of POSCO s subsidiaries, in order to close down a non-core business and collect long-term receivables and securities, pursuant to the board of director s resolution on July 28, 2011. Daewoo International Corporation entered into a sales contract with China United Cement Group Co., Ltd. on August 9, 2011 and completed the disposal of relevant non-current assets held for sale on June 28, 2012. The Company recognized a gain on disposal of assets held for sale of 146,309 million.

(*3) The Company determined to dispose of the shares of Kyobo Life Insurance Co., Ltd., an associate of Daewoo International Corporation, one of the Company s subsidiaries, in order to secure investment funds and improve the Company s financial structure. The investment was reclassified as a non-current asset held for sale at the beginning of the bidding process that started during the six-month period ended June 30, 2012. The amount measured at the lower of its carrying amount and fair value less costs to sell of Kyobo Life Insurance Co., Ltd. was 1,150,720 million as of June 30, 2012. The Company recorded an impairment loss for the non-current assets held for sale of 258,381 million as of June 30, 2012. The transaction was completed on September 5, 2012. The Company recognized a gain on disposal of assets held for sale of 45,874 million.

(*4) POSCOAST CO., LTD. determined to dispose of its land and building and classified as non-current assets held for sale as of December 31, 2012. The amount measured at the lower of those carrying amount and fair value less costs to sell of certain land and building was 1,190 million, the Company recorded impairment loss for the non-current assets held for sale of 70 million.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

10. Investments in Associates

(a) Details of investments in associates as of December 31, 2011 and 2012 are as follows:

Company	2011 Book value	2012 Number of shares	2012 Ownership (%)	2012 Acquisition cost	2012 Book value
			(in millions of Won)		
[Domestic]					
Kyobo Life Insurance Co., Ltd. (*1)	1,377,114				
Sungjin Geotec Co., Ltd.	194,942	17,193,510	33.02	239,877	181,361
SNNC Co., Ltd.	154,131	18,130,000	49.00	90,650	147,539
POSCO-ESM Co., Ltd. (*2)		1,000,000	50.00	43,000	42,388
Busan-Gimhae Light Rail Transit Co., Ltd.	34,227	9,160,000	25.00	45,800	7,601
Cheongna IBT Co., Ltd. (*3)	35,564				
Blue ocean PEF	35,971	333	27.52	33,300	33,839
METAPOLIS Co., Ltd. (*4)	15,674	4,229,280	40.05	15,410	
POSMATE Co., Ltd.	22,409	411,573	45.15	28,258	46,204
CHUNGJU ENTERPRISE CITY DEVELOPMENT Co., LTD.	21,026	2,008,000	25.10	10,040	29,414
MIDAS Information Technology Co., Ltd. (*5)	12,476				
Poscochemtech Mitsubishi Carbon Tech (*6)		2,892,000	60.00	28,920	28,060
UI trans Co., Ltd	3,610	3,536,394	41.89	17,682	16,444
Incheongimpo Highway Co., Ltd.	3,500	3,071,147	29.94	15,356	13,680
Garolim Tidal Power Plant Co., Ltd	11,995	2,580,039	32.13	12,900	11,544
Others	62,926				52,925
	1,985,565				610,999
[Foreign]					
Roy Hill Holdings Pty Ltd. (*7)		12,723,959	12.50	551,979	527,129
POSCO-NPS Niobium LLC	374,868	325,050,000	50.00	364,609	348,646
AMCI (WA) Pty Ltd.	168,212	49	49.00	213,446	123,018
CSP(Compania Siderurgica do Pecem)	124,231	415,729,274	20.00	265,740	214,761
Nickel Mining Company SAS	168,292	3,234,698	49.00	157,585	146,699
KOBRASCO	128,884	2,010,719,185	50.00	32,950	113,847
KOREA LNG Ltd.	127,901	2,400	20.00	137,993	99,976
Eureka Moly LLC	109,772		20.00	232,397	213,136
DMSA, AMSA	119,556		4.00	133,177	124,326
BX STEEL POSCO Cold RolledSheet Co., Ltd.	95,577		25.00	61,961	92,888
CAML Resources Pty. Ltd.	55,465	3,239	33.34	40,388	62,227
South-East Asia Gas Pipeline Company Ltd.	136,175	135,219,000	25.04	150,779	144,831
Poschrome Pty. Ltd.	24,674	43,350	50.00	19,892	21,324
USS-POSCO Industries (*4)	16,880		50.00	277,715	

NCR LLC	24,107	29.40	31,110	39,303
Others	171,500			156,151
	1,846,094			2,428,262
	3,831,659			3,039,261

(*1) The Company determined to dispose of the shares of Kyobo Life Insurance Co., Ltd., an associate of Daewoo International Corporation, one of the Company s subsidiaries, in order to secure investment funds and improve its financial structure. The transaction was completed in September 2012.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

(*2) This entity was newly established during the year ended December 31, 2012.

(*3) Excluded from associates as the contract on entrusted voting rights expired during the year ended December 31, 2012.

(*4) As the Company s share of losses exceeded its interest in this entity, the carrying amount of that interest was reduced to nil and the recognition of further losses was discontinued. Unrecognized losses in this entity are 17,952 million during the year ended December 31, 2012.

(*5) Excluded from associates due to disposal during the year ended December 31, 2012.

(*6) The Company is not able to exercise significant influence on the investee even though the Company s percentage of ownership of above 50%.

(*7) This entity was acquired during the year ended December 31, 2012.

(b) The movements of investments in associates for the years ended December 31, 2011 and 2012 are as follows:

1) December 31, 2011

Company	Dec. 31, 2010 Book value	Share of profits (losses)	Other increase (decrease) (*1)	Dec. 31, 2011 Book value
		(in millions of Won)		
[Domestic]				
Kyobo Life Insurance Co., Ltd.	1,314,808	82,450	(20,144)	1,377,114
Sungjin Geotec Co., Ltd.	227,245	(33,650)	1,347	194,942
SNNC Co., Ltd.	145,466	49,605	(40,940)	154,131
Busan-Gimhae Light Rail Transit Co., Ltd.	42,151	(7,924)		34,227
Cheongna IBT Co., Ltd.	39,607	(4,043)		35,564
Blue ocean PEF		1,478	34,493	35,971
METAPOLIS Co., Ltd.	32,666	(16,992)		15,674
POSMATE Co., Ltd.	20,989	3,141	(1,721)	22,409
CHUNGJU ENTERPRISE CITY DEVELOPMENT CO., LTD.	21,317	(146)	(145)	21,026
MIDAS Information Technology Co., Ltd.	9,457	3,089	(70)	12,476
UI trans Co., Ltd.	3,920	(1,906)	1,596	3,610
Incheongimpo Highway Co., Ltd.	3,049	(245)	696	3,500
Garolim Tidal Power Plant Co., Ltd.	10,881	(164)	1,278	11,995
Others	129,405	(5,064)	(61,415)	62,926
	2,000,961	69,629	(85,025)	1,985,565

[Foreign]				
POSCO-NPS Niobium LLC		5,658	369,210	374,868
AMCI (WA) Pty Ltd.	213,446	(32,879)	(12,355)	168,212
CSP (Compania Siderurgica do Pecem)		(1,661)	125,892	124,231
Nickel Mining Company SAS	180,671	(7,073)	(5,306)	168,292
KOBRASCO	141,939	36,911	(49,966)	128,884
KOREA LNG Ltd.	133,793	8,026	(13,918)	127,901
Eureka Moly LLC	109,177	(754)	1,349	109,772
DMSA, AMSA	100,536	38	18,982	119,556
BX STEEL POSCO Cold RolledSheet Co., Ltd.	89,313	1,797	4,467	95,577
CAML Resources Pty. Ltd.	67,401	15,517	(27,453)	55,465
South-East Asia Gas Pipeline Company Ltd.	56,636	(25)	79,564	136,175
Poschrome Pty. Ltd.	29,201	1,422	(5,949)	24,674
USS-POSCO Industries	40,000	(31,585)	8,465	16,880
NCR LLC	23,931	(85)	261	24,107
Others	119,420	(14,367)	66,447	171,500
	1,305,464	(19,060)	559,690	1,846,094
	3,306,425	50,569	474,665	3,831,659

(*1) Other increase or decrease represents the changes in investment in associates due to acquisitions, disposals, dividends received, change in capital adjustments arising from translations of financial statements of foreign investees and others.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

2) December 31, 2012

Company	Dec. 31, 2011 Book value	Share of profits (losses)	Other increase (decrease) (*1)	Dec. 31, 2012 Book value
		(in millions of Won)		
[Domestic]				
Kyobo Life Insurance Co., Ltd.	1,377,114	37,038	(1,414,152)	
Sungjin Geotec Co., Ltd.	194,942	(17,162)	3,581	181,361
SNNC Co., Ltd.	154,131	15,157	(21,749)	147,539
POSCO-ESM Co., Ltd.		(560)	42,948	42,388
Busan-Gimhae Light Rail Transit Co., Ltd.	34,227	(26,626)		7,601
Cheongna IBT Co., Ltd.	35,564	(729)	(34,835)	
Blue ocean PEF	35,971	(4,542)	2,410	33,839
METAPOLIS Co., Ltd.	15,674	(15,674)		
POSMATE Co., Ltd.	22,409	2,158	21,637	46,204
CHUNGJU ENTERPRISE CITY DEVELOPMENT Co., LTD.	21,026	8,534	(146)	29,414
MIDAS Information Technology Co., Ltd.	12,476	1,530	(14,006)	
Poscochemtech Mitsubishi Carbon Tech		(860)	28,920	28,060
UI trans Co., Ltd.	3,610	1,268	11,566	16,444
Incheongimpo Highway Co., Ltd.	3,500	(377)	10,557	13,680
Garolim Tidal Power Plant Co., Ltd.	11,995	(451)		11,544
Others	62,926	(3,842)	(6,159)	52,925
	1,985,565	(5,138)	(1,369,428)	610,999
[Foreign]				
Roy Hill Holdings Pty Ltd.		(16,537)	543,666	527,129
POSCO-NPS Niobium LLC	374,868	19,199	(45,421)	348,646
AMCI (WA) Pty Ltd.	168,212	(38,706)	(6,488)	123,018
CSP (Compania Siderurgica do Pecem)	124,231	(2,520)	93,050	214,761
Nickel Mining Company SAS	168,292	(12,795)	(8,798)	146,699
KOBRASCO	128,884	28,792	(43,829)	113,847
KOREA LNG Ltd.	127,901	12,697	(40,622)	99,976
Eureka Moly LLC	109,772		103,364	213,136
DMSA, AMSA	119,556	(1,176)	5,946	124,326
BX STEEL POSCO Cold RolledSheet Co., Ltd.	95,577	2,650	(5,339)	92,888
CAML Resources Pty. Ltd.	55,465	11,390	(4,628)	62,227
South-East Asia Gas Pipeline Company Ltd.	136,175		8,656	144,831
Poschrome Pty. Ltd.	24,674	(311)	(3,039)	21,324
USS-POSCO Industries	16,880	(5,933)	(10,947)	
NCR LLC	24,107	(452)	15,648	39,303
Others	171,500	(13,862)	(1,487)	156,151
	1,846,094	(17,564)	599,732	2,428,262

	3,831,659	(22,702)	(769,696)	3,039,261

(*1) Other increase or decrease represents the changes in investments in associates due to acquisitions, disposals, dividends received, change in capital adjustments arising from translations of financial statements of foreign investees and others.

(c) The fair value of investments in associates for which there are published price quotations as of December 31, 2012 are as follows:

Company	**Fair value (in millions of Won)**
Sungjin Geotec Co., Ltd.	184,830

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

(d) Summarized financial information of associates as of and for the years ended December 31, 2011 and 2012 are as follows:

1) December 31, 2011

Company	Assets	Liabilities	Equity	Sales	Net income (loss)
			(in millions of Won)		
[Domestic]					
Kyobo Life Insurance Co., Ltd.	60,828,181	55,786,580	5,041,601	11,610,607	487,785
Sungjin Geotec Co., Ltd.	717,665	611,548	106,117	663,879	(58,894)
SNNC Co., Ltd.	610,059	269,318	340,741	473,173	81,246
Busan-Gimhae Light Rail Transit Co., Ltd.	817,402	680,492	136,910	3,690	(31,696)
Cheongna IBT Co., Ltd.	433,306	263,377	169,929	305	(20,527)
Blue ocean PEF	385,060	254,353	130,707	79,583	5,371
METAPOLIS Co., Ltd.	579,241	534,775	44,466	21,333	(36,861)
POSMATE Co., Ltd.	90,403	15,317	75,086	116,021	8,592
CHUNGJU ENTERPRISE CITY DEVELOPMENT CO., LTD.	302,887	256,485	46,402	67,459	2,099
MIDAS Information Technology Co., Ltd.	73,939	24,178	49,761	50,501	9,411
UI trans Co., Ltd.	30,292	17,279	13,013		(831)
Incheongimpo Highway Co., Ltd.	14,690	1,518	13,172		(911)
Garolim Tidal Power Plant Co., Ltd.	37,626	293	37,333		(510)
[Foreign]					
POSCO-NPS Niobium LLC	749,737		749,737	11,433	11,317
CSP(Compania Siderurgica do Pecem)	622,810	1,657	621,153		(1,302)
Nickel Mining Company SAS	496,518	94,900	401,618	142,456	(12,983)
KOBRASCO	314,458	56,691	257,767	130,725	73,978
KOREA LNG Ltd.	24,169	10,492	13,677	95,385	92,600
DMSA, AMSA	5,807,261	3,979,755	1,827,506	939	939
BX STEEL POSCO Cold RolledSheet Co., Ltd.	1,099,540	745,318	354,222	1,421,784	7,188
CAML Resources Pty. Ltd.	217,677	105,456	112,221	278,778	46,567
South-East Asia Gas Pipeline Company Ltd.	596,972	53,140	543,832		(99)
Poschrome Pty. Ltd.	61,740	4,129	57,611	96,785	1,028
USS-POSCO Industries	470,963	434,722	36,241	1,062,110	(61,478)

