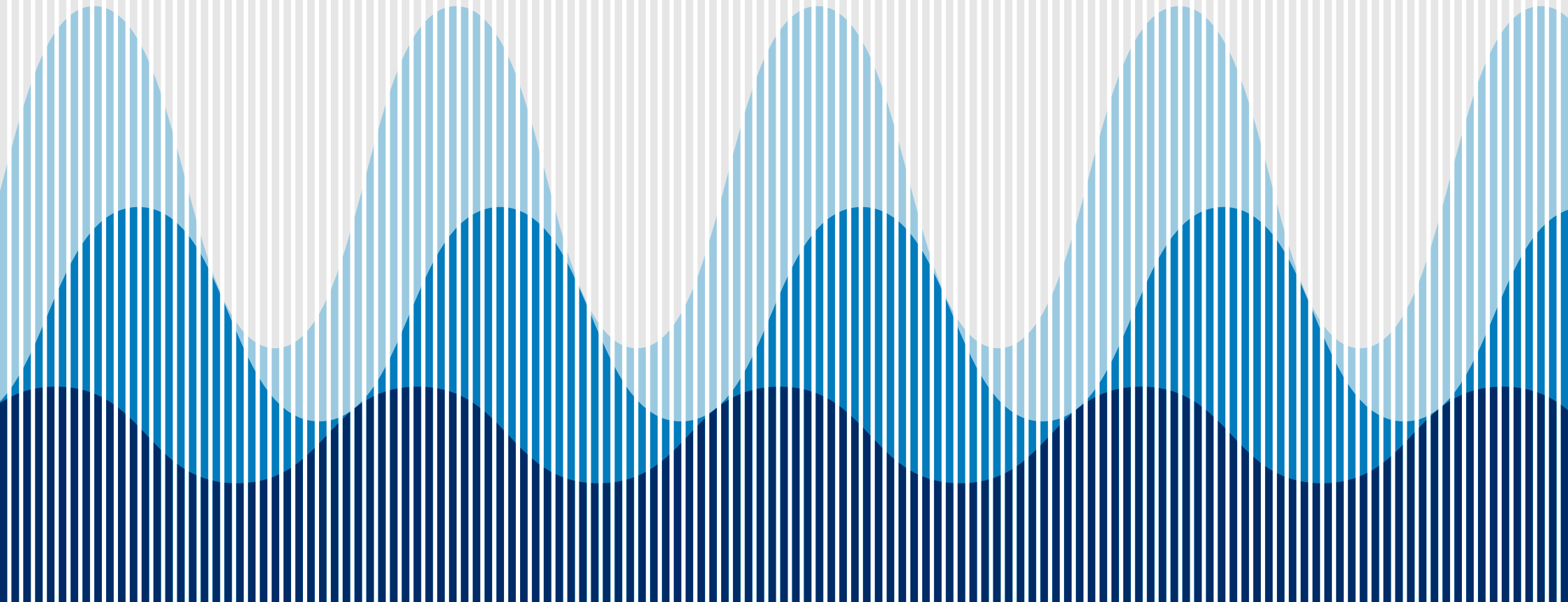


VALUABLE MOVEMENT

10th POSCO REPORT

posco





MESSAGE FROM THE CEO

It has been 10 years since POSCO first started its sustainable management. During that time, POSCO has continuously exerted efforts to fulfill its responsibility as a corporate citizen, taking the initiative to create a happy society. This Sustainability Report contains the efforts and the achievements of POSCO in creating stakeholders' values and making a better world in 2012.

POSCO renewed its "Vision 2020" and aims to become the global top 100 in terms of corporate size, and to be a beloved company by the stakeholders. Based on better products and services, corporate citizenship and communication between stakeholders, we will strive to contribute to the coexistence and prosperity of the mankind.

In 2012, POSCO carried out activities across all sectors to step closer to achieving the "Vision 2020".

First, POSCO endeavored to raise shareholders and investors' values. In order to respond to the uncertain conditions, we tightened crisis management system, developed high value-added products, expanded the global steel business. As a result, in 2012, our business performance recorded 35.7 trillion KRW in sales, 2.8 trillion KRW in operating profit. In spite of the difficulties, we achieved the highest business profit rate among other global steel makers.

Second, under the marketing vision of "Your Trust and Success, Our Tomorrow" POSCO expanded its EVI (Expanded Value Initiative for Customers) and the customer-oriented KAM (Key Account Management). As such, we have been promoting marketing activities for the success of our customers by providing answers to the customers' problems. Thanks to these efforts, we achieved a record sales volume of 35 million tons in 2012.

Third, POSCO has set environmental management as its 3 major business philosophy, and thus in 2012, it founded the basis to expand environmental management abroad. POSCO standardized its environmental impact assessment(EIA) process and established EIA response procedure for new businesses. In addition, to become a Green Growth Leader, we have put new green businesses in our future business portfolio.

Fourth, POSCO seeks to take part as a member of the local community. We have put forward activities that contribute to solving social issues, for example creating jobs for minor group, overseas CSR activities. In particular, by initiating CSR activities in Africa, we have created an environment for the local community to stand on their own and have been supporting them to make a sustainable community with their own efforts.

Fifth, POSCO has been building a future-oriented relationship with partners for win-win growth. In 2012, as one of its shared programs, POSCO put its unique FOCUS(Fostering, Open innovation, Collaboration, Upgrade, Sharing) system in place to share performance. Moreover, we have been nurturing venture companies through the Idea Marketplace.

Lastly, POSCO has actively communicated with and employees based on trust. We opened the intra-blog called "POSCO&" so that employees can share their opinions about the company's policies. In addition, we have been continuing our no-smoking, less-drinking, no-obesity and low-salt diet campaign with our belief that the health of the employees is the basis of a Happy Workplace.

POSCO will be celebrating its 45th anniversary this year, and as a middle-aged company, we face a turning point in becoming a global company beyond Korea. POSCO pledges to do its best to become a global leader with value-based competitiveness beyond price competitiveness, with higher level of innovation, and a mature citizenship. We deeply appreciate all the support from the stakeholders, and ask for continued attention.

Thank you.

May 2013, CEO
Chung, Joon-yang

ABOUT POSCO



We have passion for steel to step closer to the world.

Steel is there with us in our everyday lives. From ships, automobiles, bridges to home appliances, food containers, medical instruments, and even instruments, steel has a big influence in our lives. POSCO has realized its dream, contributing greatly to Korea's economic growth, and now become the world's best steel company.

We make greener energy to step closer to natur

By developing eco-friendly energy and renewable energy such as fuel cells, wind power, tidal power, and photovoltaic power, we aim to be a low carbon, green growth company.

We work on new materials to become step closer to the future.




Utilizing the steel-making technology and the network, we develop rare metals as well as study cutting-edge new material. We strive to become a global integrated material company, opening doors to new dreams.

We strive to become a beloved company to step closer to a better world.



POSCO communicates with the 6 stakeholders- society, partners, investors, customers, employees and environment based on trust. POSCO promises to be a responsible member of the society, contributing to CSR, shared growth, and better quality of life for the employees.

ICON GUIDE

Icons on the bottom of the page

-  Share current page or related webpage on Twitter.
-  Share current page or related webpage on Facebook.
-  Click if you are satisfied with the current page. Your opinion will be reflected on next year's POSCO report. You can leave opinions, too.

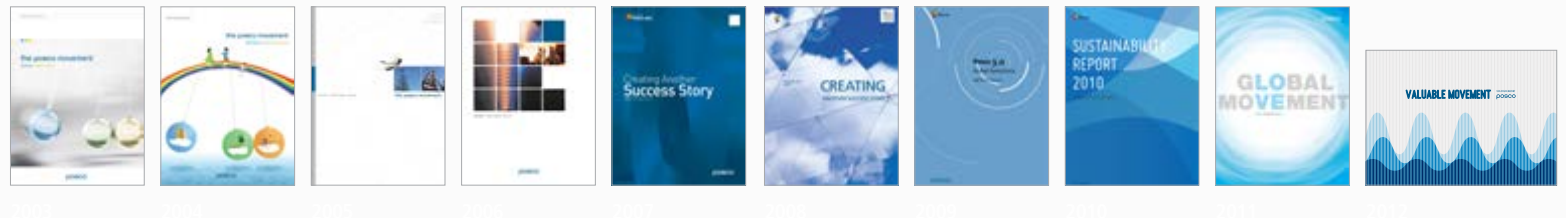
Link icon

-  Jump to a relevant page within the report.
-  Jump to a related webpage.

10TH POSCO REPORT

The POSCO Sustainability Report is now on its 10th year thanks to the affection and attention of the stakeholders. We will not spare our efforts in fulfilling our social responsibilities through carrying out unwavering activities for the benefit of our stakeholders and transparent reports. We will strive to make a better world.

2003 First verified sustainability report 2004 Introduced GRI G2 2005 Reporting on subsidiaries 2006 Introduced GRI G3
2007 Introduced the Identifying Material Issues, Operated a review panel 2008 Reporting on major overseas corporations
2009 Established a sustainable business system 2010 Included opinions of CSR experts, Developed a mobile web page 2011 Integrated report, Applied the SPICEE model 2012 Online report



POSCO | FINANCIAL PERFORMANCE (CONSOLIDATED) |

Production ○ Consolidated ● POSCO only

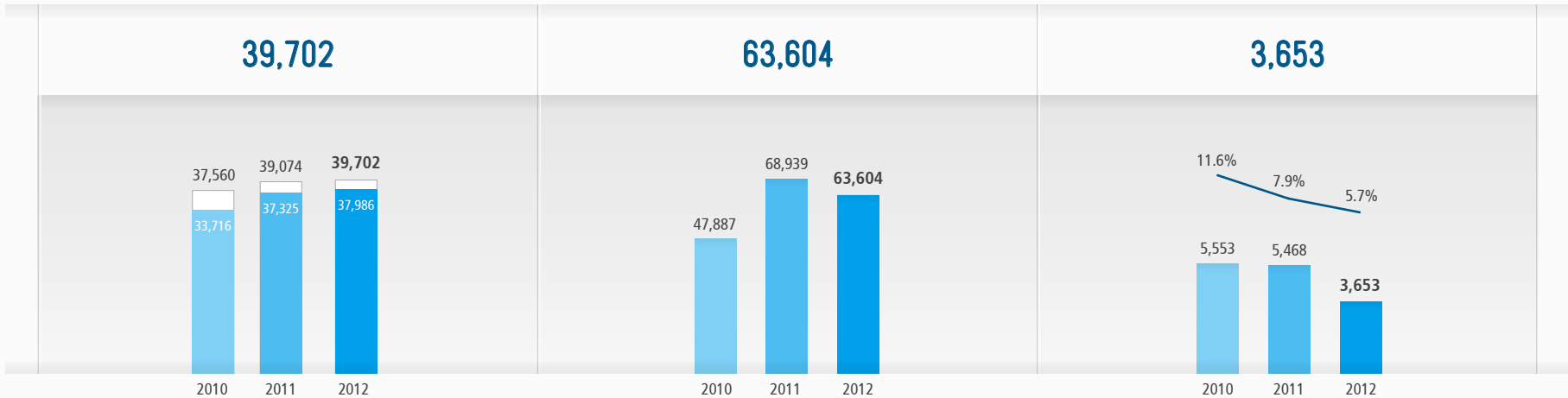
Unit: 1000 tons

Sales

Unit: billion KRW

Operating Profit ● Operating Profit — Ratio

Unit: billion KRW



Assets

Unit: billion KRW

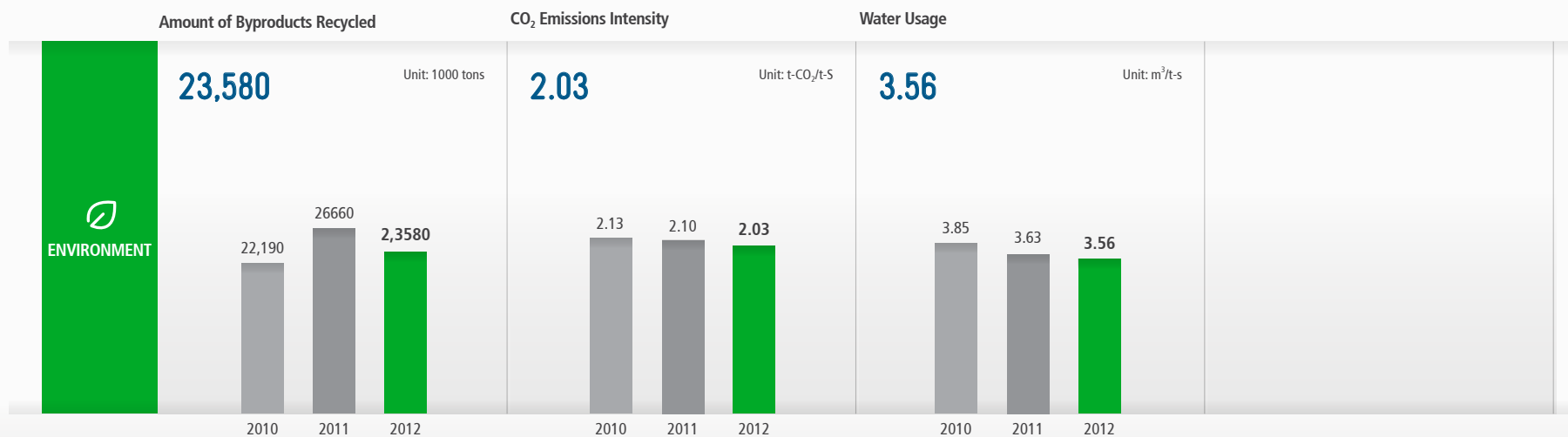
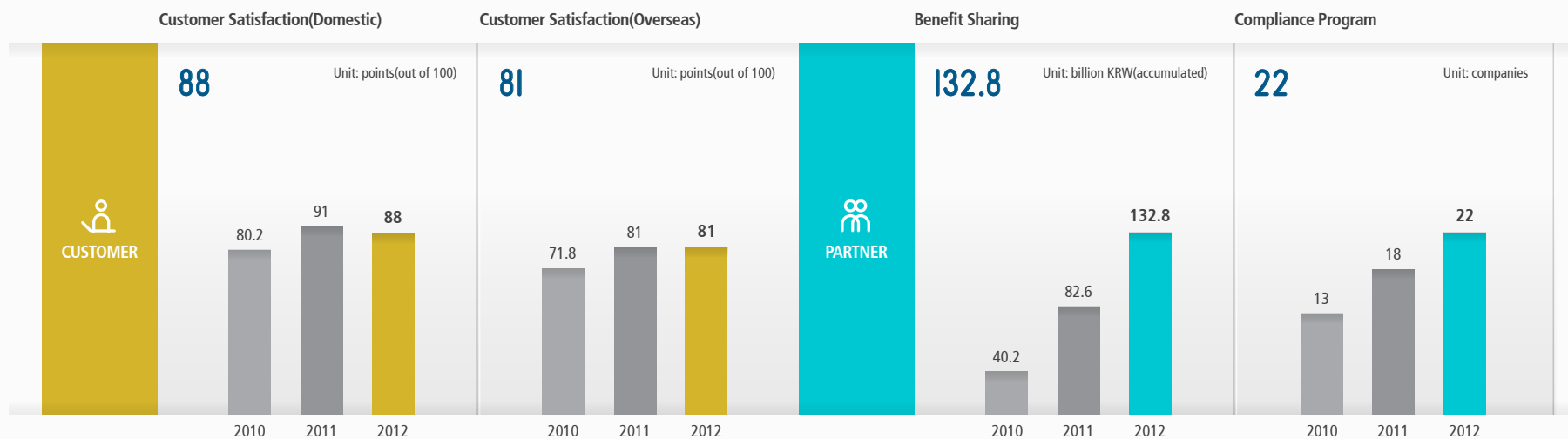
Liabilities ● Liabilities — Debt Ratio

