POSCO
Form 20-F
April 29, 2013
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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.

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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.

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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.

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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

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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

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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

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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;

- 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;

- 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 (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

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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

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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

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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;

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- 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

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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.

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.

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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.

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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

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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.

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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.

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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 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.

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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.

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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.

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.

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

Source	For the Year Ended December 31, 2010 Thousands of Tons	%	2011 Thousands of Tons	%	2012 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.

Region	For the Year Ended December 31, 2010 Billions of Won	%	2011 Billions of Won	%	2012 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%

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	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 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.

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.

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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.

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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.

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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.

Region	For the Year Ended December 31, 2011 Billions of Won	%	2012 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,

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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 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.

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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	2010		2011		2012	
	For the Year Ended December 31, (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	2010		2011		2012	
	For the Year Ended December 31, (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

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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 &

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.

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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.

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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.

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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.

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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 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.

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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.

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, 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

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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, 2011	For the Year Ended December 31, 2012	Changes 2011 versus 2012 Amount	Changes 2011 versus 2012 %
	(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, 2011	For the Year Ended December 31, 2012	Changes 2011 versus 2012 Amount	Changes 2011 versus 2012 %
	(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)

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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

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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.

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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.

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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.

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.

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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.

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)

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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

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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.

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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.

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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.

Changes