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

2) December 31, 2012

Company	Assets	Liabilities	Equity	Sales	Net income (loss)
			(in millions of Won)		
[Domestic]					
Sungjin Geotec Co., Ltd.	763,581	632,999	130,582	703,236	(29,219)
SNNC Co., Ltd.	577,273	261,781	315,492	379,230	16,959
POSCO-ESM Co., Ltd.	69,287	16,067	53,220		(1,422)
Busan-Gimhae Light Rail Transit Co., Ltd.	787,011	756,606	30,405	16,811	(106,668)
Blue ocean PEF	347,298	224,338	122,960	429,210	(16,504)
METAPOLIS Co., Ltd.	521,942	512,720	9,222	21,063	(35,244)
POSMATE Co., Ltd.	118,077	14,580	103,497	104,705	9,587
CHUNGJU ENTERPRISE CITY DEVELOPMENT CO., LTD.	333,716	250,540	83,176	229,271	36,971
Poscochemtech Mitsubishi Carbon Tech	47,014	247	46,767		(1,433)
UI trans Co., Ltd.	50,932	12,822	38,110		(880)
Incheongimpo Highway Co., Ltd.	44,714	334	44,380		(1,323)
Garolim Tidal Power Plant Co., Ltd.	37,476	1,546	35,930		(1,404)
[Foreign]					
Roy Hill Holdings Pty Ltd.	1,404,336	105,340	1,298,996		(146,321)
POSCO-NPS Niobium LLC	697,431	140	697,291		38,412
CSP(Compania Siderurgica do Pecem)	1,088,105	16,551	1,071,554		(12,622)
Nickel Mining Company SAS	445,344	91,266	354,078	120,224	(33,981)
KOBRASCO	231,524	3,831	227,693	121,619	56,282
KOREA LNG Ltd.	545,841	64	545,777	109,992	107,953
DMSA, AMSA	7,935,489	5,906,301	2,029,188		(29,407)
BX STEEL POSCO Cold RolledSheet Co., Ltd.	922,932	579,140	343,792	1,506,012	2,296
CAML Resources Pty. Ltd.	209,717	70,502	139,215	284,134	34,162
South-East Asia Gas Pipeline Company Ltd.	1,341,510	763,116	578,394		
Poschrome Pty. Ltd.	53,900	3,582	50,318	89,962	(899)
USS-POSCO Industries	420,767	459,681	(38,914)	990,356	(52,287)

(e) Details of significant joint venture as of December 31, 2012 are as follows:

	Operation	Ownership	Location
Mt. Thorley J/V	Mine development	20%	Australia
POSMAC J/V	Mine development	20%	Australia
CD J/V	Mine development	5%	Australia
RUM J/V	Mine development	10%	Australia

11. Investment Property, Net

(a) Investment property as of December 31, 2011 and 2012 are as follows:

	2011			2012		
	Acquisition cost	Accumulated depreciation and impairment loss	Book value	Acquisition cost	Accumulated depreciation and impairment loss	Book value
	(in millions of Won)					
Land	280,634	(61,157)	219,477	252,846	(41,464)	211,382
Buildings	475,971	(174,238)	301,733	490,657	(186,154)	304,503
Structures	10,300	(3,977)	6,323	9,448	(4,142)	5,306
Total	766,905	(239,372)	527,533	752,951	(231,760)	521,191

As of December 31, 2012, the fair value of investment property is 820,864 million, among which the Company evaluated investment property of 7 subsidiaries including International Business Center Corporation as its book value amounted to 64,653 million since it is believed that fair value is approximately same as book value.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

(b) Changes in the carrying value of investment property for the years ended December 31, 2011 and 2012 were as follows:

1) For the year ended December 31, 2011

	Beginning	Acquisitions	Business combination	Disposals (in millions of Won)	Depreciation (*1)	Others (*2)	Ending
Land	211,464	41,243	94	(57,905)	(14,010)	38,591	219,477
Buildings	278,361	109,757		(56,953)	(22,783)	(6,649)	301,733
Structures	3,540	6,072			(640)	(2,649)	6,323
Total	493,365	157,072	94	(114,858)	(37,433)	29,293	527,533

(*1) Impairment losses of investment property amounted to 23,048 million are included.

(*2) Includes reclassification resulting from changing purpose of use, adjustment of foreign currency translation difference and others.

2) For the year ended December 31, 2012

	Beginning	Acquisitions	Business combination	Disposals (in millions of Won)	Depreciation (*1)	Others (*2)	Ending
Land	219,477	15,832	1,442	(38,575)	(475)	13,681	211,382
Buildings	301,733	13,857	1,560	(6,730)	(15,044)	9,127	304,503
Structures	6,323				(322)	(695)	5,306
Total	527,533	29,689	3,002	(45,305)	(15,841)	22,113	521,191

(*1) Impairment losses of investment property amounted to 1,053 million are included.

(*2) Includes reclassification resulting from changing purpose of use, adjustment of foreign currency translation difference and others.

12. Property, Plant and Equipment, Net

(a) Property, plant and equipment as of December 31, 2011 and 2012 are as follows:

	2011				2012			
	Acquisition cost	Accumulated depreciation and impairment loss	Government grants	Book value	Acquisition cost	Accumulated depreciation and impairment loss	Government grants	Book value
	(in millions of Won)							
Land	2,549,178			2,549,178	2,658,401	(11,979)		2,646,422
Buildings	6,664,004	(2,644,172)	(3)	4,019,829	7,120,322	(2,951,420)	(100)	4,168,802
Structures	3,761,535	(1,500,808)	(290)	2,260,437	3,997,124	(1,676,669)	(274)	2,320,181
Machinery and equipment	34,392,737	(18,211,863)	(1,490)	16,179,384	36,217,492	(19,684,338)	(950)	16,532,204
Vehicles	272,249	(205,478)	(28)	66,743	279,650	(219,489)	(7)	60,154
Tools	323,511	(242,612)	(22)	80,877	331,870	(261,972)	(47)	69,851
Furniture and fixtures	466,225	(296,120)	(416)	169,689	526,396	(342,706)	(310)	183,380
Capital lease assets	72,426	(33,884)		38,542	105,241	(48,017)		57,224
Construction-in-progress	3,151,924		(63,419)	3,088,505	6,238,161			6,238,161
Total	51,653,789	(23,134,937)	(65,668)	28,453,184	57,474,657	(25,196,590)	(1,688)	32,276,379

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

(b) The changes in carrying value of property, plant and equipment as for the years ended December 31, 2011 and 2012 were as follows:

1) For the year ended December 31, 2011

	Beginning	Acquisitions (*1)	Business combination	Disposals	Depreciation (*2)	Others (*3)	Ending
			(in millions of Won)				
Land	2,011,851	450,151	92,806	(55,751)		50,121	2,549,178
Buildings	3,551,163	701,166	38,382	(38,755)	(278,097)	45,970	4,019,829
Structures	2,070,189	289,524	8,961	(10,775)	(163,072)	65,610	2,260,437
Machinery and equipment	13,777,382	2,892,960	204,871	(45,950)	(1,605,342)	955,463	16,179,384
Vehicles	64,173	21,041	1,981	(1,795)	(17,894)	(763)	66,743
Tools	75,437	38,477	2,259	(1,477)	(37,743)	3,924	80,877
Furniture and fixtures	124,677	66,297	1,995	(1,657)	(28,249)	6,626	169,689
Capital Lease Assets	43,106	8,029	20	(145)	(14,081)	1,613	38,542
Construction-in-progress	3,719,762	4,593,524	10,536			(5,235,317)	3,088,505
Total	25,437,740	9,061,169	361,811	(156,305)	(2,144,478)	(4,106,753)	28,453,184

(*1) Acquisition includes assets transferred from construction-in-progress.

(*2) Impairment losses of property, plant and equipment amounted to 25,852 million are included.

(*3) Includes reclassification for changing purpose of use, adjustment of foreign currency translation difference and others.

2) For the year ended December 31, 2012

	Beginning	Acquisitions (*1)	Business combination	Disposals	Depreciation (*2)	Others (*3)	Ending
			(in millions of Won)				
Land	2,549,178	153,031	2,377	(26,793)		(31,371)	2,646,422
Buildings	4,019,829	342,088	12,210	(29,756)	(298,978)	123,409	4,168,802
Structures	2,260,437	256,958		(24,308)	(199,970)	27,064	2,320,181

Machinery and equipment	16,179,384	2,016,572	5,804	(209,357)	(1,774,051)	313,852	16,532,204
Vehicles	66,743	16,777	141	(1,244)	(20,705)	(1,558)	60,154
Tools	80,877	21,833	411	(1,081)	(36,026)	3,837	69,851
Furniture and fixtures	169,689	72,052	76	(3,369)	(65,074)	10,006	183,380
Capital Lease Assets	38,542	535		(236)	(9,154)	27,537	57,224
Construction-in-progress	3,088,505	6,423,131				(3,273,475)	6,238,161
Total	28,453,184	9,302,977	21,019	(296,144)	(2,403,958)	(2,800,699)	32,276,379

(*1) Acquisition includes assets transferred from construction-in-progress.

(*2) Impairment losses of property, plant and equipment amounted to 12,977 million are included.

(*3) Includes reclassification for changing purpose of use, adjustment of foreign currency translation difference and others.

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

(c) Borrowing costs capitalized and the capitalized interest rate for the years ended December 31, 2011 and 2012 were as follows:

	2011	2012
	(in millions of Won)	
Weighted average expenditure	1,433,877	3,131,866
Borrowing costs capitalized	78,777	101,794
Capitalization rate	5.49%	3.25%

(d) Pledged as collateral assets

	Collateral right holder	2011	2012
		(in millions of Won)	
Land (*1)	Korean Development Bank and others	381,096	545,654
Buildings and structures (*1)	Korean Development Bank and others	139,169	327,757
Machinery and equipment	Korean Development Bank and others	218,816	1,285,452
Construction-in-progress	The Export-Import Bank of Korea and others		1,486,745
		739,081	3,645,608

(*1) Investment properties are included.

(e) Based on an asset life study performed in 2011, the Company changed the estimated useful life of certain machinery and equipments in its steel business from 8 years to 15 years. During the year ended December 31, 2011, the depreciation costs decreased by 1,227,169 million as a result of this change in the estimated useful life.

13. Goodwill and Other Intangible Assets

(a) Goodwill and other intangible assets as of December 31, 2011 and 2012 are as follows:

	2011				2012			
	Acquisition cost	Accumulated depreciation and	Government grants	Book value	Acquisition cost	Accumulated depreciation and	Government grants	Book value

		impairment loss				impairment loss		
				(in millions of Won)				
Goodwill	1,671,775	(14,958)		1,656,817	1,735,879	(22,188)		1,713,691
Intellectual property rights	285,166	(10,259)		274,907	317,748	(41,448)	(1,154)	275,146
Premium in rental	151,747	(12,603)		139,144	151,116	(13,383)		137,733
Development expense	90,109	(42,458)	(2,068)	45,583	127,856	(65,367)	(1,558)	60,931
Port facilities usage rights	410,077	(315,331)		94,746	410,023	(326,901)		83,122
Exploration and evaluation assets	501,374	(28,182)		473,192	509,581	(29,853)		479,728
Mining development assets	1,414,315			1,414,315	1,643,306			1,643,306
Customer relationships	865,036	(57,968)		807,068	862,217	(111,485)		750,732
Other intangible assets	710,257	(371,097)	(4)	339,156	921,277	(403,302)	(3)	517,972
Total	6,099,856	(852,856)	(2,072)	5,244,928	6,679,003	(1,013,927)	(2,715)	5,662,361

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

(b) The changes in carrying value of goodwill and other intangible assets for the years ended December 31, 2011 and 2012 were as follows:

1) For the year ended December 31, 2011

		Increase			Decrease				
	Beginning	Acquisitions	Development	Business Combination	Disposals	Amortization	Impairment loss	Others (*3)	Ending
	(in millions of Won)								
Goodwill (*1)	1,447,743			224,032			(14,958)		1,656,817
Intellectual property rights	119,100	171,402			(7,544)	(16,258)		8,207	274,907
Premium in rental (*2)	159,761	15,355		9	(3,457)	(8,391)		(24,133)	139,144
Development expense	49,275	13,978	252	688	(44)	(20,092)		1,526	45,583
Port facilities usage rights	108,161					(13,130)		(285)	94,746
Exploration and evaluation assets	594,464	10,151			(38,563)			(92,860)	473,192
Mining development assets	1,058,354	357,681			(96)			(1,624)	1,414,315
Customer relationships	778,080			75,836		(46,848)			807,068
Other intangible assets	304,231	95,557		8,160	(5,684)	(28,569)		(34,539)	339,156
	4,619,169	664,124	252	308,725	(55,388)	(133,288)	(14,958)	(143,708)	5,244,928

(*1) Acquisition amounts include goodwill amounting to 119,260 million related to the acquisition of POSCO Thainox Co., Ltd. in 2011. An impairment loss of 14,958 million is related to the negative capital of DAESAN (CAMBODIA) Co. Ltd.

(*2) Premium in rental includes memberships with indefinite useful lives.

(*3) Includes translation adjustment and reclassifications.

2) For the year ended December 31, 2012

	Increase			Decrease				
Beginning	Acquisitions	Development	Business Combination	Disposals	Amortization	Impairment loss	Others (*3)	Ending

	(in millions of Won)								
Goodwill (*1)	1,656,817			77,298			(7,230)	(13,194)	1,713,691
Intellectual property rights	274,907	30,352		1	(1,375)	(24,829)		(3,910)	275,146
Premium in rental (*2)	139,144	13,498		622	(10,038)	(544)	(12,336)	7,387	137,733
Development expense	45,583	1,466	26,066		(148)	(23,011)		10,975	60,931
Port facilities usage rights	94,746					(11,624)			83,122
Exploration and evaluation assets	473,192	7,349					(1,671)	858	479,728
Mining development assets	1,414,315	228,991							1,643,306
Customer relationships	807,068					(53,517)		(2,819)	750,732
Other intangible assets	339,156	193,561	17	26,748	(652)	(44,466)	(9)	3,617	517,972
	5,244,928	475,217	26,083	104,669	(12,213)	(157,991)	(21,246)	2,914	5,662,361

(*1) Acquisition amounts include goodwill amounting to 77,298 million related to the acquisition of PONUTech Co., Ltd.

(*2) Premium in rental includes memberships with indefinite useful lives.

(*3) Includes translation adjustment and reclassifications.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

(c) For the purpose of impairment testing, goodwill is allocated to individual operating entities determined to be CGUs. The goodwill amount as of December 31, 2011 and 2012 are as follows:

Reporting segments	Total number of CGUs 2011	Total number of CGUs 2012	CGUs	2011	2012
	(in millions of Won)				
Steel	11	11	POSCO-Thainox Public Company Limited. (*3)	119,260	109,779
			POSCO VST Co., Ltd.	36,955	36,955
			Others (*4)	21,322	14,096
Trading	3	3	Daewoo International Corporation (*1)	1,163,922	1,163,922
			Others	13,316	11,906
E&C	1	3	POSCO Engineering Company (*2)	194,637	194,637
			EPC EQUITIES LLP	49,931	47,913
			Others	11,796	11,291
Others	8	10	PONUTech Co., Ltd		77,298
			POSCO ENERGY Co., Ltd.	26,471	26,471
			Others	19,207	19,423
Total	25	27		1,656,817	1,713,691

(*1) Recoverable amounts of Daewoo International Corporation were determined based on value-in-use. As of December 31, 2012, value-in-use is estimated by applying 7.60% discount rate and 2.8% terminal growth rate with 5 years, the period for the estimated future cash flows, based on management`s business plan. No impairment loss of goodwill was recognized during the year ended December 31, 2012 as the recoverable amount exceeded the carrying value of the CGU.