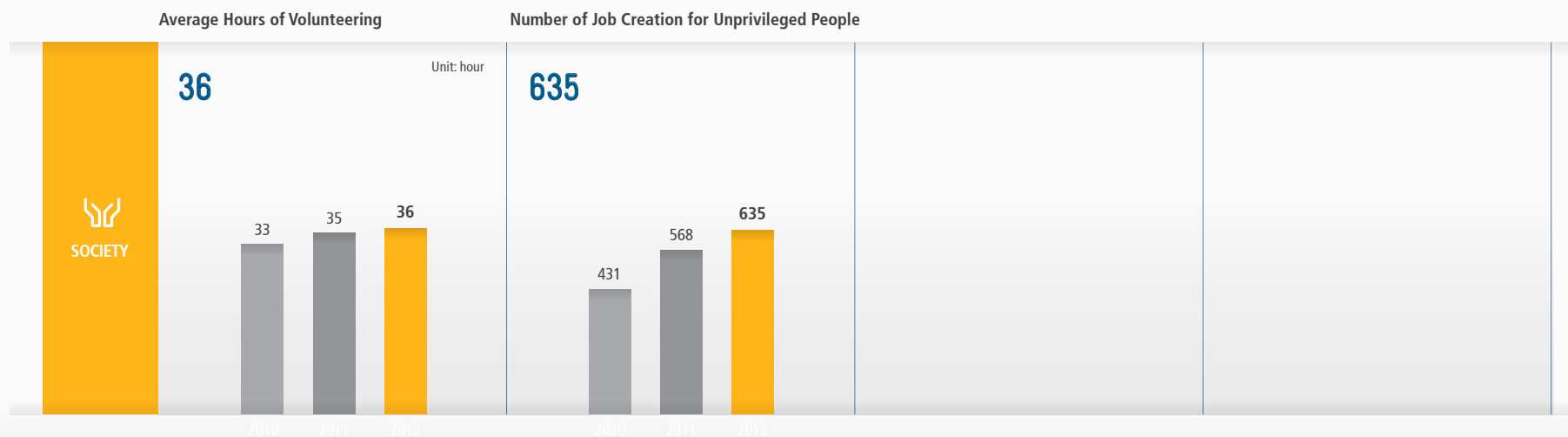
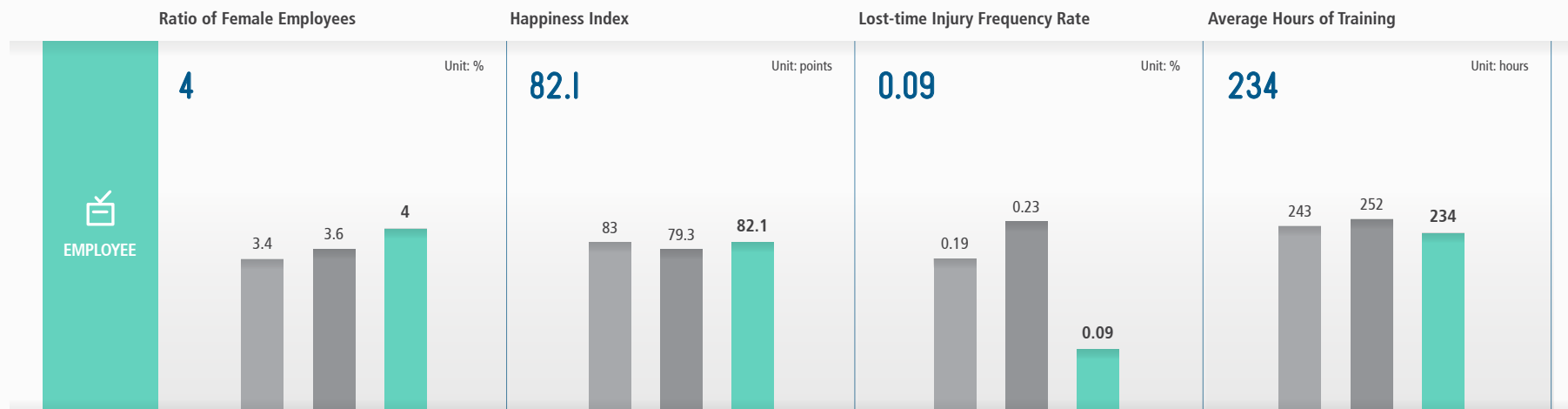
Unit: billion KRW

Equity ● Equity — Equity Ratio

Unit: billion KRW







OVERVIEW	CSR MANAGEMENT SYSTEM	INVESTOR	CUSTOMER	ENVIRONMENT	PARTNER	EMPLOYEE	SOCIETY	APPENDIX
18	20	12	12	15	15	16	11	130

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ABOUT THIS REPORT

In 2012, POSCO doubled its efforts to grow with the stakeholders based on its beloved company model. In this regard, the 2012 POSCO Sustainability Report (the 2012 Report) was produced in a way that the stakeholders can access and understand the information more easily. Based on these principles, the 2012 Report has the following features.

First, the 2012 Report is paperless. With the diversification of media, the Report was also published in various forms, including interactive PDF, on the POSCO website, and the POSCO SNS (blog, Facebook) in order to realize "One Source Multi Use". In addition, this performance report used an eco-friendly publication method, minimizing the use of paper.

Second, the 2012 Report, like the 2011 Report, is an integrated report containing both financial and non-financial performances. By doing so, stakeholders were able to acquire information more conveniently, and we delivered a single value containing financial and non-financial values.

Third, we emphasized on case studies dealing with major issues of the stakeholders. We held additional case studies according to the 6 major stakeholders, so this edition contains a more specific and accurate information on the issues that the stakeholders are interested in.

Fourth, we listened to our stakeholders' opinions and put them in our Report. Previously, the Sustainability Report received advice from experts from each sector. However, in the 2012 Report, we focused on publishing a report based on the stakeholders' opinion.

Framework of the Report

The 2012 POSCO Sustainability Report is based on the GRI(Global Reporting Initiatives) G3.1 guideline, ISO 26000, and POSCO's report publishing process. Currently POSCO is continuously reviewing the guidelines for the integrated report, and will apply this in the 2013 Sustainability Report in earnest. Moreover, the financial information, standards and definitions are based on the K-IFRS(International Financial Reporting Standards).

Period of the Report

POSCO publishes the report annually, and this edition contains information from Jan. 1, 2012 to Dec. 31, 2012, some to Apr., 2013. Corporate governance part is based on the decisions made by the board of directors at the meeting held on Mar., 22, 2013.

Scope of the Report

The Report contains the activities and performance of Pohang Steel Works, Gwangyang Steel Works, Pohang headquarter and the Seoul office. Some information such as investors and the new green growth business contain information on the POSCO family.

Feedback on the Report

This Report is published both in Korean and English. We receive feedback from the stakeholders through various channels including the internet and by phone. Contact us by phone) +82 2 3457 0198 / 3737 or email sustainability@posco.com. To participate in our survey, visit <http://goo.gl/vRg9Y>

Verification of the 2012 POSCO Sustainability Report

Assurance on this Report was conducted by Ernst & Young Han Young, in accordance with the ISAE3000 and AA1000AS, thereby assuring that inclusivity, materiality, and responsiveness are reflected in the report in addition to the existing principles of consistency, accuracy, and completeness.

GLOBAL POSCO WAY

In April 2007, POSCO established the Global POSCO Way to ensure POSCO's cultural strengths were passed down, and to acquire and expand elements required of leaders in the global era. The Global POSCO Way was revised in December 2010, reflecting Vision 2020 and its management principles. The Global POSCO Way is the spiritual model that all POSCO Family members must follow, and is comprised of visions and core values, and action principles that everyone should practice in everyday life. The Global POSCO Way inspires corporate citizenship and establishes the ways of working and corporate culture befitting a world-class corporation.

Visions and Core Values

POSCO's vision, "making a better world with dreams and hope, materials and energy", represents its future dream, management principles, and the efforts of the POSCO Family. "Dreams and hope" stands for our enthusiasm toward the goal of becoming a "Firm of Endearment", "materials and energy" for the way we contribute to the well-being of mankind in the future, and "a better world" for the results of our efforts.

Core values are the standards of judgment and behavior for every employees to comply with in the process of turning vision into today's reality. POSCO summed up the directions the company and employees should be going as five core values; Customer, Challenge, Execution, People, and Integrity. The core values represent our determination to grow together with our customers by inheriting the values of POSCO passed down for the past 40 years and implementing the principles of human respect and business ethics. Also, we have formulated the spiritual assets so that the global POSCO Family can share them as the company globally expands.

Guiding Principles

POSCO set the Guiding Principles, which is designed to help employees put them into action in their everyday work beyond simply understanding the concept. We picked out keywords related to each core value after listening to employees' opinion, formulated them into 12 principles and announced in December 2009. The principles reflect general ideas of management policy and innovation activities and can serve as the guide for decision making while performing tasks.

Global POSCO Way			
POSCO Family Vision Slogan	Making a Better World with Dreams and Hope, Materials and Energy!		
Management Goal/ Principle	Open Management	Creative Management	Environmental Management
Core Values	Guiding Principles		
CUSTOMER	Principle 01 Listen closely to customers and think from the customer's perspective. Principle 02 Value the customers' trust and promote growth together with the customer.		
CHALLENGE	Principle 03 Do not fear failure and always pursue a challenging goal. Principle 04 Shed away from fixed ideas and find creative solutions.		
EXECUTION	Principle 05 Be open about tasks and eliminate waste through constant management. Principle 06 Continuously improve and standardize processes and comply. Principle 07 Value the field and execution and increase results through mutual cooperation.		
PEOPLE	Principle 08 Respect a person's individuality and diversity with an open mind. Principle 09 Develop oneself through proactive self-improvement and strive for growth together with work. Principle 10 Always think and practice safety first in everyday tasks.		
INTEGRITY	Principle 11 Carry out all tasks transparently and fairly and strive for benefits for all stakeholders. Principle 12 Recognize environmental protection as an ethical responsibility and take the initiative in developing eco-friendly technology and make low-carbon a way of life.		

POSCO FAMILY VISION 2020

World First-World Best

High value-added, strategic products that are designated with an attempt to heighten technology competitiveness by making the best products first in the world.

EPC (Engineering, Procurement & Construction)

IPP (Independent Power Producers)

Equal to 5 (一當五)

An employee equipped with a capability of 5 people. We aim to nurture an employee with various capabilities including duty, performance, talent, language, learning in order to enhance each individual's capacity and corporate competitiveness.

+ Vision Slogan

**Making a Better World with
Dreams and Hope, Materials
and Energy!**

Global top 100, Firm of Endearment

Amidst the economic recession in the advanced countries and the slowdown of growth in the emerging markets, the global economy and the steel industry will face recessions. The global economy will enter into a perfect storm, which will lead to a low economic growth. At the same time, the steel industry will be in the red ocean where low return is prolonged with a higher likelihood of restructuring. This will beget concerns of weaker growth engine within the group. In order to respond to the prolonged low growth paradigm, POSCO has reset goals according to different scenarios, and suggested new strategy directions. We not only aim to create outstanding business performance, but also seek to establish a positive relation with the stakeholders. Therefore, POSCO has set a vision to become one of the world's top 100 corporates, and to become a beloved company in terms of stakeholder relations.

In order to achieve Vision 2020, POSCO aims to become one of the Fortune 100, the top 20 corporates of the World Economic Forum(WEF)'s Global 100, no.1 in Fortune's Most Admired Metals Company. Under the 4 business strategy- optimizing business, differentiating capacity, maximizing values, and minimizing risks- we have set the visions for our core domains- steel, materials and energy. In addition, we wish to realize our goals by setting objectives and establishing business directions and management infrastructure that are aligned with the indicators of WEF Global 100, and Fortune's Most Admired Company. In 2012, the POSCO Family announced Vision 2020, "Making a Better World with Dreams and Hope, Materials and Energy!". Based on good products and service, corporate citizenship and communication with the stakeholders, we aspire to create shared value for the prosperity of the mankind.

The steel business adjusted the scale of investment and time of business for upstream. For downstream, we switched our direction from expanding markets to stabilizing business. We will maintain a difference of more than 5%p in production cost competitiveness, and also raise new sales of World First-World Best* products to ensure profitability. Moreover we will strengthen R&BDE and lead the market with POSCO's future innovative technology to become the "Global Top Integrated Player" in the steel industry by 2020.

For the material business some 30 core businesses were selected and the scope of business was adjusted. We will develop new business models by utilizing our technology, the POSCO brand, and network. At the same time, with strategic partnerships, we will obtain technology as well as opportunities to enter new markets. By doing so, we hope to create more than 10 global top 5 high-end products and achieve a high ROI as a "Comprehensive Material Global Leader" in the medium to long term.

The goal of the energy business is to enhance business structure and obtain business capacity taking both safety and profitability into consideration. We will ensure the capability of energy plant EPC* and also continuously identify businesses that link our capacity within the group, for example, going into the IPP* business and steel mill operation together. Furthermore, we will strive to become a "Global Energy Solution Provider" by establishing a business model that integrates resource development and power generation to heighten fuel/raw material self-sufficiency.

By enhancing human resources as well as tangible/intangible assets, POSCO will realize its own unique management infrastructure. The management will cultivate individual capacity with flexible human resources management and nurturing Equal to 5* employees. In addition we will establish the global standard POSPIA 3.0 to maximize POSCO Family's synergy and build the POSCO Family brand.