The estimated recoverable amount of CGU exceeded the carrying value by 1,087,136 million. Value-in-use of the CGU was affected by the assumption such as discount rate and terminal growth used in discount cash flow model. When the discount rate increases by 0.25%, value-in-use will be decreased by 4.43% and when the terminal growth rate decreases by 0.25%, value-in-use will be decreased by 3.80%. There is no effect on the impairment loss of the goodwill.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

(*2) Recoverable amounts of POSCO Engineering Company were determined based on value-in-use. As of December 31, 2012, value-in-use is estimated by applying 11.15% discount rate and 1% terminal growth rate with 5 years, the period for the estimated future cash flows based on management s business plan.

No impairment loss of goodwill was recognized during the year ended December 31, 2012 as the recoverable amount exceeded the carrying value of the CGU.

The estimated recoverable amounts of CGU exceeded the carrying value by 171,253 million. Value-in-use of the CGU was affected by the assumption such as discount rate and terminal growth used in discount cash flow model. When the discount rate increases by 0.25%, value-in-use will be decreased by 2.91% and when the terminal growth rate decreases by 0.25%, value-in-use will be decreased by 1.88%. There is no effect on the impairment loss of the goodwill.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

(*3) Recoverable amounts of POSCO-Thainox Public Company Limited were determined based on fair value, which was calculated with 30% control premium added to the current stock price as of December 31, 2012. No impairment loss of goodwill was recognized since on the recoverable amount is higher than carrying value of the CGU as of December 31, 2012.

(*4) The Company recognized goodwill impairment loss of 7,230 million, which was occurred when POSCONST CO., LTD. merged into POSCOAST CO., LTD. for the year ended December 31, 2012.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

14. Other Assets

Other current assets and other long-term assets as of December 31, 2011 and 2012 are as follows:

	2011	2012
	(in millions of Won)	
Other current assets		
Advance payment	1,035,846	1,205,969
Prepaid expenses	180,369	189,647
Others	3,927	2,564
	1,220,142	1,398,180
Other long-term assets		
Long-term advance payment	2,895	2,119
Long-term prepaid expenses	190,741	178,934
Others (*1)	436,651	212,733
	630,287	393,786

(*1) The guarantee deposits of 257,878 million related to the Australia Roy Hill iron ore mine as of December 31, 2011 were transferred to investments in associates during the year ended December 31, 2012.

15. Borrowings

(a) Short-term borrowings and current portion of long-term borrowings as of December 31, 2011 and 2012 are as follows:

	Bank	Interest rate (%)	2011	2012
		(in millions of Won)		
Short-term borrowings				
Bank overdrafts	BOA, others	0.4~1.0	233,804	123,685
Short-term borrowings (*1)	Shinhan Bank, others	0.3~13.0	9,339,182	7,586,993
			9,572,986	7,710,678
Current portion of long-term liabilities				

Current portion of long-term borrowings (*1)	Korean Development Bank, others	0.5 ~6.0	428,409	898,564
Current portion of foreign loan	NATIXIS	2.0	951	901
Current portion of debentures (*1)	Korean Development Bank, others	1.9 ~7.0	790,050	1,899,430
Less : Current portion of discount on debentures issued			(886)	(2,644)
Add : Premium on debentures redemption				2,419
			1,218,524	2,798,670
			10,791,510	10,509,348

(*1) Property, plant and equipment, short-term financial assets, available-for-sale financial assets and other assets amounting to 3,629,296 million, 11,050 million, 624,187 million and 65 million, respectively, are provided as collateral related to short-term borrowings, long-term borrowings and debentures.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

(b) Long-term borrowings, excluding current portion as of December 31, 2011 and 2012 are as follows:

	Bank	Interest rate(%) (in millions of Won)	2011	2012
Long-term borrowings (*1)	Korean Development Bank and others	0.6~13.0	4,614,391	5,161,711
Less : Present value discount			(302,118)	(44,293)
Foreign loan (*2)	NATIXIS	2.0	3,071	2,009
Bonds (*1,3,4)	Korean Development Bank and others	1.5 ~9.0	11,776,893	9,339,966
Less : Discount on debentures issued			(94,356)	(62,943)
Add : Premium on debentures redemption			21,493	15,635
Add : Premium on debentures issued			833	
			16,020,207	14,412,085

(*1) Property, plant and equipment, short-term financial assets, available-for-sale financial assets and other assets amounting to 3,629,296 million, 11,050 million, 624,187 million and 65 million, respectively, are provided as collateral related to short-term borrowings, long-term borrowings and debentures.

(*2) Korea Development Bank has provided guarantees related to this foreign loan.

(*3) In 2009, one of the controlling company`s subsidiaries, Daewoo International Corporation, issued convertible bonds with a face value of USD 300 million and a 5 year maturity. All of these convertible bonds were converted to equity stocks of the subsidiary during the year ended December 31, 2012.

(*4) POSCO issued exchangeable bonds with SK Telecom Co., Ltd. ADRs through Zeus (Cayman) Ltd. August 2011. The Company accounted for these exchangeable bonds as long-term borrowings. POSCO provides guarantees for Zeus (Cayman) Ltd.

16. Other Payables and Other Financial Liabilities

(a) Other payables as of December 31, 2011 and 2012 are as follows:

	2011	2012
	(in millions of Won)	
Current		
Accounts payable	1,048,895	737,802
Accrued expenses (*1)	457,071	868,015
	1,505,966	1,605,817
Non-current		
Accounts payable	149,308	117,462
Accrued expenses	20,067	24,950
	169,375	142,412
	1,675,341	1,748,229

(*1) During the year ended December 31, 2012, a fine of 117,629 million was imposed on POSCO and POSCO Coated & Color Steel Co., Ltd. for price fixing galvanized steel sheets as a result of Korea Fair Trade Commission s investigation. The Company is expected to make a payment for the fine in the first half of 2013.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

(b) Other financial liabilities as of December 31, 2011 and 2012 are as follows:

	2011	2012
	(in millions of Won)	
Current		
Dividends payable	5,822	7,487
Derivatives liabilities	146,903	84,922
Finance lease liabilities	15,295	16,044
Financial guarantee liabilities	7,510	7,819
Withholding	129,694	205,556
	305,224	321,828
Non-current		
Derivatives liabilities	48,934	100,220
Finance lease liabilities	29,504	32,961
Financial guarantee liabilities	24,732	17,493
Long-term withholding	78,015	68,549
	181,185	219,223
	486,409	541,051

17. Provisions

(a) Provisions as of December 31, 2011 and 2012 were as follows:

	2011		2012	
	Current	Non-current	Current	Non-current
		(in millions of Won)		
Provision for bonus payments	47,682		42,904	
Provision for construction warranties	19,656	30,967	23,489	27,227
Provision for legal contingencies and claims (*1)		38,847		30,920
Others	2,094	39,529	11,438	41,951
	69,432	109,343	77,831	100,098

(*1) As of December 31, 2011 and 2012, the amount includes provision of 38,847 million and 23,784 million, respectively, for a potential claim in connection to the spin-off of the trading division of Daewoo International Corporation in 2000 (note 33). In addition, the amount as of December 31, 2012 includes provision of 7,136 million for obligation to payment guarantee related to borrowings incurred in the process of disposal of Daewoo Cement (Shandong) Co., Ltd. during the year ended December 31, 2012.

(b) The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period.

	Key assumptions for the estimation
Provision for bonus payments	Estimations based on financial performance
Provision for construction warranties	Estimations based on historical warranty data
Provision for legal contingencies and claims	Estimations based on the degree of probability of an unfavorable outcome and the ability to make a sufficiently reliable estimate of the amount of loss

F-78

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

(c) Changes in provisions for the year ended December 31, 2011 are as follows:

	Beginning	Increase	Utilization	Reversal	Others (*1)	Ending
			(in millions of Won)			
Provision for bonus payments	37,978	30,592	(20,888)			47,682
Provision for construction warranties	49,068	30,724	(11,624)	(1,334)	(16,211)	50,623
Provision for legal contingencies and claims	126,626			(35,629)	(52,150)	38,847
Others	2,286	371	1,062	(1,334)	39,238	41,623
	215,958	61,687	(31,450)	(38,297)	(29,123)	178,775

(*1) Include adjustments of foreign currency translation difference and transfer to non-current liability held for sale (related to Daewoo Cement (Shandong) Co., Ltd.).

(d) Changes in provisions for the year ended December 31, 2012 are as follows:

	Beginning	Increase	Utilization	Reversal	Others (*1)	Ending
			(in millions of Won)			
Provision for bonus payments	47,682	343,062	(347,262)	(523)	(55)	42,904
Provision for construction warranties	50,623	24,694	(16,054)	(4,472)	(4,075)	50,716
Provision for legal contingencies and claims	38,847	8,540		(16,163)	(304)	30,920
Others	41,623	14,209	(3,450)	(1,680)	2,687	53,389
	178,775	390,505	(366,766)	(22,838)	(1,747)	177,929

(*1) Include adjustments of foreign currency translation difference and others.

18. Employee Benefits

(a) Defined contribution plans

The Company operates a defined contribution plan for participating employees. Though the Company pays fixed contributions into a separate fund, employee benefits relating to employee service in the future is based on the contributions to the funds and the investment earnings on it. Plan assets are managed by a trustee within a fund separate from the Company s assets.

The expenses related to post-employment benefit plans under defined contribution plans for the years ended December 31, 2010, 2011 and 2012 were as follows:

	2010	2011	2012
	(in millions of Won)		
Expense related to post-employment benefit plans under defined contribution plans		8,874	16,520

(b) Defined benefit plans

The Company also operates a defined benefit pension plan for employees. The employees who chose a defined benefit pension plan will receive a defined payment upon termination of their employment if they fulfill the condition to qualify as a recipient. Before the termination of employment, the Company recognizes the pension liability related to defined benefit plans at the end of the reporting period, and measures it at the present value of the defined benefit obligation less the fair value of the plan assets. The Company uses the projected unit credit method in the actuarial valuation of plan assets and the defined benefit obligation.

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

(c) The amounts recognized in relation to defined benefit obligations in the statements of financial position as of December 31, 2011 and 2012 are as follows:

	2011	2012
	(in millions of Won)	
Present value of funded obligations	1,158,329	1,394,675
Fair value of plan assets	(832,771)	(1,064,711)
Present value of non-funded obligations	14,909	15,724
Net defined benefit obligations	340,467	345,688

(d) The changes in present value of defined benefit obligations for the years ended December 31, 2011 and 2012 are as follows:

	2011	2012
	(in millions of Won)	
Defined benefit obligation at the beginning of period	1,467,853	1,173,238
Current service cost (*1)	207,871	212,450
Interest costs	67,372	51,351
Actuarial losses	43,166	83,050
Business combinations	221	1,684
Benefits paid	(593,369)	(116,846)
Others	(19,876)	5,472
Defined benefit obligation at the end of period	1,173,238	1,410,399

(*1) This amount includes loss from a plan settlement in the amount of 3,704 million for the year ended December 31, 2011.

(e) The changes in fair value of plan assets for the years ended December 31, 2011 and 2012 are as follows:

	2011	2012
	(in millions of Won)	
Fair value of plan assets at the beginning of period	964,727	832,771

Expected return on plan assets	38,244	37,669
Actuarial gains and losses	3,073	2,157
Contribution to plan assets (*1)	190,909	267,420
Business combinations	354	906
Others	14,059	(489)
Benefits paid	(378,595)	(75,723)
Fair value of plan assets at the end of period	832,771	1,064,711

(*1) The Company expects to make a contribution of 267,420 million to the defined benefit plan assets in 2013.

(f) The fair value of plan assets as of December 31, 2011 and 2012 are as follows:

	2011	2012
	(in millions of Won)	
Equity instruments	7,703	12,002
Debt instruments	103,074	107,303
Deposits	538,260	743,884
Others	183,734	201,522
	832,771	1,064,711

F-80

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

(g) The amounts recognized in profit or loss for the years ended December 31, 2010, 2011 and 2012 were as follows:

	2010	2011	2012
		(in millions of Won)	
Current service costs	156,308	207,871	212,450
Interest costs	57,473	67,372	51,351
Expected return on plan assets (*1)	(39,810)	(38,245)	(37,669)
	173,971	236,998	226,132

(*1) The actual return on plan assets amounted to 62,200 million, 41,318 million and 39,826 million for the years ended December 31, 2010, 2011 and 2012, respectively.

The above expenses by function were as follows:

	2010	2011	2012
		(in millions of Won)	
Cost of sales	137,263	177,020	165,675
Selling and administrative expenses	36,708	59,978	60,457
	173,971	236,998	226,132

(h) Accumulated actuarial gains (losses), net of tax, recognized in other comprehensive income as of and for the years ended December 31, 2010, 2011 and 2012 were as follows:

	2010	2011	2012
		(in millions of Won)	
Beginning		(152,125)	(182,702)
Current actuarial losses	(152,125)	(30,577)	(62,527)
Ending	(152,125)	(182,702)	(245,229)

(i) The principal actuarial assumptions as of December 31, 2011 and 2012 are as follows:

	2011	2012
	(%)	
Discount rate (*1)	3.86~5.42	3.29~4.46
Expected return on plan assets (*2)	2.00~5.29	3.29~5.10
Expected future increases in salaries (*3)	1.03~7.35	1.04~6.72

(*1) Discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of our benefits obligations and that are denominated in the same currency in which the benefits are expected to be paid.

(*2) The overall expected rate of return on plan assets is a weighted average of the expected returns of the various categories of plan assets held. The management s assessment of the expected returns is based on historical return trends and predictions of the market for the asset over the life of the related obligation.

(*3) The expected future increases in salaries are based on the average salary increase rate for past three-years.

All assumptions are reviewed at the end of the reporting period. Additionally, the total estimated defined benefit obligation includes actuarial assumptions associated with the long-term characteristics of the defined benefit plan.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

19. Other Liabilities

Other liabilities as of December 31, 2011 and 2012 are as follows:

	2011	2012
	(in millions of Won)	
Other current liabilities		
Due to customers for contract work	449,470	529,104
Advances received	973,427	1,289,805
Unearned revenue	36,935	46,963
Withholdings	114,941	162,073
Deferred revenue	362	235
Others (*1)	224,496	283,474
	1,799,631	2,311,654
Other long-term liabilities		
Advances received	1,547	312,668
Unearned revenue	1,200	841
Others (*1)	81,756	64,305
	84,503	377,814
	1,884,134	2,689,468

(*1) Includes other current liabilities amounting to 204,653 million, 274,490 million and other long-term liabilities amounting to 14,857 million and 14,939 million as of December 31, 2011 and 2012, respectively, due to proportionate consolidation of joint ventures which are owned by POSCO s subsidiaries.

20. Financial Instruments

(a) Classification of financial instruments

1) Financial assets as of December 31, 2011 and 2012 are as follows:

2011	2012
(in millions of Won)	

Financial assets at fair value through profit or loss		
Financial assets held for trading	50,861	
Derivatives assets held for trading	108,751	71,354
	159,612	71,354
Available-for-sale financial assets	4,608,597	3,914,521
Held-to-maturity investments	35,574	34,488
Loans and receivables	19,902,456	19,787,951
	24,706,239	23,808,314

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

2) Financial liabilities as of December 31, 2011 and 2012 are as follows:

	2011	2012
	(in millions of Won)	
Financial liabilities at fair value through profit or loss		
Derivatives liabilities held for trading	195,837	185,142
Designated as financial liabilities at fair value through profit or loss	333,004	
	528,841	185,142
Financial liabilities evaluated as amortized cost		
Trade accounts payable	4,397,662	4,391,787
Borrowings	26,478,713	24,921,433
Financial guarantee liabilities	32,242	25,312
Others	1,882,179	1,802,175
	32,790,796	31,140,707
	33,319,637	31,325,849

3) Finance income and costs by category of financial instrument for the years ended December 31, 2010, 2011 and 2012 were as follows:

December 31, 2010

	Financial income and costs							
	Interest income (cost)	Dividend income	loss on foreign currency transactions	Gain and loss on foreign currency translations	Gain and loss on disposal	Others	Total	Other comprehensive income
	(in millions of Won)							
Financial assets at fair value through profit or loss	196				195,543	63,568	259,307	
Available-for-sale financial assets	9,822	102,161			624	(57,133)	55,474	589,601
Held-to-maturity securities	64				465		529	
Loans and receivables	282,846		(18,628)	20,483	(2,827)	(430)	281,444	
Financial liabilities at fair value through profit or loss					(174,943)	7,319	(167,624)	
	(586,883)		54,231	(239,375)		(6,157)	(778,184)	

Financial liabilities are evaluated as amortised cost								
	(293,955)	102,161	35,603	(218,892)	18,862	7,167	(349,054)	589,601

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

December 31, 2011

	Finance income and costs							
	Interest income (cost)	Dividend income	Gain and loss on foreign currency transactions	Gain and loss on foreign currency translations	Gain and loss on disposal	Others	Total	Other comprehensive loss
	(in millions of Won)							
Financial assets at fair value through profit or loss	3				544,913	70,656	615,572	
Available-for-sale financial assets	768	143,880			453,540	(152,804)	445,384	(1,231,758)
Held-to-maturity investments	1,749					(311)	1,438	
Loans and receivables	213,714		(26,239)	46,971	(41,171)	(95)	193,180	
Financial liabilities at fair value through profit or loss					(506,664)	(150,963)	(657,627)	
Financial liabilities at amortized cost	(788,348)		(140,052)	(317,867)		(27,956)	(1,274,223)	
	(572,114)	143,880	(166,291)	(270,896)	450,618	(261,473)	(676,276)	(1,231,758)

December 31, 2012

	Finance income and costs							
	Interest income (cost)	Dividend income	Gain and loss on foreign currency transactions	Gain and loss on foreign currency translations	Gain and loss on disposal	Others	Total	Other comprehensive loss
	(in millions of Won)							
Financial assets at fair value through profit or loss	130				407,505	77,907	485,542	
Available-for-sale financial assets	1,046	124,475			75,809	(224,171)	(22,841)	(81,471)
Held-to-maturity investments	1,664				(224)	79	1,519	
Loans and receivables	275,967		(252,265)	(162,156)	(33,786)	(406)	(172,646)	
Financial liabilities at fair value through profit or loss					(308,350)	(143,754)	(452,104)	
Financial liabilities at amortized cost	(871,457)		348,481	855,805		(72,874)	259,955	
	(592,650)	124,475	96,216	693,649	140,954	(363,219)	99,425	(81,471)

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

(b) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the Company`s maximum exposure to credit risk. The maximum exposures to credit risk as of December 31, 2011 and 2012 is as follows:

	2011	2012
	(in millions of Won)	
Cash and cash equivalents	4,598,682	4,680,526
Financial assets at fair value through profit or loss	159,612	71,354
Available-for-sale financial assets	99,400	203,352
Held-to-maturity investments	35,574	34,488
Loans and other receivables	3,670,198	3,927,248
Trade accounts and notes receivable	11,450,515	11,037,973
Long-term trade accounts and notes receivable	183,061	142,204
	20,197,042	20,097,145

The Company provided financial guarantees for the repayment of loans of associates and third parties. As of December 31, 2011 and 2012, the maximum exposure to credit risk amounted to 4,542,734 million and 4,607,773 million, respectively.

2) Impairment losses on financial assets

Allowance for doubtful accounts as of December 31, 2011 and 2012 are as follows:

	2011	2012
	(in millions of Won)	
Trade accounts and notes receivable	303,186	379,536
Other accounts receivable	36,453	47,565
Long-term loans	61,222	42,721
Other assets	5,860	5,055
	406,721	474,877

Impairment losses on financial assets for the years ended December 31, 2010, 2011 and 2012 were as follows:

	2010	2011	2012
	(in millions of Won)		
Bad debt expenses on trade receivables	47,506	92,197	79,258
Impairment of available-for-sale financial assets	57,172	152,804	224,171
Other bad debt expenses (*1)	12,877	11,155	44,115
Impairment of held to maturity financial assets		579	
Less: Reversal of allowance for doubtful accounts	(117)	(57,875)	
Less: Reversal of impairment of available-for-sale financial assets	(38)		
Less: Reversal of impairment of held to maturity financial assets		(268)	(79)
	117,400	198,592	347,465

(*1) Other bad debt expenses are mainly related to other receivables and long-term loans.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

The aging schedule and the impaired losses of trade accounts and notes receivables as of December 31, 2011 and 2012 were as follows:

	2011		2012	
	Trade accounts and notes receivable	Impairment	Trade accounts and notes receivable	Impairment
	(in millions of Won)			
Not due	6,154,045	8,137	9,106,925	52,063
Over due less than 1 month	4,868,928	233	1,313,554	4,387
1 month 3 months	256,022	1,506	278,029	3,264
3 months 12 months	301,875	37,032	413,251	41,291
Over 12 months	355,892	256,278	447,954	278,531
	11,936,762	303,186	11,559,713	379,536

Changes in the allowance for doubtful accounts for the years ended December 31, 2011 and 2012 were as follows:

	2011	2012
	(in millions of Won)	
Beginning	357,063	406,721
Bad debt expenses	92,197	79,258
(Reversal of) other bad debt expenses	(46,720)	44,115
Other (*1)	4,181	(55,217)
Ending	406,721	474,877

(*1) Includes write-off of trade accounts and notes receivable amounting to 40,138 million and adjustments of foreign currency translation difference for the year ended December 31, 2012.

(c) Liquidity risk

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

	Book value	Contractual cash flow (*3)	Within 1 year	1 year - 5 years	Later than 5 years	Total
			(in millions of Won)			
Non-derivative financial liabilities						
Trade accounts payable	4,391,787	4,391,787	4,389,194	2,593		4,391,787
Financial guarantee liabilities (*1)	25,312	4,607,773	4,607,773			4,607,773
Other financial liabilities	1,802,175	1,802,175	1,558,253	242,557	1,365	1,802,175
Borrowings (*2)	24,921,433	27,461,706	11,084,122	11,619,867	4,757,717	27,461,706
	31,140,707	38,263,441	21,639,342	11,865,017	4,759,082	38,263,441

(*1) For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

(*2) Includes cash flows of embedded derivative instruments in relation to exchangeable bonds (exchange right).

(*3) Includes estimated interest.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

2) The maturity analysis of derivative financial liabilities is as follows:

	Within 1 year	1 year - 5 years	Later than 5 years	Total
		(in millions of Won)		
Derivative financial liabilities				
Currency forward	58,129	5,247		63,376
Currency futures	67			67
Currency swaps	9,499	65,119	4,525	79,143
Others	17,227	25,329		42,556
	84,922	95,695	4,525	185,142

(d) Currency risk

1) The Company has exposure to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The exposure to currency risk as of December 31, 2011 and 2012 are as follows:

	2011		2012	
	Assets	Liabilities	Assets	Liabilities
		(in millions of Won)		
USD	3,852,909	10,912,882	3,933,448	9,120,893
EUR	275,012	610,454	317,381	330,481
JPY	236,046	2,353,794	239,569	2,017,179
Others	130,753	136,294	264,299	65,679

2) As of December 31, 2011 and 2012, provided that functional currency against foreign currencies other than functional currency hypothetically strengthens or weakens by 10%, the changes in gain or loss during the years ended December 31, 2011 and 2012 are as follows:

	2011		2012	
	10% increase	10% decrease	10% increase	10% decrease
		(in millions of Won)		
USD	(705,997)	705,997	(518,745)	518,745
EUR	(33,544)	33,544	(1,310)	1,310
JPY	(211,775)	211,775	(177,761)	177,761

(e) Interest rate risk

1) The carrying amount of interest-bearing financial instruments as of December 31, 2011 and 2012 are as follows:

	2011	2012
	(in millions of Won)	
Fixed rate		
Financial assets	7,086,835	7,325,825
Financial liabilities	(24,169,245)	(15,301,208)
	(17,082,410)	(7,975,383)
Variable rate		
Financial liabilities	(2,642,472)	(9,620,225)

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

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

As of December 31, 2011 and 2012, provided that other factors remain the same and the interest rate of borrowings with floating rates increases or decreases by 1%, the changes in gain or loss during the years ended December 31, 2011 and 2012 are as follows:

	2011		2012	
	1% increase	1% decrease	1% increase	1% decrease
	(in millions of Won)			
Variable rate financial instruments	(26,425)	26,425	(96,202)	96,202

(f) Fair value

1) Fair value and book value

The carrying amount and the fair value of financial instruments as of December 31, 2011 and 2012 are as follows

	2011		2012	
	Book value	Fair value	Book value	Fair value
	(in millions of Won)			
Assets measured at fair value				
Financial assets held for trading	50,861	50,861		
Available-for-sale financial assets (*1)	4,359,202	4,359,202	3,349,606	3,349,606
Derivatives assets held for trading (*2)	108,751	108,751	71,354	71,354
	4,518,814	4,518,814	3,420,960	3,420,960
Assets measured amortized cost (*3)				
Cash and cash equivalents	4,598,682	4,598,682	4,680,526	4,680,526
Trade accounts and notes receivable	11,633,576	11,633,576	11,180,177	11,180,177
Loans and other receivables	3,670,198	3,670,198	3,927,248	3,927,248
Held-to-maturity investments	35,574	35,574	34,488	34,488
	19,938,030	19,938,030	19,822,439	19,822,439
Liabilities measured fair value				
Derivatives liabilities held for trading (*2)	195,837	195,837	185,142	185,142
Convertible bonds	333,004	333,004		
	528,841	528,841	185,142	185,142

Liabilities measured amortized cost (*3)				
Trade accounts and notes payable	4,397,662	4,397,662	4,391,787	4,391,787
Borrowings	26,478,713	26,793,230	24,921,433	25,382,344
Financial guarantee liabilities	32,242	32,242	25,312	25,312
Others	1,882,179	1,882,179	1,802,175	1,802,175
	32,790,796	33,105,313	31,140,707	31,601,618

(*1) The fair value of available-for-sale financial assets publicly traded is measured at the closing bid price quoted at the end of the reporting period. Meanwhile, the fair value of unquoted available-for-sale financial assets is calculated using the valuation results from an external pricing service in which weighted average borrowing rates of interest of evaluated companies are used as a discount rate.

(*2) The fair value of derivatives is measured using valuation models such as Black-scholes model and others in which the market yields on government bonds are used as a discount rate.

(*3) The fair value of financial assets and liabilities measured at amortized cost is determined at the present value of estimated future cash flows discounted at the current market interest rate. The fair value is calculated for the disclosures in the notes. On the other hand, the Company has not performed fair value measurement for the financial assets and liabilities measured at amortized cost except borrowings since the fair value is close to their carrying amounts.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

2) Interest rates used for determining fair value

Interest rates used to discount estimated cash flows as of December 31, 2011 and 2012 are as follows:

	2011	2012
Interest rate of borrowings (%)	1.80 ~ 4.62	1.47 ~ 7.22

3) The fair value hierarchy

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs, other than quoted prices, that are observable for the asset or liability, either directly or indirectly.
Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The fair values of financial instruments, by valuation method as of December 31, 2011 and 2012 are as follows:

a. December 31, 2011

	Level 1	Level 2	Level 3	Total
		(in millions of Won)		
Financial assets				
Financial assets held for trading		50,861		50,861
Available-for-sale financial assets	3,419,961		939,241	4,359,202
Derivatives assets held for trading		108,751		108,751
	3,419,961	159,612	939,241	4,518,814
Financial liabilities				
Derivatives liabilities held for trading		195,837		195,837
Convertible bonds	333,004			333,004
	333,004	195,837		528,841

b. December 31, 2012

	Level 1	Level 2	Level 3	Total
		(in millions of Won)		
Financial assets				
Available-for-sale financial assets	2,590,933		758,673	3,349,606
Derivatives assets held for trading		71,354		71,354
	2,590,933	71,354	758,673	3,420,960
Financial liabilities				
Derivatives liabilities held for trading		185,142		185,142
		185,142		185,142

F-89

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

Changes in fair value of financial instruments measured by Level 3 for the years ended December 31, 2011 and 2012 are as follows:

	2011	2012
	(in millions of Won)	
Beginning	805,160	939,241
Valuation	157,329	(182,927)
Acquisition and others (*1)	98,242	30,729
Disposal and others (*1)	(121,490)	(28,370)
Ending	939,241	758,673

(*1) Included change in amounts due to change of fair value level.

21. Share Capital and Contributed Surplus

(a) Share capital as of December 31, 2011 and 2012 are as follows:

	2011	2012
	(share, Won)	
Authorized shares	200,000,000	200,000,000
Par value	5,000	5,000
Issued shares (*1)	87,186,835	87,186,835
Shared capital (*2)	482,403,125,000	482,403,125,000

(*1) As of December 31, 2012, total shares of ADRs of 55,294,944 are equivalent to 13,823,736 of common stock.

(*2) As of December 31, 2012, the difference between the ending balance of common stock and the par value of issued common stock is 46,469 million due to retirement of 9,293,790 treasury stocks.

(b) The changes in issued common stock for the years ended December 31, 2011 and 2012 are as follows:.