CORPORATE GOVERNANCE

Board of Directors

- Currently CEO of Samchully Co., Ltd.
- Previously President and Chief Executive Officer of Korea Electric Power Corporation

- Currently Professor of Law at the Seoul National University
- Currently International Director at the Tax Law Association

- Currently Vice Chairman of Doosan
- Previously Deputy Manager of Malaysia-based Bank of Southern Bank
- Previously President of McKinsey & Company branch in Korea

- Previously CEO and President of LG CNS
- Previously Chairman of Logos Systems
- Previously CEO of IGM Korea

- Currently Distinguished Professor of Business Administration at Hanyang University
- Previously Vice Chairman of Iriver
- Previously CEO of SONY Korea (B.A. in Philosophy at Seoul National University, M.B.A at University of Pennsylvania)

Lee, Young-sun



Han, Joon-ho



Lee, Chang-hee



James B.Bemowski



Shin, Chae-chol



Lee, Myung-woo



Chung, Joon-yang



Park, Ki-hong



Kim, Joon-sik



Chang, In-hwan



Kim, Yeung-gyu



- Currently Chairman of the Board of POSCO
- Previously President of Hallym University
- Previously Professor of Economics at Yonsei University

- Currently CEO of POSCO
- Previously President of POSCO

- Currently President of POSCO (Chief Financial & Planning Officer)
- Previously Senior Executive Vice President of POSCO

- Currently President of POSCO (Head of Growth & Investment Division)
- Previously Senior Executive Vice President of POSCO

- Currently Vice President of POSCO (Head of Carbon Steel Business Division)
- Previously Senior Executive Vice President of POSCO

- Currently Vice President POSCO (Head of Corporate Staff Division)
- Previously Managing Director of POSCO



CORPORATE GOVERNANCE

POSCO continues to refine its corporate governance to protect the independence of its board of directors (BOD) and the rights of its shareholders under the "Corporate Governance Charter".

The BOD consists of 5 independent executive directors and 6 outside directors. To enhance its transparency, POSCO has established a BOD operational structure that centers on outside directors who act as the chair of the BOD or BOD's expert committees. In addition, outside directors convene exclusive meetings on a regular basis to make independent decisions of outside directors on important issues. Also, POSCO has adopted cumulative and absentee voting system to significantly enhance the rights of shareholders, and operates the Internal Transactions Committee to ensure transparent transactions with those parties who hold a special relationship with POSCO, such as its affiliates.

In 2006 the CEO position was separated from the Board's chairmanship in order to secure the independence of the BOD and its audit function. The CEO Candidate Recommendation Committee was organized in 2007 and its operating principles were designed to ensure a transparent procedure for electing the CEO. In 2010, the BOD and Expert Committee Activity Evaluation System (BOD Self-Evaluation System) was introduced to enhance external credibility, and announced the Outside Director Code of Ethics to ensure responsible and transparent activities of outside directors.

In 2011, the operating rules of the Director Candidate Recommendation Committee were established for transparent operation, and the BOD operating rules were revised for more than one expert committee to review matters related to inside transaction, ultimately to strengthen the roles and rights of outside directors as well as expert committees. In 2012, the function and role of the expert committees were heightened by holding separate meetings according by different committees such as the Finance and Operation Committee.

Read more about Corporate Governance

Setting the Operation Manual of the Board of Directors and the Expert Committees



Board Composition

Executive director candidates recommended by the company are screened by the Director Candidate Recommendation Committee, which recommends the final candidates to the General Shareholders' Meeting for appointment decision. As for outside directors, the Director Candidate Recommendation Advisory Group comprised of 5 reputable experts from various fields select a threefold of candidates, the Director Candidate Recommendation Committee evaluates them, and the final decision is made at the General Shareholders' Meeting.

Outside Director Appointment Procedure



At the 45th general shareholders' meeting on Mar. 22, 2012, Young-sun Lee was appointed as the chairman of the board. Previous CEO of LG CNS, Shin Chae-chol and current professor at Hanyang Univ., Lee Myoung-woo were elected as new outside directors. Vice president Chang In-hwan and Kim Yeung-gyu were newly appointed as executive directors.

In 2012, the POSCO BOD meeting was held 7 times, and the attendance was 100% for executive directors and 96% for outside directors. The major agendas dealt in 2012 were 2013 management plans, 2015 medium term management strategy, investment on establishing POSCO-Africa, and donation to help the needy at the end of the year.

Directors Attendance

Unit: %

Executive Directors	Outside Directors
100	96

Total Amount Paid

Unit: billion

Total remuneration limit	Total amount paid
70	67

CORPORATE GOVERNANCE

Expert Committee

There are 6 expert committees, of which the Management Committee is chaired by an executive director and the other 5 expert committees are chaired by outside directors. The Audit Committee, Evaluation & Compensation Committee and Related Party Transactions Committee are comprised solely of outside directors to ensure independent decision-making.

Number of meetings held

Director Candidate Recommendation Committee	Executive Management Committee	Evaluation and Compensation Committee	Finance and Operation Committee	Audit Committee	Related Party Transactions Committee
3	3	5	9	5	10

Major roles and composition of the expert committees

Committee name	Committee organization	Major reviews and decisions
Director Candidate Recommendation Committee	3 outside directors, 1 executive director, chairman Chang-hee Lee	Screen executive director candidates, appoint members of the expert committee...
Evaluation and Compensation Committee	4 outside directors, chairman Joon-ho Han	Assessment of 2011 business performance, improving long-term incentive system...
Finance and Management Committee	3 executive directors, 1 outside director, chairman Joon-ho Han	stock investment sale, and donating compensation to Benefit Sharing Partaking in acquiring shares in AMMC iron ore assets
Audit Committee	2 outside directors, chairman Chang-hee Lee	Review of 44th account audit, prior approval to audit and non-audit services
Internal transactions Committee	3 outside directors, chairman Chang-hee Lee	Special donation to develop Pohang Jecheol High School Planning investment in kind for Pohang District Heating project...
Management Committee	5 executive directors, Chairman Joon-yang Chung	planning to establish new overseas processing centers in 2012 planning to sell technology to 5 overseas branches...

2012 BOD Key Agendas

2012			
JAN. 17	FEB. 23	MAR. 16	MAY. 11
<ul style="list-style-type: none"> Special donation to develop Pohang Jecheol High School Established Intra-Company Labor Welfare Fund Plan to invest on the 2nd stage of Australia Roy Hill's iron ore project Donated a thermal imaging device to observe Yeong-il Bay Recommended executive director candidates (for CEO)... 	<ul style="list-style-type: none"> Recommended executive director candidates (other than CEO) Giving a special reward to the founder Tae-Jun Park bereaved family for his meritorious services 	<ul style="list-style-type: none"> Appointment of the Chairman of the Board Appointment of the expert committee members Appointment of the CEO Appointment of the executive directors Donation to foundations that support victims under the Japanese imperialism 	<ul style="list-style-type: none"> Amended the BOD operating manual Appointed compliance officer and established a compliance system Established the POSCO Education Foundation Donated compensation to Benefit Sharing
AUG. 10	NOV. 9	DEC. 14	
<ul style="list-style-type: none"> Plans to invest in kind for Pohang District Heating project Interim dividend plans for the 2012 fiscal year 	<ul style="list-style-type: none"> Restructuring of subsidiaries Partaking in acquiring shares in AMMC iron ore assets 	<ul style="list-style-type: none"> Medium term management strategies for 2015 Management plans for 2013 Establishing Intra-Company Labor Welfare Fund Donation to help the needy at the end of the year 	

PERFORMANCES OF 2012

The global economic recession is prolonged due to deteriorating sovereign debt problems in advanced countries and slower growth in emerging markets. Domestic economy also faces low growth with falling exports, depressed housing market, rising household debt and prolonged under consumption. The steel industry is confronted with falling prices with slow recovery of steel demand due to sluggish global economy along with the rising pressure of structural oversupply.

Despite these difficult conditions, POSCO devised contingency plans to strengthen the constant crises management system, developed high value-added products for sustainable growth and also expanded global steel businesses.

POSCO recorded 63.6 trillion KRW in sales, 3.65 trillion KRW in operating profit with business profit rate of 5.7% in consolidated basis in 2012. In non-consolidated basis, sales recorded 35.7 trillion KRW, operating profit 2.8 trillion KRW, with profit rate of 7.8%. Consolidated assets stand at 79.27 trillion KRW. In addition, with the efforts to enhance the financial structure, the amount of debt decreased to 36.84 trillion KRW, debt ration standing at 86.8%.

In 2012, the consolidated crude steel production recorded 39.7 million tons. Despite the difficulties in the market, product sales rose by 560,000 tons to 35.05 million tons with export share of 41.7%.

Long Product

Rods, wires, bars, and other special steel products sold usually by length.

Consolidated crude steel production

	2011	2012
POSCO	37,325	37,986
POSCO Special Steel	829	684
Zhangjiagang STS	920	1,032
Total	39,074	39,702

Unit: 1,000 tons

Crude steel production by product

	2011	2012
Hot Rolled Steel	8,036	8,136
Cold Rolled Steel	13,084	13,544
Steel plate	6,350	6,088

Unit: 1,000 tons

Steel Sector

POSCO produces hot rolled steel, cold rolled steel, stainless steel(STS) and other types of steel at the Pohang Steel Works which is the world's largest single establishment, and at Gwangyang Steel Works. POSCO Specialty Steel has market dominance in stainless steel, rods and bars. It ranks 13th in the world specialty steel long product* production capacity, and 2nd in STS rods. POSCO C&C is a coated steel manufacturer and seller. We also own the Zhangjiagang STS, a STS plate producer/seller and overseas processing center as affiliates.

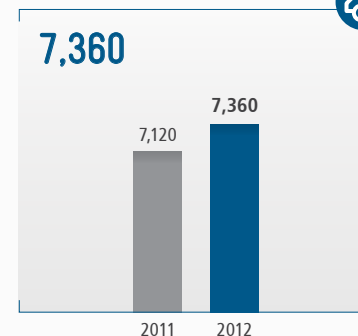
The major performances of POSCO in 2012 are as follows.

First, despite the difficult economic conditions, we strengthened customer-oriented marketing, expanding demand. Moreover, we proactively responded to low-priced imports and expanded domestic market share. By differentiating products, POSCO exerted its utmost efforts on ensuring profitability during the recession. We raised the shares of World Best-World First products by focusing our capacity on high value-added products. In 2012, automotive steel sales volume recorded 7.36 million tons, energy steel sales volume stood at 2.7 million tons while shares of steel rods and electrical steel material and such profitable products have been gradually raised. Furthermore, we have established a foundation to enhance customer value by strengthening EVI, and providing total solutions through customer-oriented KAM(Key Account Management).

Sales of high value-added products

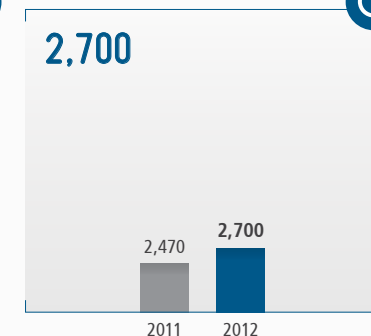
Automotive material

Unit: 1,000 tons



Energy steel

Unit: 1,000 tons



POSCO Family

The POSCO Family is comprised of POSCO and its domestic and overseas affiliates. The Family represents POSCO's unique group management framework within which corporate visions, brand, and culture are shared among members.

PERFORMANCES OF 2012



Steel Sector

Upstream/downstream

The steelmaking process consists of melting the iron in the blast surface and making the molten iron mass into an interim material, and then to a finished product. The upstream is the process of making liquid iron ore, and the downstream is the process of turning the interim material into the final product.

AMMC (ArcelorMittal Mines Canada)
IMFA (Indian Metals & Ferro Alloys Ltd)
PGL (Pickling & Galvanizing Line)
CGL (Continuous Galvanizing Line)

Unit: Won

+ Cost Reduction

1.2661
trillion

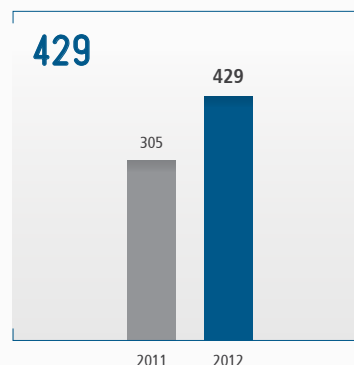
Second, we continued to develop new products and process technology as well as pioneer new demand. 128 new products were developed and we created new market demand with these products. Also, we aimed to enhance productivity and reduce costs with the new steel making technology. In addition, we have started the pre-marketing for overseas upstream/downstream* facilities, thereby ensuring local steel demand in advance.

Third, in order to flexibly respond to the changes in the business environment due to economic downturn, we have invested in a flexible manner. However, we are pushing forward investment that is vital to the future driving force as planned. Meanwhile, in order to ensure raw material in the long term, we acquired shares of Australia's Roy Hill project, an iron ore development project. In addition, we are planning to acquire shares of Canada's AMMC*. We also improved self-sufficiency of raw material by participating in India's IMFA* ferrochrome electric furnace.

Fourth, we are expanding production facilities in emerging markets where steel consumption is expected to rise. We are building upstream facilities in Indonesia and Brazil, as well as downstream facilities that are tailored to the local demands. By pushing these overseas projects, we are dominating foreign markets in advance, securing future demands.

Newly developed demands

Unit: 1000 tons



Major Investments Completed in 2012

Project				Completion Date
Carbon steel	Pohang	PGL*	750 thousand/yr	2012. 04
	India	CGL*	450 thousand/yr	2012. 05
	China	CGL	450 thousand/yr	2012. 12
STS	Vietnam	Expanded Cold Rolled steel mill	150 thousand/yr	2012. 02

Lastly, we have been constantly pursuing production cost reduction to raise profitability. From 2006 to 2011, we were able to reduce 1 trillion KRW in production cost annually. In 2012, we transformed the paradigm on cost reduction, carried out creative and innovative activities to raise profitability such as improving productability, and developing technology. As a result, on a cash cost basis, we exceeded our initial objective of 993 billion KRW, reaching 1.27 trillion KRW.