	2011			2012		
	Issued shares	Treasury shares	Number of outstanding shares	Issued shares	Treasury shares	Number of outstanding shares
	(share)					
Beginning	87,186,835	(10,153,957)	77,032,878	87,186,835	(9,942,391)	77,244,444
Acquisition of treasury shares		(131,389)	(131,389)			
Disposal of treasury shares		342,955	342,955			
Ending	87,186,835	(9,942,391)	77,244,444	87,186,835	(9,942,391)	77,244,444

(c) Capital surplus as of December 31, 2011 and 2012 are as follows:

	2011	2012
	(in millions of Won)	
Share premium	463,825	463,825
Gains on disposal of treasury shares	763,867	763,867
Other capital surplus	(77,240)	(122,878)
	1,150,452	1,104,814

F-90

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

22. Reserves

(a) Reserves as of December 31, 2011 and 2012 are as follows:

	2011	2012
	(in millions of Won)	
Accumulated comprehensive loss of investments in associates	(16,186)	(129,159)
Changes in the unrealized fair value of available-for-sale investments	154,617	67,956
Currency translation differences	283,516	(8,591)
Others	(16,521)	(18,356)
	405,426	(88,150)

(b) Changes in fair value of available-for-sale securities as of December 31, 2011 and 2012 were as follows:

	2011	2012
	(in millions of Won)	
Beginning balance	1,381,667	154,617
Changes in the unrealized fair value of available-for-sale investments	(1,095,009)	(189,664)
Reclassification to profit or loss upon disposal	(252,102)	(54,089)
Impairment of available-for-sale securities	120,978	150,869
Others	(917)	6,223
Ending balance	154,617	67,956

23. Treasury Shares

Based on the Board of Director s resolution, the Company holds treasury shares for business purposes including price stabilization. The changes in treasury shares for the years ended December 31, 2011 and 2012 are as follows:

	2011		2012	
	Number of shares	Amount	Number of shares	Amount
		(share, in millions of Won)		
Beginning	10,153,957	2,403,263	9,942,391	2,391,406
Acquisition of treasury shares	131,389	61,296		

Disposal of treasury shares	(342,955)	(73,153)		
Ending	9,942,391	2,391,406	9,942,391	2,391,406

24. Revenue

Details of revenue for the years ended December 31, 2010, 2011 and 2012 were as follows:

	2010	**2011**	**2012**
		(in millions of Won)	
Goods sales	41,848,201	61,001,789	55,123,774
Services sales	1,604,524	2,440,639	3,488,562
Construction sales	4,130,984	5,297,892	4,660,811
Rental income	42,898	39,862	32,056
Others	260,648	158,543	298,948
	47,887,255	68,938,725	63,604,151

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

25. Construction Contracts

(a) Construction contracts in progress as of December 31, 2011 and 2012 were as follows:

	2011	2012
	(in million of Won)	
Aggregate amount of costs incurred	14,711,524	8,343,117
Add: Recognized profits	1,369,479	659,555
Less: Recognized losses	(310,647)	(213,055)
Cumulative construction revenue	15,770,356	8,789,617
Less: Progress billing	(14,638,181)	(7,691,482)
Foreign currency gains and losses	(1,966)	(2,589)
Others	(218,263)	(130,941)
	911,946	964,605

(b) Unbilled amount due from customers and due to customers for contract work as of December 31, 2011 and 2012 were as follows:

	2011	2012
	(in million of Won)	
Unbilled due from customers for contract work	1,361,416	1,493,709
Due to customers for contract work	(449,470)	(529,104)
	911,946	964,605

(c) When the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract.

The Company estimates the stage of completion of the contract based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

The estimated total contract costs are based on the nature and characteristics of an individual contract, historical costs of similar projects, and current circumstances. Only those contract costs that reflect work performed are included in costs incurred to date.

The following are the key assumptions for the estimated total contract cost.

Key assumptions for the estimation

Material	Estimations based on recent purchasing contracts, market price and quoted price
Labor cost	Estimations based on standard monthly and daily labor cost
Outsourcing cost	Estimations based on the historical costs of similar projects, market price and quoted price

The management continually reviews all estimates involved in such construction contracts and adjusts them as necessary.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

26. Selling and Administrative Expenses

(a) Administrative expenses

Administrative expenses for the years ended December 31, 2010, 2011 and 2012 were as follows:

	2010	2011	2012
		(in millions of Won)	
Wages and salaries	446,023	606,819	694,682
Expenses related to defined benefit plan	36,708	60,271	61,261
Other employee benefits	116,293	164,508	170,734
Travel	43,592	56,635	52,817
Depreciation	110,093	172,807	218,747
Communication	9,195	13,061	15,088
Electric power	5,269	7,529	11,305
Taxes and public dues	34,869	50,617	59,664
Rental	54,739	65,559	93,268
Repairs	9,660	14,919	11,769
Entertainment	17,050	17,905	18,239
Advertising	96,305	70,939	55,777
Research & development	141,314	212,472	192,321
Service fees	192,979	286,635	264,439
Supplies	17,012	14,357	10,166
Vehicles maintenance	15,851	21,491	22,442
Industry association Fee	10,403	10,200	11,487
Training	24,762	24,375	17,772
Conference	17,659	21,739	17,745
Warranty expense	14,984	12,606	13,148
Bad debt allowance	47,506	92,197	79,258
Others	29,676	37,412	37,334
	1,491,942	2,035,053	2,129,463

(b) Selling expenses

Selling expenses for the years ended December 31, 2010, 2011 and 2012 were as follows:

	2010	2011	2012
		(in millions of Won)	
Freight	948,891	1,406,268	1,472,817

Operating expenses for distribution center	8,694	8,115	9,327
Sales commissions	69,823	85,410	74,308
Sales advertising	1,483	1,204	4,575
Sales promotion	12,096	16,179	17,525
Samples	3,478	7,321	7,489
Sales insurance premium	14,579	19,915	32,065
Contract cost	58,340	62,986	52,176
Others	2,956	4,730	8,406
	1,120,340	1,612,128	1,678,688

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

27. Other Operating Income and Expenses

Details of other operating income and expenses for the years ended December 31, 2010, 2011 and 2012 were as follows:

	2010	2011 (in millions of Won)	2012
Other operating income			
Gain on disposals of property, plant and equipment	26,366	13,812	42,290
Rental revenues	1,061	6,510	1,898
Gain on disposals of intangible assets	494	953	906
Gain on disposals of investment in associates	2,942	2,247	39,441
Gain on disposals of assets held for sale			193,333
Grant income	1,872	1,228	3,198
Reversal of other bad debt allowance	117	57,875	
Reversal of other provisions		35,629	16,037
Outsourcing income	49,304	42,136	29,136
Gain on disposals of wastes	21,267	11,348	38,597
Gain from claim compensation	58,200	68,853	31,613
Penalty income from early termination of contracts	43,264	38,570	15,054
Others	18,072	27,780	36,617
	222,959	306,941	448,120
Other operating expense			
Loss on disposals of property, plant and equipment	(83,494)	(60,550)	(65,486)
Loss on disposals of investment property	(11,896)	(8,826)	(3,197)
Loss on disposals of assets held for sale	(61)		(9,510)
Loss on disposals of investment in associates	(3,811)		(15,119)
Idle tangible assets expenses	(795)	(16,881)	(31,297)
Impairment loss of assets held for sale			(258,451)
Other bad debt expenses	(12,877)	(11,155)	(44,115)
Donations	(74,343)	(66,558)	(73,963)
Loss on disposals of wastes	(15,245)	(30,585)	(45,480)
Penalty and default losses	(1,142)	(39,551)	(149,437)
Impairment loss of property, plant and equipment and others	(128,083)	(99,071)	(72,259)
Others	(10,204)	(33,356)	(41,151)
	(341,951)	(366,533)	(809,465)

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

28. Finance Income and Costs

Details of finance income and costs for the years ended December 31, 2010, 2011 and 2012 were as follows:

	2010	2011 (in millions of Won)	2012
Finance income			
Interest income	292,928	216,234	278,807
Dividend income	102,161	143,880	124,475
Gain on foreign currency transactions	844,321	1,454,103	935,457
Gain on foreign currency translations	204,568	259,014	936,740
Gain on transactions of derivatives	180,933	549,439	407,791
Gain on valuations of derivatives	86,823	111,637	94,492
Gain on disposals of available-for-sale investments	2,590	454,543	112,095
Others	24,480	1,569	7,206
	1,738,804	3,190,419	2,897,063
Finance costs			
Interest expenses	(586,883)	(788,348)	(871,457)
Loss on foreign currency transactions	(808,718)	(1,620,394)	(839,241)
Loss on foreign currency translations	(423,460)	(529,910)	(243,091)
Loss on transactions of derivatives	(175,196)	(512,882)	(309,067)
Loss on valuations of derivatives	(17,784)	(188,742)	(159,604)
Impairment loss on available-for-sale investments	(57,172)	(152,804)	(224,171)
Loss on disposals of available-for-sale investments	(1,966)	(1,003)	(36,286)
Loss on Financial guarantee	(1,662)	(1,000)	(38,442)
Others	(15,017)	(71,612)	(76,279)
	(2,087,858)	(3,866,695)	(2,797,638)

29. Expenses by Nature

Expenses that are recorded by nature as cost of sales, selling, general and administrative expenses and other expenses in the statements of comprehensive income for the years ended December 31, 2010, 2011 and 2012 were as follows (excluding finance costs and income tax expense):

	2010	2011 (in millions of Won)	2012

Changes in inventories	13,879,604	17,546,701	14,161,271
Cost of merchandises sold	11,304,171	26,650,240	25,997,220
Employee benefits expenses (*2)	2,363,727	2,639,966	2,889,829
Outsourced processing cost	7,270,872	8,331,110	8,896,642
Depreciation expenses (*1)	2,960,550	2,133,010	2,405,769
Amortization expenses	75,344	133,289	157,991
Electricity and water expenses	504,308	715,265	837,507
Service fees	587,038	630,223	670,919
Research & development expenses	537,025	592,649	577,449
Freight and custody expenses	948,891	1,406,268	1,472,817
Commission paid	69,823	85,410	74,308
Loss on disposal of property, plant, and equipment	83,494	60,550	65,486
Donations	74,344	66,558	73,963
Other expenses	2,017,503	2,846,325	2,479,337
	42,676,694	63,837,564	60,760,508

(*1) Includes depreciation expense of investment properties.

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

(*2) The details of employee benefits expenses for the years ended December 31, 2010, 2011 and 2012 were as follows:

	2010	2011	2012
		(in millions of Won)	
Wages and salaries	2,189,756	2,394,094	2,647,177
Severance benefit	173,971	245,872	242,652
	2,363,727	2,639,966	2,889,829

30. Income Taxes

(a) Income tax expense for the years ended December 31, 2010, 2011 and 2012 was as follows:

	2010	2011	2012
		(in millions of Won)	
Current income taxes	1,111,427	1,069,240	795,601
Deferred income tax due to temporary differences	103,054	(318,722)	154,324
Less: Items recorded directly in equity	(133,009)	317,591	32,954
Income tax expense	1,081,472	1,068,109	982,879

(b) The following table reconciles the expected amount of income tax expense based on POSCO s statutory rate(24.2%) to the actual amount of taxes recorded by the Company for the years ended December 31, 2010, 2011 and 2012 were as follows:

	2010	2011	2012
		(in millions of Won)	
Net income before income tax expense	5,267,123	4,782,395	3,368,486
Income tax expense computed at statutory rate	1,274,644	1,157,340	815,174
Adjustments:	(193,172)	(89,231)	167,705
Tax effects due to permanent differences	(28,973)	(13,798)	48,220
Tax credit	(268,873)	(193,633)	(188,713)
Tax rate change effect		17,661	
Over (under) provision from prior years	40,315	(15,739)	1,776
Investments in subsidiaries and associates	61,136	97,246	281,437
Others	3,223	19,032	24,985

Income tax expense	1,081,472	1,068,109	982,879
Effective tax rate (%)	20.53	22.33	29.18

(c) The income taxes charged (credited) directly to other comprehensive income during the period ended December 31, 2011 and 2012 were as follows:

	2011	2012
	(in millions of Won)	
Net changes in the unrealized fair value of available-for-sale securities	306,827	22,585
Gains on sale of treasury stock	(22,078)	
Others	31,628	10,369
	316,377	32,954

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

(d) The movements in deferred income tax assets (liabilities) for the years ended December 31, 2011 and 2012 are as follows:

	2011			2012		
	Beginning	Inc (Dec)	Ending	Beginning	Inc (Dec)	Ending
	(in millions of Won)					
Deferred income tax due to temporary differences						
Reserve for special repairs	(27,776)	(1,883)	(29,659)	(29,659)	646	(29,013)
Allowance for doubtful accounts	80,349	24,272	104,621	104,621	7,807	112,428
Reserve for technology developments	(269,892)	(96,340)	(366,232)	(366,232)	(9,698)	(375,930)
Depreciation	(61,129)	2,841	(58,288)	(58,288)	11,714	(46,574)
Share of profit or loss of equity-accounted investees	(170,016)	(54,120)	(224,136)	(224,136)	127,762	(96,374)
Reserve for inventory valuation	1,484	(2,998)	(1,514)	(1,514)	(2,568)	(4,082)
Revaluation of assets	(362,949)	(207,454)	(570,403)	(570,403)	(229,529)	(799,932)
Prepaid expenses	18,733	2,704	21,437	21,437	9,803	31,240
Impairment loss on property, plant and equipment	24,858	634	25,492	25,492	3,263	28,755
Loss on foreign currency translation	90,656	5,131	95,787	95,787	(159,132)	(63,345)
Defined benefit obligations	40,710	14,343	55,053	55,053	15,571	70,624
Plan assets	(36,232)	(6,859)	(43,091)	(43,091)	(3,330)	(46,421)
Provision for construction losses	1,697	1,155	2,852	2,852	(625)	2,227
Provision for construction warranty	13,056	2,846	15,902	15,902	(1,061)	14,841
Appropriated retained earnings for technological development	(246)	81	(165)	(165)	(286)	(451)
Accrued income	(1,061)	(888)	(1,949)	(1,949)	(1,248)	(3,197)
Others	317,877	58,230	376,107	376,107	(66,085)	310,022
	(339,881)	(258,305)	(598,186)	(598,186)	(296,996)	(895,182)
Deferred income taxes recognized directly to equity						
Loss (gain) on valuation of available-for-sale investments	(305,406)	306,827	1,421	1,421	22,585	24,006
Others	4,141	31,628	35,769	35,769	10,369	46,138
	(301,265)	338,455	37,190	37,190	32,954	70,144
Deferred tax from tax credit						
Tax credit carryforward and others	280,295	(23,418)	256,877	256,877	82,231	339,108
Deferred tax effect due to unrealized gains (losses) and others	(129,000)	120,625	(8,375)	(8,375)	27,470	19,095
	(489,851)	177,357	(312,494)	(312,494)	(154,341)	(466,835)

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

(e) Deferred income tax assets and liabilities for the years ended December 31, 2011 and 2012 are as follows:

	2011			2012		
	Assets	Liabilities	Net	Assets	Liabilities	Net
			(in millions of Won)			
Deferred income tax due to temporary differences						
Reserve for special repairs		(29,659)	(29,659)		(29,013)	(29,013)
Allowance for doubtful accounts	104,672	(51)	104,621	112,480	(52)	112,428
Reserve for technology developments		(366,232)	(366,232)		(375,930)	(375,930)
Depreciation	12,319	(70,607)	(58,288)	15,192	(61,766)	(46,574)
Share of profit or loss of equity-accounted investees		(224,136)	(224,136)		(96,374)	(96,374)
Reserve for inventory valuation	4,319	(5,833)	(1,514)	1,751	(5,833)	(4,082)
Revaluation of assets		(570,403)	(570,403)		(799,932)	(799,932)
Prepaid expenses	23,045	(1,608)	21,437	31,240		31,240
Impairment loss on property, plant and equipment	25,492		25,492	28,755		28,755
Loss on foreign currency translation	176,621	(80,834)	95,787	202,973	(266,318)	(63,345)
Defined benefit obligations	75,912	(20,859)	55,053	86,200	(15,576)	70,624
Plan assets		(43,091)	(43,091)		(46,421)	(46,421)
Provision for construction losses	2,852		2,852	2,227		2,227
Provision for construction warranty	15,902		15,902	14,841		14,841
Appropriated retained earnings for technological development		(165)	(165)		(451)	(451)
Accrued income		(1,949)	(1,949)	25	(3,222)	(3,197)
Others	382,735	(6,628)	376,107	421,595	(111,573)	310,022
	823,869	(1,422,055)	(598,186)	917,279	(1,812,461)	(895,182)
Deferred income taxes recognized directly to equity						
Loss (gain) on valuation of available-for-sale investments	199,317	(197,896)	1,421	281,599	(257,593)	24,006
Others	49,898	(14,129)	35,769	66,975	(20,837)	46,138
	249,215	(212,025)	37,190	348,574	(278,430)	70,144
Deferred tax from tax credit						
Tax credit carryforward and others	292,255	(35,378)	256,877	378,926	(39,818)	339,108
Deferred tax effect due to unrealized gains (losses) and others	494,450	(502,825)	(8,375)	522,871	(503,776)	19,095
	1,859,789	(2,172,283)	(312,494)	2,167,650	(2,634,485)	(466,835)

(f) As of December 31, 2012, the Company did not recognize income tax effects associated with taxable temporary differences of 3,095,821 million (deferred tax liability 749,189 million) mainly relating to increase in retained earnings of subsidiaries since it is probable that the temporary difference will not reverse in the foreseeable future. As of December 31, 2012, the Company did not recognize income tax effect associated with deductible temporary differences of 1,952,989 million (deferred tax assets 472,623 million) mainly relating to loss of subsidiaries and affiliates because realization is not considered probable.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

31. Earnings per Share

(a) Basic and diluted earnings per share for the year ended December 31, 2010, 2011 and 2012 were as follows:

	2010	2011	2012
		(Won, except per share information)	
Profit attribute to controlling interest	4,105,622,633,447	3,648,136,025,973	2,462,080,504,484
Weighted-average number of common shares outstanding (*1)	77,032,878	77,251,818	77,244,444
Basic and diluted earnings per share	53,297	47,224	31,874

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

	2010	2011	2012
		(share)	
Total number of common shares issued	87,186,835	87,186,835	87,186,835
Weighted-average number of treasury shares	(10,153,957)	(9,935,017)	(9,942,391)
Weighted-average number of common shares outstanding	77,032,878	77,251,818	77,244,444

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

32. Related Party Transactions

(a) Significant transactions with related companies for the years ended December 31, 2010, 2011 and 2012 were as follows:

	Sales and others (*1)			Purchase and others (*2)		
	2010	2011	2012	2010	2011	2012
			(in millions of Won)			
Subsidiaries (*3)						
POSCO E&C Co., Ltd.	7,441	26,536	28,110	2,292,524	1,687,665	1,451,086
POSCO P&S Co., Ltd.	1,082,903	1,181,088	897,051	478,030	1,406,245	1,395,891
POSCO Coated & Color Steel Co., Ltd.	685,698	593,656	489,545	3,178	1,890	6,496
POSCO ICT Co., Ltd.	1,212	1,537	1,547	485,525	507,883	468,915
POSCO Chemtech Co., Ltd.	142,677	423,643	511,917	573,973	755,515	798,150
POSCO M-TECH CO., LTD.		19,355	27,906		211,832	318,548
POSCO TMC Co., Ltd.	151,323	168,314	230,235	91	884	1,032
POSCO AST Co., Ltd.	267,323	319,258	278,463	57,180	58,475	58,647
Daewoo International Corp.	867,916	3,896,857	4,271,450	3,799	5,599	15,731
POSCO NST CO., LTD.	9,256	186,809	212,536		4,734	3,618
POSCO America Corporation	233,594	353,904	726,450		1	733
POSCO Canada Co., Ltd.				170,842	289,047	205,129
POSCO Asia Co., Ltd.	1,377,802	2,029,781	1,929,508	148,706	178,395	107,313
POSCO-Japan Co., Ltd.	1,161,919	1,628,069	1,439,580	272,282	34,860	28,710
POSCO-India Delhi Steel Processing Centre Pvt. Ltd.	164,628	148,343	164,483			15
POSCO-Mexico Co., Ltd.	273,241	347,915	338,645		176	492
Daewoo International Singapore Pte. Ltd.				12,447	149,029	73,471
POSCO Maharashtra Steel Pvt. Ltd.		2,340	155,642			
POSCO (Suzhou) Automotive Processing Center Co., Ltd.	113,416	99,778	128,974			
POSCO-Thailand Bangkok Processing Center Co., Ltd	123,913	96,288	119,278	58	63	182
Others	1,194,967	709,834	749,758	750,468	986,196	954,105
	7,859,229	12,233,305	12,701,078	5,249,103	6,278,489	5,888,264
Associates						
Posmate Co., Ltd.	1,141	1,038	22,044	47,152	53,357	46,058
SNNC Co., Ltd.	1,763	4,787	2,511	519,871	447,130	379,050
SUNG JIN GEOTEC Co., Ltd.	18,497	44,451	27,697			
DONG BANG METAL IND.CO.,LTD.		84,748	89,094			
POSCO SAMSUNG Suzhou Steel Processing Center Co., Ltd.		23,974	26,280			
USS-POSCO Industries (UPI)	308,998	342,594	85	264	29	101
Poschrome(Proprietary) Ltd.			58	80,282	72,502	68,079
Others	11,890	59,021	37,700	256,294	6,087	14,311
	342,289	560,613	205,469	903,863	579,105	507,599

8,201,518	12,793,918	12,906,547	6,152,966	6,857,594	6,395,863

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

(*2) Purchases and others include purchases and overhead costs. Purchases and others are mainly related to purchases of construction services and purchases of raw materials to manufacture steel products. These are priced on an arm`s length basis.

(*3) As of December 31, 2012, the Company provided guarantees to related parties (Note 33).

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

(b) The related account balances of significant transactions with related companies as of December 31, 2011 and 2012 are as follows:

	Receivables (*1)		Payables (*1)	
	2011	2012	2011	2012
	(in millions of Won)			
Subsidiaries				
POSCO E&C Co., Ltd.	647	7,977	241,918	403,630
POSCO Processing & Service	88,838	64,564	1,512	32,672
POSCO Plant Engineering Co., Ltd.	65	267	42,534	32,297
POSCO ICT Co., Ltd.	30	287	62,583	91,297
POSCO Coated & Color Steel Co., Ltd.	116,252	108,505	335	2,618
POSCO Chemtech Company Ltd.	37,808	47,074	82,048	84,538
POSCO TMC CO., LTD.	21,601	64,862	134	145
POSCO AST Co., Ltd.	33,266	65,575	7,090	7,800
Daewoo International Corp.	284,125	358,824	1,589	730
POSCO NST.CO.,LTD	64,012		676	
POSCO America Corporation	32,346	63,545		
POSCO Asia Co., Ltd.	227,476	102,849	1,407	2,244
POSCO-TBPC Co., Ltd.	27,381	17,986		
Qingdao Pohang Stainless Steel Co., Ltd.	6,713	8,710		
POSCO-Vietnam Co., Ltd.	422	291		
POSCO-Japan Co., Ltd.	52,362	35,400	1,546	673
POSCO-India Delhi Steel Processing Centre Pvt. Ltd.	3,484			
POSCO-Mexico Co., Ltd.	171,908	131,669		
Others	81,255	127,626	83,201	115,817
	1,249,991	1,206,011	526,573	774,461
Associate				
Posmate Co., Ltd.		78	7,198	6,315
SNNC Co., Ltd.	223	229	23,187	37,145
DONG BANG METAL IND.CO., LTD.	17,038			
SUNG JIN GEOTEC Co., Ltd.	4,122	4,849		
Poschrome Pty. Ltd.				2,273
Others		453	809	804
	21,383	5,609	31,194	46,537
	1,271,374	1,211,620	557,767	820,998

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

(c) For the years ended December 31, 2011 and 2012, details of compensation to key management officers were as follows:

	2011	2012
	(in millions of Won)	
Short-term benefits	93,231	109,614
Retirement benefits	23,407	25,049
Long-term benefits	26,971	22,462
	143,609	157,125

Key management officers include directors (including non-standing directors), executive officials and fellow officials who have significant influence and responsibilities in the Company s business and operations. In addition to the compensation described above, the Company provided stock appreciation

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

rights to its executive officers and recorded reversal of stock compensation expenses amounted to 4,223 million and stock compensation expenses amounted to 436 million for the years ended December 31, 2011 and 2012, respectively.

33. Commitments and Contingencies

(a) Contingent liabilities

Contingent liabilities may develop in a way not initially expected. Therefore, management continuously assesses contingent liabilities to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognized in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made).

Management makes estimates and assumptions that affect disclosures of commitments and contingencies. All estimates and assumptions are based on the evaluation of current circumstances and appraisals with the supports of internal specialists or external consultants.

Management regularly analyzes current information about these matters and provides provisions for probable contingent losses including the estimate of legal expense to resolve the matters. Internal and external lawyers are used for these assessments. In making the decision regarding the need for provisions, management considers the degree of probability of an unfavorable outcome and the ability to make a sufficiently reliable estimate of the amount of loss.

(b) Details of guarantees

(in millions of Won)

Guarantors	Guarantee beneficiary	Financial institution	Foreign currency		Won equivalent
[The Company]					
POSCO	Guangdong Pohang Car Steel Co., Ltd.	SMBC and others	USD	122,600,000	131,317
	POSCO Investment Co., Ltd.	BOC and others	CNY	350,000,000	60,158
		HSBC	MYR	240,000,000	83,952
		HSBC and others	USD	350,000,000	374,885
	POSCO Maharashtra Steel Pvt. Ltd.	Export-Import Bank of Korea and others	USD	566,000,000	606,243
	POSCO VST Co., Ltd.	ANZ(Tapei) and others	USD	65,000,000	69,622
	POSCO-Mexico Co., Ltd.	HSBC and others	USD	244,725,000	262,125
	POSCO-Vietnam Co., Ltd.	Export-Import Bank of Korea and others	USD	200,000,000	214,220
	Zeus (Cayman) Ltd.	Creditor	JPY	38,798,173,522	484,007
	Zhangjiagang Pohang Stainless Steel Co., Ltd	MIZUHO and others	USD	160,000,000	171,376
		SMBC and others	USD	188,392,500	201,787

POSCO ASSAN TST Steel Industry				
POSCO Electrical Steel India Private Limited	ING and others	USD	84,000,000	89,972
PT. KRAKATAU POSCO	Export-Import Bank of Korea and others	USD	1,210,300,000	1,296,352

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

Guarantors	Guarantee beneficiary	Financial institution	Foreign currency		Won equivalent
		(in millions of Won)			
Daewoo International Corporation	PT. Bio Inti Agrindo	Export-Import Bank of Korea	USD	19,000,000	20,351
	Daewoo International America Corp.	Shinhan Bank	USD	500,000	536
	Daewoo International Australia Holdings Pty. Ltd.	Korea Exchange Bank	USD	12,000,000	12,853
	Daewoo Paper Manufacturing Co., Ltd.	HSBC	USD	12,500,000	13,389
	Daewoo Textile Bukhara LLC	Export-Import Bank of Korea	USD	24,950,000	26,724
	Daewoo International MEXICO S.A. de C.V.	SMBC	USD	25,000,000	26,778
	POSCO ASSAN TST STEEL Industry	ING and others	USD	20,932,500	22,421
	Brazil Sao Paulo Steel Processing Center Co., Ltd.	SMBC	USD	20,000,000	21,422
	Daewoo International Deutschland GmbH	Shinhan Bank	EUR	15,000,000	21,244
POSCO E&C Co., Ltd.	HONG KONG POSCO E&C (CHINA) Investment Co., Ltd.	Woori Bank	USD	30,000,000	32,133
	International Business Center Corporation	Export-Import Bank of Korea and others	USD	20,000,000	21,422
	POSCO E&C Vietnam Co., Ltd.	ANZ	USD	10,000,000	10,711
		Kookmin Bank (Hong Kong)	USD	5,000,000	5,356
		Export-Import Bank of Korea and others	USD	16,500,000	17,673
	SANTOS CMI S.A	CITI Ecuador	USD	3,000,000	3,213
		KEB Panama	USD	25,000,000	26,778
POSCO P&S Co., Ltd.	POSCO Canada Pty., Ltd.	Hana Bank	USD	12,484,500	13,372
POSCO ICT Co., Ltd.	POSCO ICT Indonesia	POSCO Investment Co., Ltd.	USD	1,500,000	1,607
	VECTUS Ltd.	POSCO Investment Co., Ltd.	USD	4,000,000	4,284
	POSCO ICT BRASIL PARTICIPACOES LTDA	Korea Exchange Bank	BRL	8,875,000	4,652
POSCO Energy Co., Ltd.	TECHREN Solar, LLC	Woori Bank	USD	30,000,000	32,133
POSCO Engineering Co., Ltd.	PT DEC INDONESIA	Korea Exchange Bank	USD	6,818,876	7,304
		Korea Exchange Bank	IDR	41,707,614,097	4,634
		Woori Bank	IDR	32,128,484,002	3,569
POSCO JAPAN Co., Ltd.	POSCO-JEPC Co., Ltd.	Mizuho Bank and others	JPY	3,008,564,339	37,532
	POSCO-JKPC Co., Ltd.	Higo bank and others	JPY	1,436,800,000	17,924
	POSCO-JOPC Co., Ltd.	Kiyo bank and others	JPY	1,187,500,000	14,814
	Xenesys Inc.	Aozora Bank	JPY	85,000,000	1,060
Daewoo Textile Fergana LLC	Daewoo Textile Bukhara LLC	NBU	USD	3,286,250	3,520
POSCO E&C (CHINA) Co., Ltd.	HONG KONG POSCO E&C (China) Investment Co., Ltd.	Woori Bank (Beijing)	USD	33,000,000	35,346