Ongoing Projects in and out of Korea

Project				Completion Date
South Korea	Pohang 3rd Finex		2 million tons/yr	2013. 12
	Pohang 4th rod		700 thousand tons/yr	2013. 05
	Gwangyang Hot-rolled		3.35 million tons/yr	2014. 10
Carbon steel	Indonesia	1st phase of upstream	3 million tons/yr	2013. 12
	Mexico	Expansion of CGL	500 thousand tons/yr	2013. 06
	India	Cold-rolled	1.8 million tons/yr	2014. 06
		Electric steel	300 thousand tons/yr	2013. 10
	Vietnam(POSCO Specialty Steel)	Electric furnace	1million tons/yr	2014. 07
STS	Turkey	Cold-rolled	200 thousand tons/yr	2013. 04

PERFORMANCES OF 2012



Steel Sector

As one of the major affiliate businesses in the steel sector, POSCO Specialty Steel completed the 2nd rationalization project in May 2012, and is now preparing for a second takeoff by operating its new facilities in earnest. It overcame the difficulties in its early operating stage and reached its normal capacity earlier than expected. We are expecting an increased crude steel production of 240,000 tons and 420 billion KRW of increased sales. Moreover, in June, the Vietnam affiliated company POSCO SS-VINA started constructing an electric furnace with an annual capacity of 1 million tons to be completed by 2H 2014. It seeks to dominate the demand in Vietnam by producing steel bars and shape steels.

POSCO SS enjoys a firm position in the stainless rods, stainless bars and stainless steel pipes market. Stainless products are high value-added products, which are sold at a higher price compared to other specialty steel products. Currently there are not many competitors in the Korean market that has the technology and accumulated experience in producing stainless steel products. In addition, since POSCO SS uses an integrated process of producing, rolling, forging for producing rods and bars, it has an advantage in competition and new steelmakers. Meanwhile, the company has continuously improved facilities to strengthen competitiveness in productivity. From 2010, it has carried out the 2nd phase of rationalization project. As a result, it was able to establish a large scale processing facility increase steel production, simplify production process and increase the yield rate* and sales.

POSCO C&C has been exerting efforts to strengthen its major business of making galvanized steel sheet, aluminized steel sheet, and color steel plate which are used in automobiles, home appliances, and construction material. Moreover, it is raising its market share at home and abroad by enhancing the product mix to focus more on high value-added non carbon steel surface treatment business including aluminum, stainless material such as AL-ST5 developed with our original technology and thick aluminum steel plate as well as world's finest aluminized steel sheet.

In the coated steel sheet market where production cost competition is becoming fiercer, the company is actively responding to the customers' needs by strengthening its tailored EVI activities to establish differentiated customer value. Meanwhile, it is also expanding its marketing capacity by implementing the lock-in* policy for loyal clients in the domestic market, establishing overseas branches and signing MOUs with strategic clients for major export markets. Moreover, in order to strengthen the competitiveness of the steel industry itself, POSCO C&C has established a system that focuses on profitability, and home appliance color steel roll processing system with POSCO to provide cold rolled products to home appliance companies. Furthermore, by diversifying material, the company was able to develop low-price material, raising the profitability of color steel plates for construction. Also, it has been exerting efforts to raise competitiveness to prevent Chinese low-priced products from dominating the market. In order to better respond to customers' needs and create new demand, we will continue to develop highly corrosion-resistance aluminized steel sheets and color pattern steel sheets and raise competitiveness.

yield rate

ratio of complete product to input

Lock-in

A type of strategy to lock the customers in by exerting efforts to raise customer satisfaction

PERFORMANCES OF 2012



Trade sector

CNPC (China National Petroleum Corporation)
CNUOC (China National United Oil Company)

Trade sector

Daewoo International Corporation is a trade company that consists of 3 divisions; trade division that deals with import and export transactions of steel/metal, chemical/oil products, machinery/transportation equipment, agricultural/livestock products and also overseas project such as building overseas plant and infrastructure; resource development division that develops food resources; and domestic and international manufacturing and distribution division. Also, it has foreign networks in major cities with 74 trade networks (branches and trade corporates), 15 investment companies and 17 resources developing bases. Among the businesses, trade accounts for a substantial proportion of sales/profit, but the resources development division is showing better performance, increasing its proportion. The company has recorded sales of 17 trillion KRW, operating profit of 141 billion KRW in 2012.

Thanks to the M&A of POSCO, the company has established a sales system of more than 4 million tons annually, reflecting its stable supply line. Also, this will bring about great synergy effect based on cooperation with other affiliates including construction, material, IT, and plants, enabling the company to significantly expand new businesses.

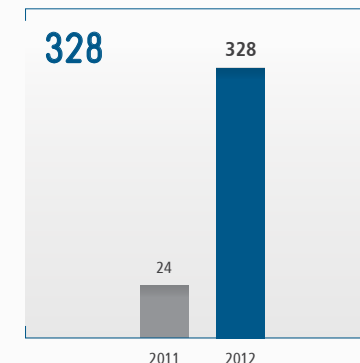
Unit: Won

+ Daewoo International Corporation	
Sales	Operating profit
17 trillion	141 billion

Energy Resources Development

Regarding the ongoing Myanmar gas field project, we signed a sales contract with the CNUOC, which is a subsidiary of the CNPC in Dec., 2008. Currently offshore production facilities and gas pipe/onshore facilities are under construction, according to the initial plans. The facilities will first start operating in Jul., 2013. Considering the currently identified mining reserve, future trend of energy demand increase, from 2014, the new facilities will be a major source of profit that will exceed the current profitability of the company. In addition, regarding the exploration project that took off in Oct., 2011 in the South Sea Block 6-1, precise re-evaluation is taking place on regions where gas was found in the past. Furthermore, 3D seismic profiling and bidding for probe drilling are scheduled for 2H, so we are expecting to start probe drilling by early as 2013. Also, the company carried out equity participation in the Peru oil rig, Oman LNG gas field, and plans to become a global resources development company based on energy resources development projects.

Daewoo International Corporation-POSCO group related business (Unit: billion KRW)



Mineral resources development

The company made equity participation in the Ambatovy nickel mine in Madagascar, Narrabri soft coal mine in Australia and is also participating in Copper and Uranium mine developments. We acquired 4% of shares in the Ambatovy nickel mine, which is located in Africa Madagascar, a world's top 3 laterite nickel mine. For the next 29 years, the Ambatovy mine will start producing 60,000 tons of nickel annually, and 5,600 tons of cobalt from Jul, 2012. Regarding the Narrabri soft coal mine in Australia, the company has 5% of its shares. Since the pilot production in 2010, mass production started in Jun. 2012, and plans to produce 6 million tons of soft coal annually in the future. In addition, we are executing copper and uranium mine explorations in other parts of Africa and South America.

PERFORMANCES OF 2012



Construction sector

CSP (Companhia Siderurgica do Pecem)

Construction sector

The representative construction company POSCO Engineering and Construction Co., Ltd. (POSCO E&C), is expanding its horizons in civil engineering, construction, energy, and urban development based on its prior experience in building POSCO's steel mills. At the same time, POSCO E&C is expanding into low carbon green growth industries through its renewable energy and urban regeneration projects.

In 2012, the total amount of orders received amounted to 6.9 trillion won, a 10% growth from the previous year. In the civil engineering sector, with the company winding down on some large scale national projects that started in 2009, such as the four rivers restoration project and the Honam High-Speed Railroad Construction, it faced difficulties in winning new orders on social overhead capital such as road and bridge construction. But after the second half of 2012, we have managed to decrease the gap. Public construction also had a difficult year, with the Korea Land Housing Corporation re-examining the entire project due to the financial instabilities of public institutions, and as a result, the supply of public housing plummeted to nearly half the number of the previous year. Thus, the amount of orders in the public sector decreased 5.5% year-on-year. Overseas construction orders in 2012 maintained a steady level. Although the figures show a slight decline from the previous year as there were no large scale construction orders such as the Brazil CSP* steel plant, overseas construction orders apart from the Brazil CSP case amounted to 4 trillion won, which was 50% of the previous year performance. Under dire situations, the company managed to win orders amounting to 11 trillion won, sales of 7.4 trillion, and after-tax profit of 346.1 billion won in 2012.

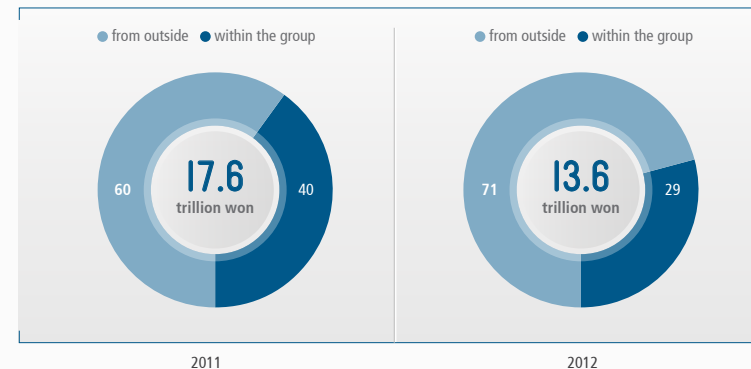
The company has unparalleled position in Korea in the steel making plant business. We are raising brand awareness in the global community by expanding to overseas markets. In addition, we are continuously putting in performance in chemical engineering plants that are related to steel making plants. POSCO E&C has performed well in building skyscrapers and multiplex commercial facilities, improving its capacity in construction and product mix. POSCO E&C is leading the new Songdo city development project, and has accumulated experience in mix-use development projects in new cities and housing sites. We are also gaining know-how overseas, by carrying out development projects in Vietnam.

In the energy business, we have shown various performances in overseas power plant facilities based on steel making plants and relevant power plants. In the renewable energy business, we had carried out fuel cells, wind power, photovoltaic power projects. Furthermore, based on the capacity in the already established markets, we seek to expand to new markets.

In terms of civil engineering project, we are continuously expanding business sectors and markets based on our various performances in roads, railroads and bridges. Moreover, we are strengthening our global business capacity by acquiring financing, planning and element technology.

New Project Contracts

Unit: %



* aggregate amount of orders in 5 companies including POSCO E&C

Unit: Won

+ POSCO Engineering and Construction Co., Ltd.	
Amount of Orders Received	Sales
11 trillion	7.4 trillion

PERFORMANCES OF 2012



Energy Sector



ICT Sector

Unit: KRW

+ POSCO ENERGY	
Sales	Operating Profit
2.86 trillion	273.2 billion
+ POSCO ICT	
Sales	Operating Profit
1.13 trillion	30.5 billion

Energy Sector

POSCO ENERGY started out in 1969 as Kyung-In Energy, the first independent power company in Korea, and provided a stable supply of electricity to the public. In 2005, it became part of the POSCO Family. In 2011, POSCO ENERGY completed the construction of the Incheon LNG Combined Cycle Power Generation Units No. 5 and No. 6 and successfully operated the Gwangyang Off-Gas Power Plant, thereby becoming the largest private power company in Korea. POSCO ENERGY led the production and spread of fuel cells, a source of eco-friendly energy, and actively engaged in renewable energy businesses like off-gas power generation, photovoltaic and wind power generation at home and abroad. In February 2012, the company name was changed to POSCO ENERGY, and the company is preparing to take a leap forward to become a global energy provider. As the No. 1 energy company in the private power industry, POSCO ENERGY is trying to build an energy value chain based on LNG combined cycle power generation for peak load and lead the development and distribution of the future energy technology.

POSCO ENERGY's Incheon power plant boasts installed capacity that accounts for 16.5% of the total generation capacity of the Seoul Metropolitan Area, contributing greatly to a stable supply of electricity to the public. In particular, the power plant is for peak time use (thermo-electric power plant that takes charge of maximum load, when demand is at its peak, and with quick start-up and easy output control) that can react instantaneously to load volatility, which is vital for the safety of electrical power system in the Seoul Metropolitan Area.

The Incheon LNG Combined Cycle Power Plant has a total installed capacity of 3,052MW, including 1,800MW from units 1~4 and 1,252MW from units No. 5 and 6 completed in February and June 2011 respectively. The company is working hard for highly efficient power generation to result in growth and profits in the power market and trying to construct more efficient replacement units No.1 and 2 with a capacity of 1,200MW for stable power supply. Operation in the Incheon LNG Combined Cycle Power Plant abides by the Electricity Market Opening Rules of the Korea Power Exchange, and electricity produced by units No. 1~4 is sold to KEPCO based on the Power Purchase Agreement (PPA). The LNG Combined Cycle Power Plant, being easy to start and stop and supply peak load, plays a pivotal role in securing a supply reserve.

ICT Sector

POSCO ICT has presented "Creating Green ICT Future" as its vision in order to follow the megatrend of convergence and green growth and to generate synergy effect between IT and engineering. POSCO ICT has secured self-engineering capacity in all EIC (Electronic Instrument Compute) sectors by integrating IT and engineering technology and actively supported overseas POSCO steel mill construction projects while expanding synergy business by establishing cooperative ties with subsidiaries. Moreover, POSCO ICT is developing solution business platform in cooperation with global companies and strengthening foothold through various attempts in sectors like nuclear energy, cloud computing, and green and renewable energy. In terms of company, institutions and culture, employees' working style has become innovative thanks to technologically advanced Smart Office, and strengthened trust and communication in order to become a stronger organization with stronger fundamentals. Thanks to such efforts, the J-Curve, in which performance improves only after quite a period since merger, could be overcome early on, enabling the company to achieve over 1 trillion won in sales and providing a basis for sustainable growth.

POSCO ICT is engaged in R&D in order to promote new businesses in the future, an effort to secure basis for growth in areas other than its traditional IT service industry. It is also working to develop core technologies such as serial high-capacity laser welding line for sheets or smart reactor MMIS system, as well as to expand related businesses, while trying to identify new business areas where smart grid core solution can be applied, such as establishing infrastructure for charging electric cars and managing building energy. Moreover, POSCO ICT is actively carrying out energy efficiency projects for overseas electric grid and steel mills. In addition, POSCO ICT is setting the foundation for high value-added businesses such as consulting-based Total Service by establishing and implementing POSPIA 3.0, an advanced, future-oriented management system, within the group, and exploring new businesses such as cloud service and robots.



PERFORMANCES OF 2012



Materials Sector

Unit: KRW

+ POSCO CHEMTECH	
SALES	Operating Profit
1.3 trillion	92.1 billion
+ POSCO M-TECH	
Sales	Operating Profit
958.8 billion	15.7 billion

Materials Sector

POSCO CHEMTECH is a comprehensive materials company with a consistent system from refractory production to construction, growing rapidly to become not only domestic but a global leader. POSCO CHEMTECH is diversifying its business areas by establishing joint ventures Poscalcium (December 2009) and Posgreen (July 2010) and jumping into chemistry industry such as needle coke and isostatic graphite blocks while establishing overseas subsidiary and a POSCO steel mill in Indonesia, which is still under construction.