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

Guarantors	Guarantee beneficiary	Financial institution	Foreign currency		Won equivalent
		(in millions of Won)			
International Business Center Corporation	POSCO E&C Co., Ltd.	Export-Import Bank of Korea and others	USD	20,000,000	21,422
[Associates]					
POSCO	BX STEEL POSCO Cold	BOC and others	CNY	119,600,000	20,557
	Rolled Sheet Co., Ltd.		USD	21,980,000	23,543
	United Spiral Pipe, LLC	Shinhan Bank	USD	24,500,000	26,242
	POSUK Titanium	Shinhan Bank	USD	18,000,000	19,280
Daewoo International Corporation	DMSA, AMSA	Export-Import Bank of Korea and others	USD	165,133,333	176,874
	GLOBAL KOMSCO Daewoo LLC	Export-Import Bank of Korea and others	USD	5,950,000	6,373
POSCO E&C Co., Ltd.	Taegisan Wind Power Corporation	NH Bank and others	KRW	7,500	7,500
	PSIB Co., Ltd.	Hana Bank	KRW	356,600	356,600
	THE GALE INVESTMENTS COMPANY, L.L.C. and others	Woori Bank	USD	50,000,000	53,555
	Pohang Techno Valley PFV Corporation	Shinhan Bank and others	KRW	135,660	135,660
POSCO P&S Co., Ltd.	Sebang Steel Co., Ltd.	Fukuoka Bank	JPY	245,000,000	3,056
POSCO ICT Co., Ltd.	Uitrans LRT Co., Ltd.	Construction Guarantee Cooperative	KRW	64,638	64,638
	CHUNGJU ENTERPRISE CITY DEVELOPMENT Co., Ltd.	NH Bank	KRW	2,530	2,530
POSCO Engineering Co., Ltd.	Daewoo Engineering (THAILAND) Co., Ltd. and others	Citibank Korea Inc.	USD	19,300,000	20,672
	PT Wampu Electric Power	PT Bank Woori Indonesia	USD	344,848	369
		Export-Import Bank of Korea and SMBC	USD	59,357,000	63,577
Daewoo (China) Co., Ltd.	Shanghai Lansheng Daewoo Corporation	China Construction Bank	CNY	100,000,000	17,188
POSCO CHEMTECH Co., Ltd.	PT.INDONESIA POS CHEMTECH CHOSUN REF	Korea Exchange Bank	USD	6,000,000	6,427
[Others]					
Daewoo International Corporation	Ambatovy Project Investments Limited	Export-Import Bank of Korea and others	USD	50,408,289	53,992
	Sherritt International Corporation	Export-Import Bank of Korea and others	USD	6,207,696	6,649
POSCO E&C Co., Ltd.	ALD PFV and others	Korea Exchange Bank and others	KRW	1,105,589	1,105,589
POSCO Plant Engineering Co., Ltd.	Gyeongpo wind power generation and others	KB Bank and others	KRW	229,213	229,213
	GS CALTEX HOU and others	Korea Exchange Bank and others	USD	9,787,628	10,484
POSCO ICT Co., Ltd.	BTL business and others	Kyobo Life Insurance Co., Ltd. and others	KRW	1,781,581	1,781,581
	SMS Energy and others	Hana Bank	KRW	207,110	207,110

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

Guarantors	Guarantee beneficiary	Financial institution (in millions of Won)	Foreign currency		Won equivalent
POSCO M-TECH Co., Ltd.	PYUNGSAN SI Co., Ltd.	Seoul Guarantee Insurance Co., Ltd.	KRW	326	326
Posco Engineering Co., Ltd	Kwanma Solar Co., Ltd. and others	Hana Bank and others	KRW	60,476	60,476
	Hyundai ENG Co., Ltd.	Engineering Financial Cooperative	KRW	147,663	147,663
POSCALCIUM Company, Ltd	Pohang city	Seoul Guarantee Insurance Co., Ltd.	KRW	49	49
			CNY	569,600,000	97,903
			EUR	15,000,000	21,244
			BRL	8,875,000	4,652
			IDR	73,836,098,099	8,203
			JPY	44,761,037,861	558,393
			KRW	4,098,935	4,098,935
			MYR	240,000,000	83,952
			USD	3,983,458,420	4,266,684

(c) POSCO E&C Co., Ltd. has provided the completion guarantees for Samsung C&T Corporation amounting to 2,024,503 million while Samsung C&T Corporation and SK E&C have provided the construction guarantees or payment guarantees on customers borrowings on behalf of POSCO E&C Co., Ltd. amounting to 1,276,581 million as of December 31, 2012. POSCO E&C Co., Ltd. provides payment guarantees on borrowings of customers such as Asset Backed Commercial Paper amounted to 518,178 million and Project Financing loan amounted to 280,536 million as of December 31, 2012.

(d) Commitments

POSCO

POSCO entered into long-term contracts to purchase iron ore, coal, nickel and others. These contracts generally have terms of more than three years and provide for periodic price adjustments to the market price. As of December 31, 2012, 217 million tons of iron ore and 27 million tons of coal remained to be purchased under such long-term contracts.

POSCO entered into an agreement with Tangguh Liquefied Natural Gas (LNG) Consortium in Indonesia to purchase 550 thousand tons of LNG annually for 20 years commencing in August 2005. Purchase price is subject to change, following the change of the monthly standard oil price (JCC) and also price ceiling is applicable.

As of December 31, 2012, POSCO entered into commitments with Korea National Oil Corporation for long-term foreign currency borrowings, which are limited up to the amount of USD 6.86 million, USD 3.54 million and USD 4.12 million, respectively. The borrowings are related to the exploration of gas hydrates in Aral Sea, Uzbekistan, the exploration of gas hydrates in Namangan-Chust and the exploration of gas hydrates in Western Fergana- Chenavard, respectively. The repayment of the borrowings depends on the success of the projects. POSCO is not liable for the repayment of full or part of the money borrowed if the respective project fails. POSCO has agreed to pay a certain portion of its profits under certain

	conditions, as defined by the borrowing agreements.
POSCO E&C Co., Ltd	POSCO E&C Co., Ltd. has bank overdraft agreements of up to 20,000 million with Woori Bank which is included in the limit of comprehensive loan agreements and 3,000 million with Korea Exchange Bank. Also POSCO E&C Co., Ltd. has comprehensive loan agreements of up to 360,000 million and USD 308 million with Woori Bank and 83,000 million with Korea Exchange Bank.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

POSCO ICT Co., Ltd.	As of December 31, 2012, in relation to contract enforcement, POSCO ICT Co., Ltd. was provided with 123,999 million and 48,651 million guaranties from Seoul Guarantee Insurance and Korea Software Financial Cooperative, respectively.
	As of December 31, 2012, in relation to transfer of military camp based on Changwon city & land development projects, POSCO ICT Co., Ltd. provided Kyongnam Bank and other banks with 620,000 million fund support under fund support agreements between POSCO ICT Co., Ltd. and Unicity 7th LLC.
	As of December 31, 2012, in relation to Incheongimpo Highway investment projects, POSCO ICT Co., Ltd. provided Korea Development Bank and other banks with 175,000 million fund support under fund support agreements between POSCO ICT Co., Ltd. and Incheongimpo Highway INC.
	As of December 31, 2012, in relation to Busan sansung tunnel projects, POSCO ICT Co., Ltd. provided Korea Development Bank and other banks with 17,000 million fund support under fund support agreements between POSCO ICT Co., Ltd. and Busan Sansung Tunnel Co., Ltd.
POSCO Specialty Steel Co., Ltd.	POSCO Specialty Steel Co., Ltd. has a loan agreement, secured by trade accounts receivable, of up to 1,081,447 million with Woori Bank and others. POSCO Specialty Steel Co., Ltd. has used 133,489 million of this loan agreement.
	POSCO Specialty Steel Co., Ltd. has agreements with Woori Bank and nine other banks for opening letters of credit of up to USD 313 million, and for a loan of up to 120,975 million. POSCO Specialty Steel Co., Ltd. has used USD 202 million, EUR 666 thousand for opening letters of credit and 7,043 million for Korean Won loans.

(e) Litigation in progress

As of December 2012, the Company and certain subsidiaries are defendants in legal actions arising from the normal course of business. Details of amount claimed are as follows:

Company	Legal actions	Claim amount		Korean Won equivalent	Description
	(in millions of Won, in thousand of foreign currencies)				
POSCO	2	JPY	98,600,000	1,230,035	Lawsuit on claim for damages (*1)
	14	KRW	55,182	55,182	Lawsuit on claim for damages
POSCO E&C Co., Ltd.	78	KRW	71,983	71,983	Lawsuit on claim for payment
POSCO Plant Engineering Co., Ltd.	9	KRW	2,374	2,374	Lawsuit on claim for payment
POSCO ICT Co., Ltd.	12	KRW	6,918	6,918	Lawsuit on claim for payment
POSCO A&C Co., Ltd.	1	KRW	572	572	Imposed high tax rate
POSCO M-TECH Co., Ltd.	1	KRW	76	76	
POSCO America Corporation	3	USD			
POSCO E&C China Co., Ltd.	1	CNY	37,000	6,360	Lawsuit on claim for payment of work complied related with the subcontractor and second

					subcontractor
POSCO-Malaysia SDN. BHD.	1	MYR	5,782	2,023	
POSCO Engineering Co., Ltd.	3	KRW	1,662	1,662	Lawsuit on claim for damages
Kwang Yang SPFC Co., Ltd.	1	KRW	5,693	5,693	Lawsuit on claim for payment
Daewoo International Corporation	2	EUR	5,164	7,314	Lawsuit on claim for damages
	1	INR (*2)	4,458,849	87,037	
	1	USD	42,825	45,870	The portion (22.54%) of Daewoo International Corporation of total claim for damages

(*1) Civil lawsuits with Nippon Steel & Sumitomo Metal Corporation

During the year ended December 31, 2012, Nippon Steel & Sumitomo Metal Corporation filed civil lawsuits in the Tokyo District Court of Japan against POSCO and POSCO Japan Co., Ltd., a subsidiary

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

of POSCO, to prohibit production and sales of grain oriented electrical steel sheets using improperly acquired trade secrets and seeking compensation from the Company of 1,230 billion. Through the first and second trials held in October and December 2012, respectively, the Company submitted its responses that the Japan court did not have jurisdiction on this lawsuit as it should be judged by Korean law and the Company developed grain oriented electrical steel sheets using the Company s own technologies. As of December 31, 2012, the Japan court has not made any judgments on this matter. The Company has not recorded any provision for this lawsuit in Japan as of December 31, 2012.

In addition, Nippon Steel & Sumitomo Metal Corporation filed civil lawsuits in the New Jersey federal court, United States, against POSCO and POSCO America Co., Ltd., a subsidiary of POSCO, claiming infringement of intellectual property rights related to the production of grain oriented electrical steel sheets. As of December 31, 2012, no claim amount has been made and the Company is under discovery proceedings related to this matter. Due to the early stage of the litigations and the inherent uncertainties, the Company is not able to reliably estimate the amount of compensation and timing, if any, that might be awarded to Nippon Steel & Sumitomo Metal Corporation. Consequently, it is not possible for the Company to make an estimate of the expected financial effect that will result from the ultimate resolution of the civil lawsuits. Therefore, the Company has not recorded any provision for this lawsuit in the US as of December 31, 2012.

(*2) In May 2002, Industrial Development Bank of India Limited, the creditor of Daewoo Moters India Ltd. for which Daewoo Co., Ltd. provided guarantee, filed lawsuits against Daewoo Moters India Ltd., Daewoo Co., Ltd., Daewoo Engineering & Construction Co., Ltd, and Daewoo International Corporation (a subsidiary of POSCO) seeking for the disposition of assets and judgment of debt of Daewoo Moters India Ltd. in India Delhi Mumbai Court. Management of the Company has assessed the likelihood of the outcome of this matter and estimated the amount of possible loss and has made the appropriate provision for these lawsuits as of December 31, 2011 and 2012.

For all other lawsuits and claims, the Company believes that although the outcome of these matters is uncertain, the impacts of these matters are not expected to be material to the Company.

(e) Other contingencies

Company	Description
POSCO	POSCO has provided two blank promissory notes and one blank check to Korea Resources Corporation and six blank promissory notes and three blank checks to Korea National Oil Corporation as collateral for outstanding loans.
POSCO E&C Co., Ltd.	As of December 31, 2012, POSCO E&C Co., Ltd. has provided ten blank promissory notes, sixteen 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.
Daewoo International Corporation	As of December 31, 2012, Daewoo International Corporation has provided forty-five blank promissory notes and thirteen blank checks to Korea National Oil Corporation as collateral for the guarantee on performance for contracts and others.
POSCO ICT Co., Ltd.	As of December 31, 2012, POSCO ICT Co., Ltd. has provided eight blank promissory notes and ten blank checks to financial institutions as collateral for the guarantee on performance for contracts and others.
POSCO Engineering Co., Ltd.	As of December 31, 2012, POSCO Engineering Co., Ltd. has provided one note to Hana Tank Terminal Co., Ltd. as collateral for the guarantee on performance for contracts and others.
POSCO-JKPC Co., Ltd.	As of December 31, 2012, POSCO-JKPC Co., Ltd. has provided two hundred-three notes as collateral for borrowings. (JPY 747,817,793, 45% of borrowings from the Kinakyushu Bank, Ltd., 30% of borrowings from Higo bank, Ltd.)