To elaborate, now that carbon materials, which used to be dependent on import, can be procured domestically, needle coke will replace imported materials as well as contribute greatly to enhancing its global competitiveness in carbon materials industry. Needle coke is used mainly in manufacturing electrode rods, semiconductors, LED, solar cells, secondary batteries, super capacitors, and electrode material.

Isostatic graphite blocks are core materials in advanced industry such as semiconductors and reactors and in green energy industry such as photovoltaic energy. It could be used as parts material for production facilities, whose market has bright prospects (34.8% annual growth from 2010 to 2015). Domestic isostatic graphite processing market is mature, but isostatic graphite is completely dependent on import because there is no foundation for manufacturing isostatic graphite. Once it is produced domestically and allow stable raw material supply, it could contribute greatly to the development of carbon materials industry.

As anode material for secondary battery is now produced domestically, it no longer will depend on imports. POSCO CHEMTECH has developed the product based on independent technology that is differentiated from overseas competitors. It is suitable for high-capacity batteries and boasts long product life and production cost competitiveness. The anode material for secondary battery has been recording sales since the second quarter of 2012. Going forward, POSCO CHEMTECH plans to enter into high-capacity and automobile market by developing differentiated products.

POSCO M-TECH is a company specializing in steel raw material and steel packaging and is engaged in the provision of steel subsidiary materials (aluminum deoxidizers and molybdenum) and steel packaging services. It is creating synergy effect with steel industries by exploiting the field of material business such as refining of nonferrous metal, ferro-alloy, etc, based on accumulated technologies.

POSCO M-TECH has strengthened the basis for growth in materials sector by aggressively investing in sustainable growth and focusing on business diversification with a long term perspective despite difficult business environment. Moreover, through company-wide innovation, it has improved profitability and competitiveness of existing businesses and has actively addressed changes in the business environment. Thanks to such hard effort of all employees, POSCO M-TECH is growing sustainably, recording 958.8 billion won in sales and 15.7 billion won in operating profit (consolidated accounting) in 2012, the highest since it was founded. In order to take a leap forward to become a global materials company, it has proceeded new business plans, and set the foundation for future growth. It created a rare-metal cluster in Yeongwol, which is the only domestic molybdenum hydrometallurgy and production facility, and stabilized facilities and optimized process early on as the first project. By doing so, it was able to strengthen production cost competitiveness and profitability. Moreover, POSCO M-TECH created urban mining business department by merging with 9 Digit and Recometal Co., mutual investment companies in urban mining, and created an organic system that encompasses supply and demand of materials to product development and sales, in partnership with Yeongwol Rare-Metal Cluster, strengthening competitiveness as well as maximizing synergy effect.

POSCO M-TECH is supplementing facilities in POSCO magnesium plant, a commissioned management business, in order to normalize operations as soon as possible, and preparing to manage POSCO ferro-silicon plant, which is currently under construction, through training and technology research. Likewise, POSCO M-TECH has not only focused on external growth through building new plants as had been planned, but also on technological growth in various businesses, and at the same time, has taken a leap forward to become a competitive materials company.

PLANS FOR 2013

Whereas domestic demand for steel is expected to shrink, supply glut from Korea, Japan, and China is expected to increase. Under this circumstance steel industries will likely face fierce competition over market share. Despite such difficult situation, POSCO will continue to react flexibly in order to become one of the “beloved, global top 100 companies”. In order to react to the changing management environment, POSCO will set management plans to secure profitability and improve fiscal soundness. By closely monitoring leading business indicators, POSCO will make swift decisions about scenario shifts and take proactive measures to changing external environment by following through with action plans for each scenario.

POSCO will continue to develop differentiated product technology such as high-manganese steel, and concentrate on POIST (POSCO Innovative Steelmaking Technology) and commercializing processes that reduce CO₂ emissions. Moreover, POSCO will shift its competition paradigm from “price competition” to “value competition” and maintain strong market leadership and profitability.

By improving existing marketing processes such as POSCO EVI, reinforcing field operation, and sensitivity marketing, POSCO will develop Customer Value Management. Prior to operation and sales activities of overseas subsidiaries, POSCO will secure customers by implementing early marketing strategies by area using marketing capacities of the headquarter. Moreover, in order to quickly secure operational stability and production cost competitiveness, POSCO will provide technology training to employees overseas and fully prepare for process control.

By adopting POSPIA 3.0, POSCO’s advanced management system, in Indonesia’s Integrated Steel Plant, POSCO will implement organic strategies between the headquarter and overseas subsidiaries as well as optimizing POSCO Family level support.



Steel Sector

Unit: KRW

2013 Sales

66 trillion

Unit: KRW

POSCO Sales

32 trillion

Unit: 10,000 tons

Crude Steel Production Capacity

Domestic

4,300

Overseas

400

Unit: Number of Cases

Steel Technology Development

New Products

140

Processing Technology

140



Materials Sector

Unit: KRW

Materials Sales

8.2 trillion



Energy Sector

Unit: MW

Installed Capacity Home and Abroad

4,474

Others

Lost-time Injury Frequency Rate

0

Unit: Points

Customer Satisfaction

80

Unit: t-CO₂ / t-s

CO₂ Emissions Intensity 2020

1.98



IDENTIFYING MATERIAL ISSUES

POSCO identifies material concerns of the stakeholders and the business impact, which is reflected in the Sustainability Report. In 2008, POSCO devised its own materiality test process, which is updated every year by reflecting improvements and feedback. POSCO has used the materiality test scheme to identify issues of common interest to its stakeholders and those issues with a high potential impact on its business activities, and has prepared this report based on these findings.

Identifying Material Issues - Improvements Compared to Last Year



Preliminary research has been expanded to identify relevant issues

- In order to promptly respond to the trend of GRI G4.0, we applied the GRI G4.0 draft to the significance evaluation.
- The evaluation index of SAM DJSI, as well as the indexes of Global 100, Fortune's "Most Admired Companies", and EIRIS FTSE4Good has been included.



Efforts to gather opinions of the stakeholder

- Interviews of CSR experts that were focused on academics have been changed to interviews of the representatives of the SPICEE.
- We reviewed the SNS like Twitter and internet blogs to identify the issues involving POSCO

Materiality test process

01

02

03

04

05

Identifying Internal and External Issues

Extract POSCO-related issues from internal/external issues

Social Issues

- Analyze media / SNS
- Interview stakeholders
- Analyze Peer Group KPI
- Sustainability Management Evaluations; DJSI, Global 100 etc.
- Sustainability Management Guidelines; GRI, ISO 26000 etc.
- CSR Trend
- WBCSD vision etc.
- Suggestions from verification agency

Business Issues

- Management items
- Directorate items
- Innovation tasks
- Enterprise KPI
- Company policy / guidelines
- Committee presence
- Employee survey

Creating Materiality Matrix

We have created the matrix according to social concern and business impacts in order to deduct main issues.

Identifying and Reflecting on Main Issues

We have deducted main issues from the matrix and reflected on the opinions of the stakeholders to improve our sustainability management accomplishments reports.

Content Composition

- Create customer value and strengthen human rights
- Establish process for implementing UNGC guidelines
- Report on stakeholder's interest by each field's Case Study

Assurance

The report is prepared after a verification process, which involves an executive interview from an accounting institution. It is then sent to management board to improve on the overall sustainability management.

Readjust the report publishing process

After a year of report publishing process and verification, we prepare for the following year's sustainability report, confirm internal and external issues, as well as listen to the ideas of our stakeholders.

IDENTIFYING MATERIAL ISSUES

Top10 Issues in 2011 and 2012 Identified through the Identifying Material Issues

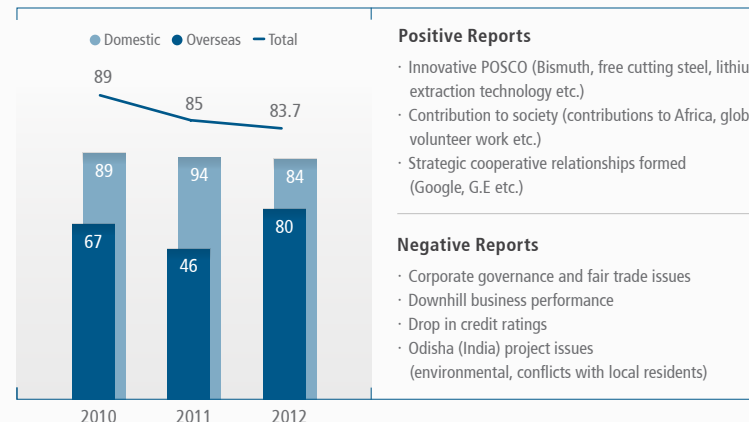
Rank	Revised Issue Pool	Rank Change	Classification	Stakeholder
1	Business Performance	-	Business	Shareholder
2	R&D	▲ 2	Business	Shareholder
3	CRM / Quality Management	▲ 17	Society	Customer
4	Employee Work Environment	▲ 14	Society	Employee
5	Compensation / Welfare	▲ 6	Society	Employee
6	Environmental Management	▲ 9	Environmental	Environment
7	Response to Climate Change	▼ 2	Environmental	Environment
8	Innovation Management / Cost Reduction	-	Business	Shareholder
9	Corporate Governance	▲ 15	Business	Shareholder
10	Overseas Business	▲ 20	Business	Shareholder

Results of Media Analysis: 282 news articles from domestic and international media

Positivity Level Trend

Unit: %

Main Articles



Positive Reports

- Innovative POSCO (Bismuth, free cutting steel, lithium extraction technology etc.)
- Contribution to society (contributions to Africa, global volunteer work etc.)
- Strategic cooperative relationships formed (Google, G.E etc.)

Negative Reports

- Corporate governance and fair trade issues
- Downhill business performance
- Drop in credit ratings
- Odisha (India) project issues (environmental, conflicts with local residents)

* Positivity Level = The number of positive articles/ Total number of articles

Materiality Matrix



IDENTIFYING MATERIAL ISSUES

Stakeholder Survey

Satisfaction

Unit: Points

Usefulness of information		Reliability	
2011	2012	2011	2012
3.80	3.98	3.90	3.99
Understanding		Design	
2011	2012	2011	2012
3.80	3.85	3.90	3.93

Reflected Result

We provided graphics to help readers understand unfamiliar steel-related jargons.

Other opinions

Strengths

- Contents by stakeholders and communication with SNU was excellent.
- Qualitative/quantitative KPI was useful.

Weaknesses

- It would be better to report in a simpler way.
- Needs to be published in a web/mobile-based channels
- POSCO's identity and CSR strategy/system are not sufficient
- Offer a more various data

Opinions on other issues

- Responses to economy democratization
- Appreciation-sharing movement

Reflected Result

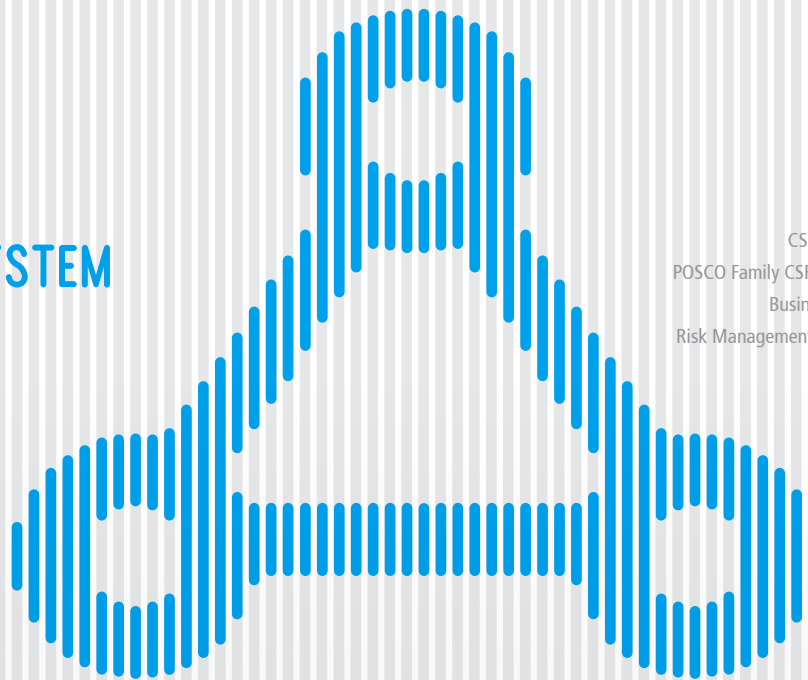
- We will strengthen online communication with interactive PDFs.
- We added a sustainability data chart so that readers can easily see various data.

Changes in perception after reading the Sustainability Report

rank	response	response rate
01	It is an ethical company	56.6%
	It is a company that actively carries out CSR activities	
03	It is a company that exerts efforts for R&D and new projects	33.2%
04	POSCO is a company that tries to create customer value	32.7%
05	POSCO shares growth with SMEs	29.0%

rank	response	response rate
06	POSCO is an eco-friendly company	26.8%
07	POSCO is a good workplace	24.9%
08	POSCO has a sound corporate governance	22.7%
09	POSCO is a company I want to invest in	13.8%
10	No changes	3.9%

01 CSR MANAGEMENT SYSTEM



CONTENTS

CSR Management · Economic Performance
POSCO Family CSR Assessment · Stakeholder Engagement
Business Ethics · Human Rights Management
Risk Management · CASE: The Odisha Project · CASE: SNS
CASE: Thanks Sharing Movement



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PAGES

CSR MANAGEMENT

POSCO has persistently strived to incorporate environmental and human integrity into its management philosophy since its inception. In 2003, we announced our sustainability commitment that integrates economic viability, environmental soundness, and social responsibility into our overall management activities, and set up the CSM (Corporate Sustainability Management) Team for a more systematic and responsible approach to corporate management.

Sustainable Management Governance



CP (Compliance Program)

Sustainable Management Related Committees

Category	Meeting Interval	Chairperson	Participants	Activities
Environmental Management Committee	once/year	CEO	CEOs of subsidiaries	Establish mid-term environment and energy strategy at the POSCO Family level
Win-Win Growth Committee	twice/year	CEO/Presidents of SMEs	POSCO executives, CEOs of subsidiaries, Presidents of SMEs	Establish win-win growth strategies Review and share performances
CSR Committee	once/year	CR Director	POSCO management and outside experts	Discuss ways to improve CSR programs (Strategic CSR, Communication between stakeholders, CSR of the Affiliates)
POSCO Family Safety Committee	twice/year	Head of Carbon Steel Business Division	POSCO executives, CEOs of subsidiaries	Review safety activities and establish future plans to achieve Zero Safety goals
Fair Trade Compliance Committee	twice/year	Head of External Relations Department	Management of relevant division (marketing, purchasing and such)	Report CP* activities and establish plans

CSR MANAGEMENT



Video clip of "Firm of Endearment"

Firms of Endearment

POSCO continuously communicates with our stakeholders the belief that corporate management starts with stakeholders. In June 2011, POSCO expressed its determination to become a "Firm of Endearment". POSCO classifies stakeholders into six categories - society, partner, investor, customer, employee, and environment - based on the "SPICEE" model and looks for ways to be loved from each group.