Daewoo International Japan Corp.	As of December 31, 2012, Daewoo International Japan Corp. has provided one hundred-fifteen notes receivable (JPY 563,771,819) to Resona bank Ltd. as collateral for loans from banks.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

34. Cash Flows from Operating Activities

Adjustments for operating cash flows for the years ended December 31, 2010, 2011 and 2012 are as follows:

	2010	2011	2012
		(in millions of Won)	
Trade accounts and notes receivable	(538,949)	(2,402,346)	87,830
Other financial assets	226,211	(187,607)	(392,090)
Inventories	(3,518,927)	(2,538,178)	1,450,431
Other current assets	(137,246)	(310,397)	(198,157)
Other long-term assets	(77,912)	47,929	(141,037)
Trade accounts payable	(342,177)	265,993	225,086
Other financial liabilities	35,008	260,306	357,502
Other current liabilities	185,226	384,943	583,159
Provisions	9,157	(36,511)	17,108
Payment severance benefits	(90,951)	(574,759)	(116,846)
Plan assets	(140,173)	252,671	(191,696)
Other long-term liabilities	(62,737)	(12,791)	252,068
	(4,453,470)	(4,850,747)	1,933,358

35. Business Combinations

(a) Daewoo International Corporation

POSCO acquired a 68.15% controlling financial interest in Daewoo International Corporation, a Korean Company listed on the Korean Securities Exchange (Daewoo International), for 3,371,481 million in cash in 2010. There is no contingent consideration. The acquisition was consummated on September 20, 2010. Daewoo International is engaged in various business activities, such as providing export services, export agent services, intermediary trading, manufacturing, distribution and natural resource development. Goodwill arising from the acquisition primarily results from synergies the Company and its subsidiaries expect to realized. The results of operations of Daewoo International Corporation have been consolidated from the date of acquisition. Therefore, comparability with POSCO s consolidated financial statements for prior years is impacted accordingly. The amounts of revenues and net profit of Daewoo International Corporation since the acquisition date to December 31, 2010 included in consolidated revenues and net profit amounted to 3,951,609 million and 870,295 million, respectively.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

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

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

(*1) The non-controlling interests at the acquisition date were measured using their proportionate share in the recognized amounts of Daewoo International Corporation s identifiable net assets.

Pro-forma Information

The following summarized pro forma consolidated statement of comprehensive income information assumes that the Daewoo International Corporation acquisition occurred as of January 1, 2010. The 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.

If the Company had acquired Daewoo International Corporation as of January 1, 2010, pro-forma consolidated revenues and proforma net profit for the year ended December 31, 2010 would have been 57,967,590 million and 4,129,693 million, respectively.

(b) POSCO-Thainox Public Company Limited.

The Company has acquired additional shares in POSCO-Thainox Public Company Limited from its previous largest shareholder on September 23, 2011 in order to expand its footprint in the cold-rolled stainless steel sheets and coils market in Southeast Asia and to achieve its synergy effects with its existing operations in the region. The Company obtained control of POSCO-Thainox Public Company Limited. since its voting interest increased from 15.39% to 75.32%. There is no contingent consideration. The results of operations of POSCO-Thainox Public Company Limited have been consolidated from the date of acquisition. Therefore, comparability with POSCO s consolidated financial statements for prior years is impacted accordingly The amounts of revenues and net profit of

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

POSCO-Thainox Public Company Limited since the acquisition date included in consolidated revenues and net profit amounted to 92,798 million and 11,658 million, respectively. Goodwill recognised in this business combination is as follows:

	Amount (in millions of Won)
I. Consideration transferred	
Fair value of investment held before acquisition (*1)	99,382
Cash	390,474
Total	489,856
II. Non-controlling interests (*2)	121,413
Total	611,269
III. Acquired identifiable assets and liabilities	
[Assets]	
Cash and cash equivalents	62,080
Trade accounts and notes receivable and other financial assets	102,464
Inventories	149,901
Property, plant and equipment and intangible assets	340,487
Other assets	20,129
Total	675,061
[Liabilities]	
Trade accounts and notes payable and other financial liabilities	147,382
Borrowings	11,803
Other liabilities	23,867
Total	183,052
Total acquired net assets	492,009
IV. Goodwill recognized	119,260

(*1) Upon acquisition of the business, a 57,080 million re-measurement gain on the Company s existing investment in the acquiree prior to acquisition date (acquisition cost: 42,302 million) was recognized as finance income. The fair value of this existing investment was determined using quoted market price of the shares on acquisition date.

(*2) The non-controlling interests at the acquisition date were measured using their proportionate share in the recognized amounts of POSCO-Thainox Public Company Limited s identifiable net assets

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

Pro-forma Information

The following summarized pro forma consolidated statement of comprehensive income information assumes that the POSCO-Thainox Public Company Limited acquisition occurred as of January 1, 2011. The pro forma results reflect certain adjustments related to the acquisition, such as increased depreciation and amortization expense on assets acquired from POSCO-Thainox Public Company Limited resulting from the fair valuation of assets acquired in place on acquisition date, September 23, 2011. The pro forma results do not include any anticipated cost synergies or other effects of the planned integration of POSCO-Thainox Public Company Limited.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

If the Company had acquired POSCO-Thainox Public Company Limited as of January 1, 2011, pro-forma consolidated revenues and pro-forma consolidated net profit for the year ended December 31, 2011 would have been 69,243,204 million and 3,726,225 million, respectively.

36. Operating Segments

(a) Our operating businesses are organized based on the nature of markets and customers. We have four reportable operating segments steel, construction, trading and others. The steel segment includes production of steel products and revenue of such products. The engineering and construction segment includes planning, designing and construction of industrial plants, civil engineering projects and commercial and residential buildings, both in Korea and overseas. The trading segment consists of exporting and importing a wide range of steel products and raw materials that are both obtained from and supplied to POSCO, as well as between other suppliers and purchasers in Korea and overseas. Other segments include power generation, liquefied natural gas production, network and system integration and logistics.

(b) Information about reportable segments as of and for the years ended December 31, 2010, 2011 and 2012 are as follows:

1) For the year ended December 31, 2010

	Steel	Trading	Construction (in millions of Won)	Others	Total
External revenues	35,527,373	6,236,030	4,348,796	1,775,056	47,887,255
Internal revenues	10,725,583	3,174,342	3,574,669	1,104,332	18,578,926
Total revenues	46,252,956	9,410,372	7,923,465	2,879,388	66,466,181
Interest income	243,306	5,829	25,312	23,986	298,433
Interest expenses	425,024	27,859	60,292	91,799	604,974
Depreciation and amortization	2,949,227	16,613	30,545	74,079	3,070,464
Impairment loss of property, plant and equipment and others	730		127,516	2,636	130,882
Impairment loss of available-for-sale financial assets	11,627		1,754	43,791	57,172
Share of profit or loss of investment in associates	(1,324)	(852)		(9,516)	(11,692)
Income tax expense	1,025,156	(47,967)	69,780	5,080	1,052,049
Segments profit	4,088,737	94,014	256,183	12,913	4,451,847
Segments assets	60,773,736	9,605,706	6,477,360	4,978,137	81,834,939
Investment in associate	11,694,102	1,664,760	601,559	39,845	14,000,266
Acquisition of non-current assets	10,500,517	669,485	169,591	1,480,715	12,820,308
Segments liabilities	19,570,113	7,519,031	3,632,366	3,407,866	34,129,376

F-111

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

2) For the year ended December 31, 2011

	Steel	Trading	Construction	Others	Total
			(in millions of Won)		
External revenues	39,151,930	21,097,356	5,476,209	3,213,230	68,938,725
Internal revenues	17,138,610	7,525,555	2,996,933	2,446,417	30,107,515
Total revenues	56,290,540	28,622,911	8,473,142	5,659,647	99,046,240
Interest income	154,671	43,842	22,744	22,025	243,282
Interest expenses	(551,478)	(93,532)	(69,050)	(110,615)	(824,675)
Depreciation and amortization	(2,128,182)	(37,320)	(31,238)	(178,429)	(2,375,169)
Impairment loss of property, plant and equipment and others	(25,177)	(34,544)	(23,397)	(995)	(84,113)
Impairment loss of available-for-sale financial assets	(136,638)			(16,166)	(152,804)
Share of profit or loss of investment in associates	(33,361)			(6,888)	(40,249)
Income tax expense	(1,111,709)	(35,322)	(22,536)	(16,454)	(1,186,021)
Segments profit	3,689,461	195,298	154,618	155,277	4,194,654
Segments assets	67,961,383	12,120,560	8,764,698	6,663,297	95,509,938
Investment in associates	14,226,687	1,899,762	918,079	186,490	17,231,018
Acquisition of non-current assets	9,385,381	607,076	207,619	594,514	10,794,590
Segments liabilities	23,169,910	9,706,622	5,554,097	4,528,283	42,958,912

3) For the year ended December 31, 2012

	Steel	Trading	Construction	Others	Total
			(in millions of Won)		
External revenues	35,258,970	18,945,642	4,675,596	4,723,943	63,604,151
Internal revenues	17,609,789	7,467,872	5,050,287	2,857,139	32,985,087
Total revenues	52,868,759	26,413,514	9,725,883	7,581,082	96,589,238
Interest income	176,229	50,907	43,815	21,811	292,762
Interest expenses	(553,508)	(174,607)	(48,975)	(116,499)	(893,589)
Depreciation and amortization	(2,334,357)	(35,788)	(35,323)	(218,515)	(2,623,983)
Impairment loss of property, plant and equipment and others	(46,951)	(30,073)	(7,734)	(16,257)	(101,015)
Impairment loss of available-for-sale financial assets	(201,850)	(254)	(1,713)	(20,354)	(224,171)
Share of profit or loss of investment in associates	(39,806)	(5,579)	(27)	(2,764)	(48,176)
Income tax expense	(658,307)	(184,318)	(135,469)	(77,139)	(1,055,233)
Segments profit	2,245,977	325,197	345,295	301,670	3,218,139
Segments assets	69,920,261	10,904,747	10,775,895	7,723,374	99,324,277
Investment in associates	15,802,052	1,043,018	1,130,216	435,980	18,411,266
Acquisition of non-current assets	7,629,767	395,081	167,818	781,087	8,973,753
Segments liabilities	23,105,008	7,865,399	7,008,996	4,836,641	42,816,044

(d) Reconciliations of total segment revenues, profit or loss, assets and liabilities, and other significant items to their respective consolidated financial statement line items are as follows:

1) Revenues

	2010	2011	2012
		(in millions of Won)	
Total revenue for reportable segments	66,466,181	99,046,240	96,589,238
Elimination of inter-segment revenue	(18,578,926)	(30,107,515)	(32,985,087)
	47,887,255	68,938,725	63,604,151

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

2) Profit

	2010	2011	2012
		(in millions of Won)	
Total profit for reportable segments	4,451,847	4,194,654	3,218,139
Goodwill and PP&E FV adjustments	(10,873)	(39,489)	(58,486)
Elimination of inter-segment profits	(255,323)	(440,879)	(774,047)
Income tax expense	1,081,472	1,068,109	982,880
Profit before income tax expense	5,267,123	4,782,395	3,368,486

3) Assets

	2011	2012
	(in millions of Won)	
Total assets for reportable segments (*1)	95,509,938	99,324,277
Equity-accounted investees	(13,393,184)	(15,365,984)
Goodwill and PP&E FV adjustments	4,357,046	3,657,016
Elimination of inter-segment assets	(8,064,962)	(8,349,458)
	78,408,838	79,265,851

(*1) As segment assets and liabilities are determined based on separate financial statements, for subsidiaries which are in a different segment from that of its immediate parent company, their carrying amount in separate financial statements is eliminated upon consolidation. In addition, adjustments are made to adjust the amount of investment in associates from the amount reflected in segment assets to that determined using equity method in consolidated financial statements.

4) Liabilities

	2011	2012
	(in millions of Won)	
Total liabilities for reportable segments	42,958,912	42,816,044

Goodwill and PP&E FV adjustments	341,852	330,791
Elimination of inter-segment liabilities	(5,621,847)	(6,310,403)
	37,678,917	36,836,432

5) Other significant items

a) December 31, 2010

	Total Segment	Goodwill and PP&E FV adjustments	Elimination of inter-segment	Consolidated
		(in millions of Won)		
Interest income	298,433		(5,505)	292,928
Interest expenses	604,974	(1,301)	(16,790)	586,883
Depreciation and amortization	3,070,464	13,073	(47,642)	3,035,895
Share of profit or loss of equity-accounted investees	(11,692)		194,348	182,656
Income tax expense	1,052,049		29,423	1,081,472
Impairment loss of property, plant and equipment and others	130,882		(2,799)	128,083
Impairment of available-for-sale financial assets	57,172			57,172
	5,202,282	11,772	151,035	5,365,089

F-113

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

b) December 31, 2011

	Total segment	Goodwill and PP&E FV adjustments	Elimination of inter-segment	Consolidated
		(in millions of Won)		
Interest income	243,282		(27,048)	216,234
Interest expenses	(824,675)	6,312	30,015	(788,348)
Depreciation and amortization	(2,375,169)	(63,690)	172,560	(2,266,299)
Share of profit or loss of investment in associates	(40,249)		90,818	50,569
Income tax expense	(1,186,021)	12,194	105,718	(1,068,109)
Impairment loss of property, plant and equipment and others	(84,113)		(14,958)	(99,071)
Impairment loss of available-for-sale financial assets	(152,804)			(152,804)
	(4,419,749)	(45,184)	357,105	(4,107,828)

c) December 31, 2012

	Total Segment	Goodwill and PP&E FV adjustments	Elimination of inter-segment	Consolidated
		(in millions of Won)		
Interest income	292,762		(13,955)	278,807
Interest expenses	(893,589)	1,372	20,760	(871,457)
Depreciation and amortization	(2,623,983)	(77,496)	137,719	(2,563,760)
Share of profit or loss of investment in associates	(48,176)		25,474	(22,702)
Income tax expense	(1,055,233)	15,150	57,203	(982,880)
Impairment loss of property, plant and equipment and others	(101,015)	(258,451)	24,070	(335,396)
Impairment loss of available-for-sale financial assets	(224,171)			(224,171)
	(4,653,405)	(319,425)	251,271	(4,721,559)

(e) Revenue by geographic area for years ended December 31, 2010, 2011 and 2012 are as follows:

	2010	2011	2012
		(in millions of Won)	

Domestic	37,759,641	53,986,926	47,692,025
Japan	1,503,703	2,386,578	2,380,651
China	5,133,279	6,070,588	6,022,875
Asia excluding Japan and China	1,763,108	2,645,428	3,157,469
North America	426,138	1,281,906	1,792,706
Others	1,301,386	2,567,299	2,558,425
Total	47,887,255	68,938,725	63,604,151

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

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2012

(f) Non-current assets by geographic area as of December 31, 2011 and 2012 are as follows:

	2011	2012
	(in millions of Won)	
Domestic	29,386,052	31,213,290
Japan	320,009	256,532
China	1,474,983	1,745,076
Asia excluding Japan and China	1,752,302	3,162,715
North America	110,702	125,206
Others	1,181,597	1,957,112
Total	34,225,645	38,459,931

Non-current assets by geographic area include investment property, property, plant and equipment, goodwill and other intangible assets.

(g) There are no customers whose revenue is 10% or more of total consolidated revenues.

Table of Contents

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:	April 29, 2013

Table of Contents

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