In 2012, POSCO published, distributed, and uploaded on our website, the Charter of Firm of Endearment containing our stakeholder activities. Furthermore, we created a 'Manual for Managing Strategic Stakeholders' and provided the manual to the relevant divisions.

POSCO Charter of Firm of Endearment

POSCO Charter of Firm of Endearment (proclaimed 2011. 06. 09)

POSCO has grown and developed as a Korean national company with the aim of becoming a great, powerful and solid company with global competitiveness. Now POSCO will become a Firm of Endearment beyond being a great company contributing to the sustainable development of society and human welfare by practicing the principles and values of POSCO. We can be by all stakeholders through pursuing business, human, social, and environmental values harmoniously.

Create harmony between Men and Nature

- 01 Deliver low-carbon green growth for sustainable environment protection
- 02 Raise efficiency of resource and energy and utilize environment-friendly technology to take the initiative in the green industry
- 03 Develop new materials and energy to improve the ecosystem and promote more eco-friendly lifestyle and culture

Share Growth as Family

- 01 Ensure fair trade practice through healthy communication and mutual trust
- 02 Foster competitiveness and growth potential of suppliers via win-win collaboration
- 03 Establish a virtuous circle or sustainable and inclusive growth to enhance the competitiveness of the ecosystem

Practice human Respect and Encourage Self-Realization

- 01 Develop employees' ability and qualities to nurture them into the best talents
- 02 Offer fair compensation to employees and help them strike a good work-and-like balance to improve quality of life
- 03 Practice human respect based on self-determination and trust as well as encourages employees' growth and self-realization

Support Customers' Success

- 01 Satisfy customers with customer-oriented marketing and trust-based relationship.
- 02 Realize customer value by enhancing their competence and competitiveness.
- 03 Advance the ecosystem of the market and accomplish sustainable growth with customers.

Serve as Responsible Corporate Citizen for Social development

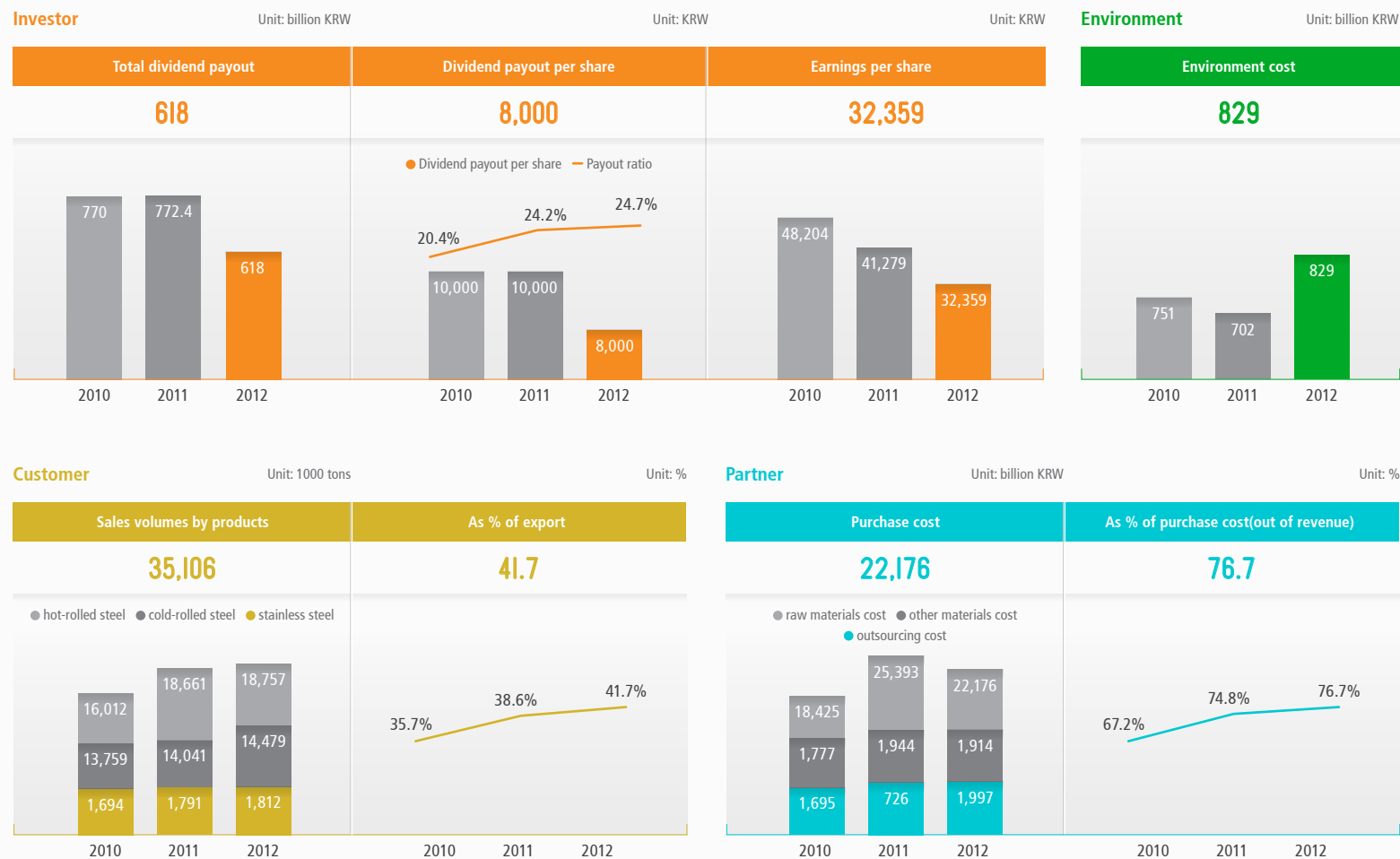
- 01 Develop the local society and fulfill social responsibility to contribute to the society
- 02 Lead a fair society in collaboration with civic groups and the government
- 03 Create social value and culture as a free corporate citizen

Make Shareholders Proud

- 01 Improve management transparency and communication to secure shareholders' trust
- 02 Protect the interest of shareholders by increasing corporate value
- 03 Raise future shareholder value for sustainable growth



ECONOMIC PERFORMANCE



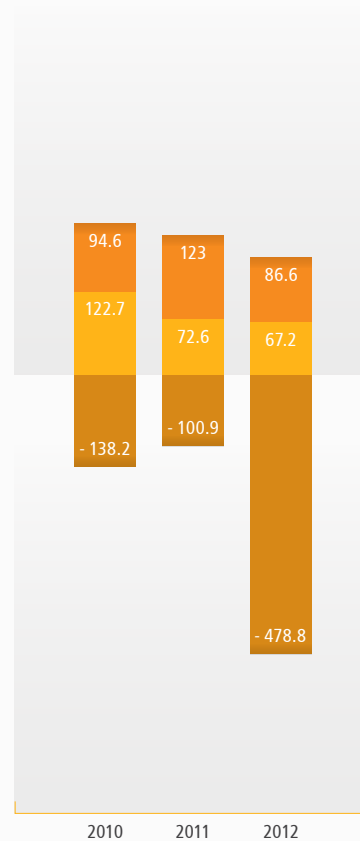
ECONOMIC PERFORMANCE

Society

Unit: billion KRW

Total taxes paid

● National taxes ● Local taxes ● Custom duties



Employee

Unit: billion KRW

Unit: billion KRW

Unit: billion KRW

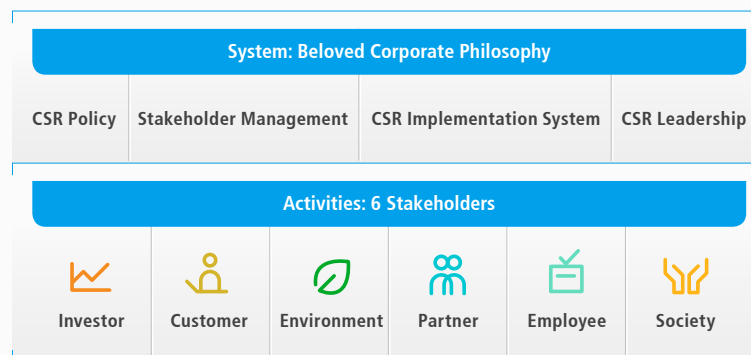


POSCO FAMILY CSR ASSESSMENT

There is growing demand for companies to play a bigger role in solving social issues. However, one company alone is not enough to improve the entire corporate ecosystem. To enable all POSCO Family to become sustainable, POSCO is working to create a corporate environment in which all companies can be healthy by sharing and spreading POSCO's capacity.

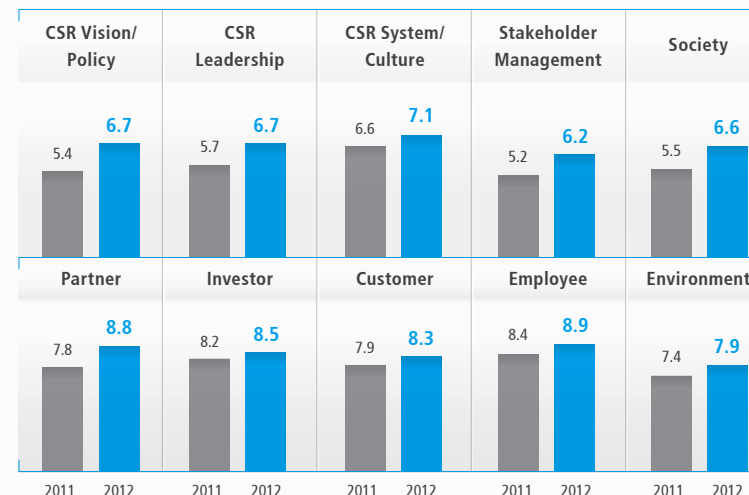
In order to build a sustainable management system and enhance capacity of POSCO Family, POSCO has been conducting Sustainable Management Diagnosis of POSCO Family with the POSCO Research Institute. In 2011, POSCO developed an indicator that adheres to global sustainable management guidelines such as ISO 26000, SAM-DJSI evaluation criteria, and GRI Guideline. And it was upgraded to reflect POSCO's beloved corporate model in order to systemize it into POSCO's unique model in 2012. The evaluation criteria are comprised of 61 items in 10 categories. In 2012, special indicators were added to reflect the unique industrial characters of Subsidiaries.

POSCO Family Sustainable Management Assessment Criteria: 61 items in 10 categories



Sustainable Management Assessment Result

Unit: points, out of 10



* The 2011 results were re-assessed based on 2012 criteria.

The 2012 assessment included 8 companies such as Daewoo International, POSCO E&C, POSCO Specialty Steel, POSCO Energy, POSCO ICT, POSCO C&C, POSCO CHEMTECH, and POSCO M-TECH. Self-inspection, visiting diagnosis, and employee interviews were conducted for each company in order to identify the current status and calculate the score for each of the criteria. As a result, in 2012, the average score was up from those of 2011 in all areas. In particular, the areas of high score were Employee, Customer, Partner, Investor, and Environment, whereas scores were relatively low in CSR Policy, CSR Leadership, and Stakeholder Management.

After evaluating the companies, POSCO provided feedback that is customized to the current status, scale, and industry of each subsidiaries. Key areas that need improvements will be reflected in 2013 Improvement Issues and implemented accordingly. In 2013, POSCO is planning provide advices on implementing the improvement scheme as well as regular training opportunities in order to support sustainable management capacity enhancement of subsidiaries.

STAKEHOLDER ENGAGEMENT

With the introduction of ISO 26000, a global standard for social responsibility, stakeholder engagement is regarded as a vital activity in sustainable management. As part of stakeholder engagement activity, POSCO is identifying stakeholder awareness on POSCO's main issues and seeking solutions through external stakeholder interviews.

In this report, POSCO interviewed with stakeholders instead of focusing on CSR expert's opinion to identify how actual stakeholders feel about POSCO management activities. Also we interviewed with College students –the next generation leaders– to reflect their feedback on the Sustainability Report.

External Stakeholder Engagement

Investor



Hanwha Asset Management
Chung Jiyun
Manager

Since 2002, I have been working at a securities company related to steel and energy businesses and studying POSCO as an investor. In terms of business environment, POSCO has strengthened a monopoly status domestically, and China's shift to a steel exporter is a big change for POSCO. I would like to recommend POSCO to boost current effort in high value-added businesses such as energy and construction.

Regarding Sustainability Report, I do not use it for investment purposes. It tends to be utilized less than operating reports or audit reports because the stock market is sensitive to financial information. However, as the domestic size of SRI* investment is growing, ESG* performance data will be utilized more in investment. Also it would be helpful if a summary of ESG performance data could be included in the report.

SRI (Social Responsible Investing)

Investment that takes into consideration nonfinancial factors such as society and environment

ESG (Environment Society Governance)

3 major criteria for sustainable management

Customer



Hankum
Min, Junghyun
Team Manager

POSCO seems to be changing swiftly toward a customer-oriented company thanks to continued effort in moving toward customer-oriented marketing as part of its marketing 3.0. For example, in the past it was difficult to confront marketing staff and customers had to visit POSCO, but now POSCO staff frequently visit customers. When POSCO and its customer travel for overseas marketing, the POSCO serves as a strong supporter. Since last year, POSCO has been actively pursuing such activities, which is a very good case for customers.

Due to poor steel market situation, customers are dissatisfied with the price of steel materials. And there is the "invisible wall" between POSCO and the customer. If POSCO approaches customers with an open mind, the relationship could become more satisfactory.

Environment



ECO DESIGN Institute
Yang, Inmog
Head

POSCO's environment management has been exemplary in terms of organization and product improvement. It's important to include energy and greenhouse gas in the environment issue and manage them together. So it's very good case that POSCO manage environment and energy in the same division. Moreover, POSCO set a good example by considering the value chain of product environmental regulations early on and aggressively defining and developing eco-friendly materials.

Despite superior business environment, there are a few improvements POSCO can make in its Sustainability Report. It should include the additional explanation about the long-term roadmap and the link between risk/opportunity factor and corporate vision. Also POSCO need more efforts to reduce greenhouse gas emissions to be a leader in eco-friendly management.

STAKEHOLDER ENGAGEMENT

Partner



Daedong
Lee, Yongdong
CEO

The first thing that comes into mind when I think of POSCO is ethical management. We also benchmarked POSCO and decided not to give and receive gifts during national holidays by sending official letters to quaternary partner companies. Moreover, it is very exemplary of POSCO to introduce a policy to pay partner SMEs in cash twice a week within 3 days of operating date after delivery of goods. The most helpful of all of POSCO's activities for co-prosperity is techno-partnership project. Through the project, SMEs are receiving advices from experts in POS-TECH and RIST in dealing with highly difficult issues.

Daedong has surpassed the 30 billion dollars mark in terms of export, and our goal is to exceed the 50 billion dollars mark. The domestic market is not enough and overseas business is necessary to achieve the goal. I would like to ask POSCO to actively pursue overseas business projects and take partner companies with it in order to vitalize the business.

Employee



POSCO Labor-Management
Council
Lee, Joohyoung
President

The role of POSCO Labor-Management Council is to arbitrate between the company and the employees so that both can achieve satisfactory result. The council and the company have been open in dealing with some of the major issues, and as a result, there is strong trust between labor and management compared to the past. This year, other than employee welfare, the council is planning to focus on creating an environment where employees can focus on their job, and by reviewing various activities being conducted by the company, we hope to contribute to creating a solution that can enhance both employee concentration as well as expertise.

As many of the founding members are no longer remaining, new employees should feel confident and proud of the company. In order to make it possible, trust between employees and the company must be strengthened. With trust comes sense of ownership. The labor and the management must gather wisdom and work harder.

Society



Gwangyang City
Lee, Samhee
Manager

Gwangyang citizens often say that "POSCO needs to prosper for the region to prosper." In the same context, there are many Gwangyang citizens who hope to host new POSCO projects. POSCO is not only helpful economically but its local Social contribution programs like sister villages, QSS activities, and other such innovative activities are also welcomed by the local society and companies.

It would be good to carry out activities that could narrow the awareness gap between the local society and POSCO, and continue to recognize each other and prosper together.



Pohang Volunteer Center
Kim, Taeyeon
Social Worker

It wouldn't be an overstatement to say the Pohang economy doesn't function properly without POSCO. As such, POSCO is carrying out various CSR activities like sister village, support for the marginalized, and luminaries festivals just to name a view. In fact, it's important to realize that POSCO is the one to love and that the local society is the one to be loved, but unfortunately, many of the social contribution activities are focused on the marginalized.

With better local social contribution system, POSCO will be able to better care for the local society. I hope POSCO will receive even more love from the local society.

STAKEHOLDER ENGAGEMENT

Communication with University Student Stakeholders

Jinwoo Kim This Report generally has sufficient information on POSCO's outstanding performances. However, it was more like a list than an explanation. For example, social contribution activities will be more effective if the Report explained why POSCO is carrying out such activities in a storytelling manner.

Hoetaek Kim I especially liked the Case Study part on the Odisha project because it clearly explained why POSCO was executing various CSR activities. However, it seemed like the contents on the Odisha project were quite similar to last year's Sustainability Report.

Sam Park Similarly, I hope that the Report can be more dynamic and intimate by publishing employee interviews and CSR beneficiary interviews. This will show the sincerity of POSCO, as well as become a more familiar company rather than a reserved one.

Hyunki Yoon I think the Report needs to contain more on the company's project results. We would be able to see the qualitative results of the projects with the interviews of the employees taking part in the projects.

Hana Kim To making report more accessible, it has to be easy to understand. The POSCO Sustainability report contains a lot of steel and technology related jargons. It would be easier to read the Report if it had explanations of the jargons.

Eunsuk Jung That also applies to the term "Family". Although the term "Family" is widely used within the group, it feels unfamiliar to outsiders. It'd be better to define what "Family" means earlier in the Report.

Myunghun Paik Not only because of the unfamiliar jargons, but the readers feel frustrated with the contents that are repeated every year. Also, since the Report is paper-based, it would be a waste of paper to put the same contents every year. Therefore, I think it would be great to have a separate reference report that contains business-related jargons and redundant information.

Yongbum Cho I think POSCO is doing an excellent job in terms of disclosing data. However, a comparison would be of much help along with the data. The percentile in the industry, a ranking would help the readers better understand.

Kihyang Lee Furthermore, regarding numeric data, explanation on the changes of the figures is necessary. Readers would not have to wonder, for example, whether the situation has gotten worse with falling figures, if the Report provided specific reasons for the changes.

Gayoung Lee It would show more sincerity if the Report dealt with failed projects. The credibility of the Report would be enhanced with success cases and failed cases. The stakeholders will be able to consider it as a report with results rather than as a PR material.

Seonghwi Han The Report needs more additional explanations about new contents... In addition, the vague, flowery phrases don't fit in with the character of the Report.

+ Reflections

Strengthened social contribution Storytelling
Provided as Case Studies

Added cases as the result of activities
Provided More Interviews and Relevant Cases

Insertion of Jargons
Inserted footnotes for jargons and explanations of POSCO-specific terminology



Names of the participants

6th April, 2013. POSCO Center, Seoul, Korea.

Kim, Damin Rutgers Univ. Business Administration **Kim, Sunjin** Seoul National Univ. Education **Kim, Seungku** Balhousie Univ. Sustainable Business Administration **Kim, Okbin** Seoul National Univ. Korean History **Kim, Yubin** Sogang Univ. Economics **Kim, Jinwoo** Seoul National Univ. Open Major **Kim, Hana** Korea Univ. Linguistics **Kim, Hoetaek** Korea Univ. Economics **Roh, Hansol** Seoul National Univ. Social Welfare **Maeng, Suhyun** Ewha Women's Univ. Korean Literature **Park, Kihyang** Choongang Univ. Business Administration **Park, Bohye** Korea Univ. Psychology **Park, Sam** Kangnam Univ. Social Work **Paik, Myunghun** Seoul National Univ. Economics **Yoon, Hyunki** Seoul National Univ. Economics **Lee, Gayoung** Seoul National Univ. Free Major **Lee, Jina** George Washington Univ. Business Administration **Lee, Taeyoung** Inha Univ. Graduate School Chemical Engineering **Jung, Eunsuk** Seoul National Univ. Social Welfare **Cho, Yongbum** Gachon Univ. International Trade **Choi, Jinkyu** Inha Univ. Graduate School Chemical Engineering **Han, Seonghwi** Kyonggi Univ. Police Administration

BUSINESS ETHICS

Ethical business culture that adheres to the basics and principles

This year is 10th anniversary since POSCO proclaimed its ethical guideline in June 2003. During the past decade, all employees worked hard to set up an ethical business culture by practicing ethical management.

POSCO has been continuing its training and promotion activities, building institutions and infrastructure that suit global corporation and conducting effective and fruitful activities with various stakeholders based on CEO's firm philosophy and will for ethical management

Ethics Education and Campaigns for Employees

In order to solidify ethical practice as corporate culture, POSCO has been developing and conducting its own online and offline education program in order to set sound ethical mind-set in its employees and executives.

"Ethical leadership training" for leadership, "special training for those vulnerable to ethical risk" such as those in charge of operations, purchasing, and outsourcing, and "ethics training with executives" in which executives give management ethics lecture to his/her employees are also conducted every year. In addition, training is held for new employees and promoted employees whenever necessary, and all executives and employees are required to take e-learning classes on business ethics.

As for campaign and promotion activities, business ethics webzine "Olbareumi" is published monthly for all the POSCO Family employees including outsourcing partners in order to encourage POSCO employees to take interest in ethical activities in their daily lives.

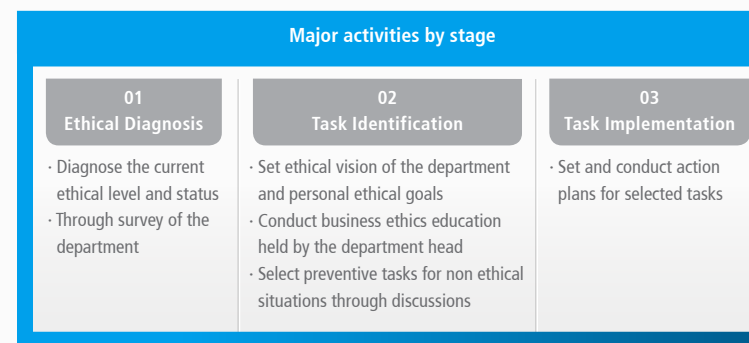
POSCO Family employees worldwide sign an oath that they will abide by the ethical guidelines before beginning work every year in order to renew their will for action. Not only that, in the beginning of every year CEO ethical management message is released, and on June 2, the day of proclaiming ethical guidelines, CEO sends out messages in order to let employees be aware of CEO's firm will for ethical management. Moreover, at the back of employees' ID card are 5 criteria for self-inspection so that they can ask themselves in ethically difficult situations before making decision.

Building and Spreading Infrastructure for Ethical Behaviors

In order to eradicate non-ethical behavior, from 2011, management responsibilities were given not only to senior managers but also executives, bribery or other criminal acts were reported to the police, and disciplinary measures were published on the company's intranet. Moreover, from 2004, reports of non-ethical behaviors have been rewarded, and from 2011, the maximum reward when such reports led to reduced loss or greater profit was much increased to 1 billion won. The company is constantly encouraging employees and executives to report immediately when they are forced to engage in non ethical activities or find out other's ethical violations. Report of non ethical behaviors and ethical counseling is available not only to executives and employees but also to the general public through phone, fax, mail, the internet, and also a smart phone application called "POSCO Shinmungo(whistle blowing)" Executives and employees also sign "reporter confidentiality pledge" every year in order to protect the identities of the informants.

From 2003, POSCO has been operating Gift Return Center in order to set a corporate culture in which stakeholders do not exchange gifts during holidays. As of 2012, about 2,400 gifts were returned, and 72 million won worth of proceeds were collected through auctions of not refundable gifts. Moreover, wreath sent to congratulate promotion were auctioned, and the entire proceeds were used to help the poor. Donation of excessive money received for congratulations and condolences as well as of lecture fees have become rooted in the company.

 [Read more about business ethics](#)



BUSINESS ETHICS

Ethical Management that Develops with POSCO Family

POSCO has been operating various ethical management infrastructures in order to spread ethical management. Under the “POSCO Family Ethics Practice Program” all the employees participate in identifying and improving ethical risks under the supervision of the division head. In 2012, POSCO and its 14 major subsidiaries participated in the program. In order to support successful ethical risk identification and improvement, the Business Ethics part in Corporate Audit Dept. visits each department and conducts coaching activities on program management, and after the programs are over, results are evaluated to select outstanding company or department, reward them, and reflect the results in the employee evaluation. Moreover, presentations on ethics management have been delivered to suppliers as well as outsourcing partners, including the 2011’s regional presentation for 1,000 major suppliers and their management. In addition, a special clause on ethics is included when a contract is signed between POSCO and an outsourcing partner, under its consent. The clause institutes corresponding sanctions in case of unethical actions, such as bribery, that occur in the course of transaction.

Ethical Risk Prevention at the Global Business Level

Ethical management is an essential element in becoming a true global leader, and POSCO has been supporting overseas branches and offices to prevent ethical risks.

POSCO has also offered ethics education and coaching to expatriates and locally hired employees as part of its effort to spread ethical management. In 2012, staff from Ethics Committee visited 38 overseas branches in 6 countries such as China, Vietnam, Mexico, Thailand, India, and Malaysia, and performed ethics and FCPA education and ethics practice coaching to 659 expatriates and locally hired employees. Moreover, in the Chinese branch, there is a separate team for overseeing and preventing non ethical behaviors.

Moreover, POSCO established and started to execute the “Foreign Corrupt Practices Act Guideline” in 2011 in order to respond proactively to the FCPA (Foreign Corrupt Practices Act). Since 2011, related details have been included in the Code of Conduct and the Employee’s Pledge to honor the Code of Conduct. Moreover, exclusive FCPA line is in operation, and the POSCO Family FCPA Compliance Committee was established to review and monitor the results at its quarterly meetings.

Foreign Corrupt Practices Act Guideline (Summary)

Abiding by the FCPA POSCO employees and executives will abide by the laws and regulations including the Foreign Corrupt Practices Act. In case of violations, complete immunity will not be granted even if the action at issue was acceptable as customary and generally accepted business practice.

Prohibitions and Exceptions No money or anything of value shall be given to an official, which benefits the official, except when convenience was offered to facilitate business proceedings that are commonly accepted as customary.

Third Party Agent and Joint Investment Even in the cases where POSCO makes transactions with an official through a third party, the FCPA must be observed.

Internal Control and Audit Books and records should be kept accurately and fairly to reflect business transactions. Any expenditures and/or asset dispositions not recorded in the books is strictly prohibited.

Education Employees and executives who meet officials on a regular basis must receive education on the basic regulations of the FCPA and/or the FCPA Guideline such as legal and ethical restrictions accompanied when doing transactions with an official.

Reporting and Protection of Internal Whistleblowers When a person has become aware of violations or has suspicions of possible violation, he/she must report to his/her superior, Compliance Committee, or Business Ethics Team. The whistleblower who reported an act of violation or possible act of violation must be completely protected as not to be put at any disadvantage in relation to employment or any other matter.

Penalties POSCO employees or executives who have violated the FCPA in their course of duties may be subject to penalties in accordance to employment regulations and award/penalty regulations, as can an employee or an executive who has not cooperated with the execution of the FCPA or Guideline. In case an employee or executive has been fined for a civil or criminal offense, he/she will not be reimbursed from the company.

HUMAN RIGHTS MANAGEMENT

[Read more about UN Global Compact](#)

Social problems such as the wealth gap and discrimination are occurring across the world, and the role of companies is increasingly becoming important. Especially with companies making headway into countries with poor human rights, protecting human rights is being emphasized as another role for companies. Our goals are to create work environment where no employees are discriminated against and to grow with all communities we belong to.

Human Rights Management based on the Code of Conduct



As a member of the UN Global Compact, POSCO fully respects the UN Global Compact's principles on human rights and labor. In addition, POSCO abides by the global human rights standards including the UN "Protect, Respect and Remedy" Framework for Business and Human Rights, according to the POSCO Family's Code of Conduct. In 2012, provisions on human rights were included to build a strong foundation for the systematic management of human rights. POSCO is committed to creating a corporate culture that does not discriminate on the basis of alma mater, birthplace, gender, age, religion, or any other criteria unrelated to job qualifications.

* In 2012, POS WITH and POS ECOHOUSING was integrated into POSCO HUMANS.

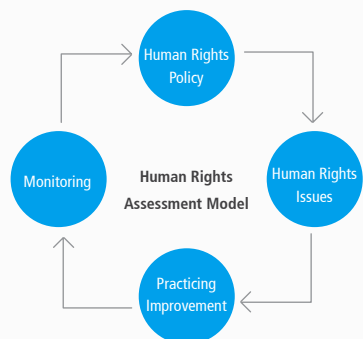
"Human rights" Provisions, the Code of Conduct

4. Our commitment to our employees

- We will respect the basic human rights such as individual dignity and personal life
- We will respect the creativity of each individual and provide equal work opportunities to create an environment where they can achieve their full potential.
- We will not discriminate on the basis of alma mater, birthplace, gender, age, religion, or any other criteria unrelated to job qualifications.
- We will foster a win-win corporate culture built on mutual trust and understanding.
- We will comply with the Code and internal regulations to create a healthy and sound working environment

5. Our commitment to local, national and global communities

- We will abide by all national laws and regulations as a socially responsible corporate citizen.
- We will respect the traditions and culture of local communities as we work to prosper and grow with them.
- We will comply with international conventions on human rights, the environment, culture, and trade as well as local laws and accounting standards in every country we operate in.



Protecting Human Rights through Ethical Practices

POSCO respects human's dignity through ethical practices. The key words related to such practices are consideration, co-prosperity and trust, which are reflected in the Code of Conduct. To prevent it from being a mere ideological declaration, POSCO implements the philosophy of respecting human rights through practical systems and campaigns in order to have it embedded in daily activities. The Ethics Counseling Center receives cases where human rights were violated and takes appropriate measures.

In 2009, the Ethical Dilemma Casebook was published as well, and in 2011 the Business Ethics Handbook was released to help employees to practice ethics at work. POSCO is also actively involved in preventing sexual harassment. The Fifth clause of the Code of Conduct states, "we do not conduct any kind of verbal, physical, and visual actions that may cause discomfort to another person, including all act of sexual harassment that infringes human rights." POSCO also provides an e-learning education course and operates a Sexual Harassment Helpline.

POSCO abides by the Standards of Child and Forced Labor and Discrimination Convention of ILO in all its business activities. Freedom of association is guaranteed at all workplaces. In order to promote the employment of the disabled and members of other social minority groups, POSCO operates four social enterprises; POS Eco Housing Co., POSPLATE, and SongdoSE as well as POSWITH.*

Human Rights among POSCO Family

POSCO Family employees around the world are at the forefront of realizing the values of respecting human rights in the workplace. POSCO included the aspect of "human rights" into the "POSCO Family CSR consulting" implemented since 2011 to raise awareness on international human rights standards among POSCO Family employees and help them better understand the major human rights issues, domestic and overseas.

Major indicators were developed to assess human rights compliance; human rights policy, understanding of the present condition, human rights management of business partners, and the cases of human rights violation. POSCO supports subsidiaries through programs where they can share improvements and best practices at home and abroad to raise the overall human rights compliance of the POSCO Family.

RISK MANAGEMENT

ERM System

Amidst increasing uncertainties in the business environment, POSCO focuses on identifying potential risk factors and preventing them with the belief that managing risks is as important as gaining competitiveness. Through these efforts, POSCO will maintain a friendly relationship with stakeholders and secure the engine for sustainable growth as well as preventing risks in advance.

● Risk Management System

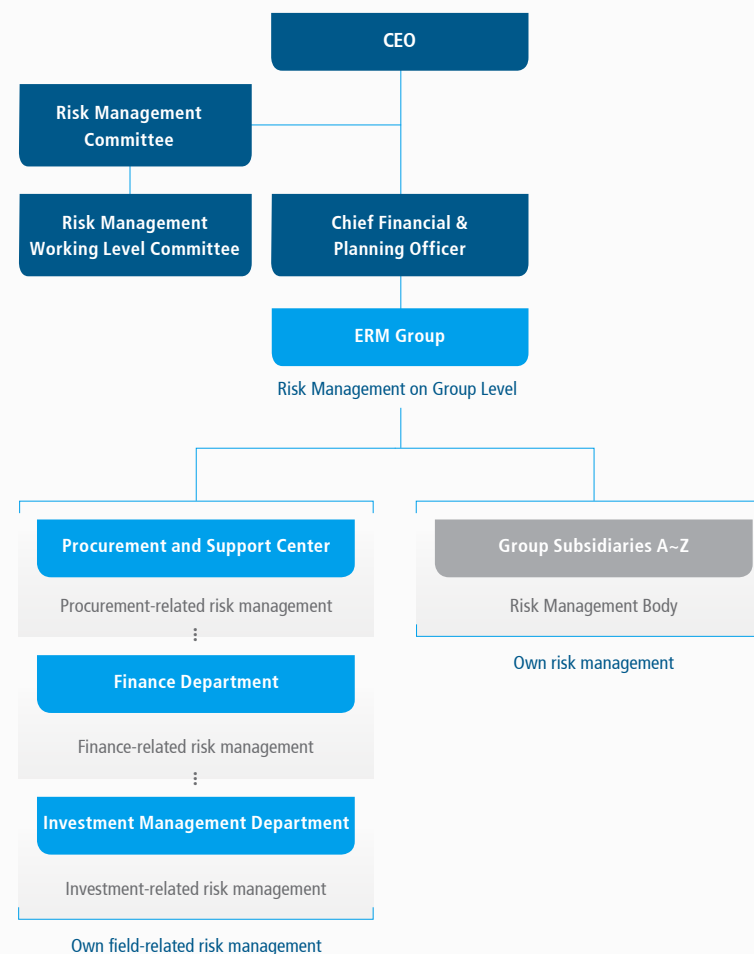
Directions of the ERM System

POSCO built a system to manage growth capital investment-related risks in 2010 and in the second half of 2011; an ERM team was launched under the Strategic Planning Division to be in charge of establishing an enterprise-wide risk management system. With increasing and prolonged uncertainties in the business environment, POSCO recognized the importance of proactively responding to risks, thus building a risk management system based on leading indicators. POSCO plans to gradually phase in the ERM process to complete an integrated risk management system on the Family level until 2013.

Risk Management Organization

POSCO's risk management organization is formed of the Risk Management Committee, Risk Management Working Level Committee, and ERM Group. The Risk Management Committee is a general consultative body in charge of managing entire business risks, whose responsibilities include deliberation of general directions, policy and regulations, limit and overall planning of risk management and other related issues. The Risk Management Working Level Committee under the Risk Management Committee is formed up of working level managers who share the current risks and come up with response measures. The ERM Group, which is in charge of the entire risk management business, takes care of POSCO's ERM system, as well as support group subsidiaries to control the integrated risk management, and also manages the shared responses in terms of the whole group to create synergy among the different groups in the POSCO family. Meanwhile, risk management organizations of related departments and subsidiaries are responsible for managing core risks unique to their own fields.

Risk Management Organization Structure



[Read more about risk management system](#)

+
ERM System

2012

Establish a Risk Management System based on leading indicators

2013

Spread onto Subsidiaries and Overseas Branches

RISK MANAGEMENT

Text-mining

Extracting and analyzing information from text, which is an atypical form of data

Risk Management Process

Focus on core risks by monitoring leading indicators

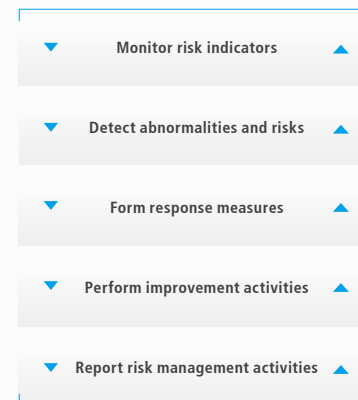
POSCO's risk management process starts with monitoring core risks. To preemptively and effectively respond to core risks and changes in the internal-external environment, we monitor the leading indicators while forecasting any changes in core risks. As for risks that are difficult to quantify such as reputation, policy, and environment, POSCO uses text-mining* to conduct qualitative analyses.

POSCO's leading indicator system is composed of the external risk factors such as the steel market, financial market, and the list of emerging countries, POSCO is present in, and the field risk factors. Based on this, POSCO will continue to develop leading indicators related to major fields and group subsidiaries in 2013.

Leading indicators



Risk Management Process



RISK MANAGEMENT

● Preemptive Response and Sharing of Core Risks

POSCO's risk management system is based on a 2-line-defence of the first risk prevention through leading indicators and the second response through results. To overcome the limits of quantitative indicators, we are conducting qualitative research on the side. In terms of the actual management, we monitor the leading indicators at all times to report the results every month at the group meetings so that all top level managers and board members may share the information, and every quarter we analyze the comprehensive risks and forecast the changes to report it to the top management to support their decision making process. Moreover, the risk analysis results are shared at the ERM working level committee to come up with a group-wide response, and the feedback from top management and activity results are reflected in the monitoring process to create a virtuous cycle.

The company-wide risk management system was built in 2012 to enhance the efficiency and effectiveness of risk management, and to manage the leading indicators, results and qualitative information all at the same time. The system allows the user to see the major risks and trends at a glance, as well as manage the details of the risk indicators to help the user detect the cause of the risk and come up with a solution. POSCO will develop this system further by adding risk indicators of overseas branches and subsidiaries, and increase connectivity with the company's information hub; GIH (Global Information Hub), to support the risk management activities of the entire group to create the POSCO Risk Platform.

Moreover, we will develop the system into a sustainable one, focusing more on detecting the potential risks and dealing with them rather than responding to the already exposed risks, by using various analysis methods such as improving leading indicators, training risk management professionals, using text mining, managing a pool of experts, and using statistics.



Enterprise Risk Management System

● Change Management to Spread Risk Management

POSCO operates e-Learning courses and other educational programs to help employees understand the importance of the risk management and actively promotes ERM via various internal and external media and meetings, where employees can exchange information on ERM

RISK MANAGEMENT

Establish Risk Self-Controlling System

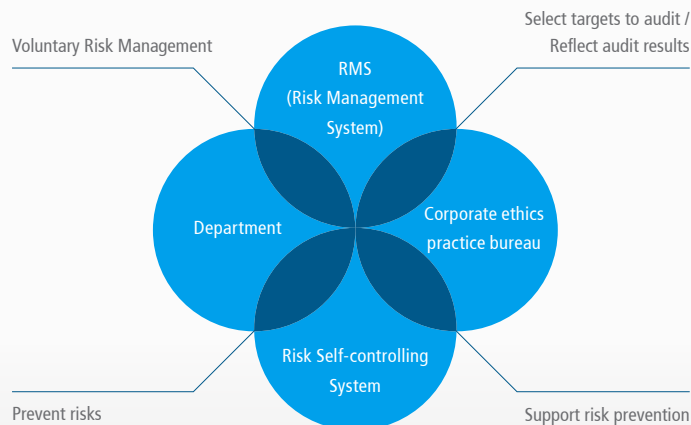
POSCO built the RMS, a company-wide risk management system in 2004 for efficient management of risks. The system classifies the work process systematically, determines risks by process, and evaluates them according to their grade. Well aware that risk management should start at the site, POSCO is putting the Risk Self-Controlling System in place so that each department can manage their own risks.

Internal Control of Financial Report

POSCO has been conducting self-evaluation of internal control since 2004 after establishing an evaluation system of financial reporting process including CEO/CFO approval procedure on internal control, and the operation of the Public Announcement Committee in December 2003. According to the SOX act*, external audits have become compulsory since 2006, and to this end, we completed the internal control evaluation system in March 2005.

In addition, POSCO has enhanced the reliability of our financial reports and public announcements through external audits since 2006. Through an external consulting group, POSCO has set up and is using a financial and internal control system that uses the Standard Control Activity Framework recommended by COSO* and the US SEC to document major processes for 10 areas, assess risks, and design control activities.

Organization Chart of Risk Management



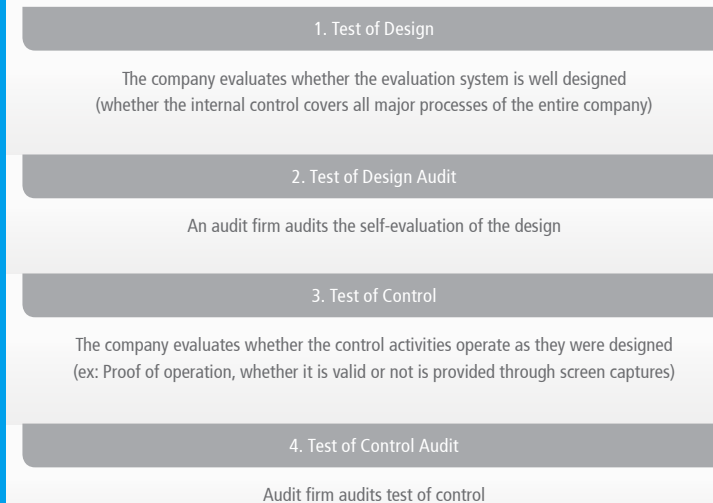
SOX act (Sarbanes-Oxley act)

A legislation that came into force in Jul. 2002 to bring out major changes to the company accounting. Introduced stricter regulation on accounting fraud.

COSO (Committee of Sponsoring Organizations of the Treadway Commission)

A US organization that assesses the internal control system of companies.

Internal Control Process



THE ODISHA PROJECT

Prior to starting an overseas business, POSCO strives to identify the environmental, social and economic impacts to communicate with the local community to address the negative impacts. POSCO signed an MOU with the Odisha state government for the construction of a 12 million ton integrated steel mill on 4,004 acres of land in 2005. The MOU was not only an agreement for the business of the company, but also an economic foundation, promising to actively invest in India to promote trade and investment between the two countries.

POSCO is putting its upmost efforts to minimize environmental pollution, by setting environmental management as one of its business goals. POSCO conducted its environmental impact evaluation prior to the launch of the project and identified the environmental impacts the project would bring. POSCO took into consideration the environmental factors from the planning phase, and so it plans to construct a steel mill with FINEX technology, minimizing environmental impact. In order to execute the project in a fair and transparent manner, POSCO complied with the legal requirements such as carrying out environmental impact evaluation that are needed for project licensing.

POSCO has also been complying with the legal procedures regarding forests and environment. In 2008, the Supreme Court of India approved the forest land for the project. In 2010, the central government of India requested the Saxena Committee and the Meena Gupta Committee for a re-evaluation, and in 2011, gave final clearance. In 2012, the approval of the central government was reviewed by the National Green Tribunal, and the rulings confirmed that there were violations. However, the National Green Tribunal ordered an expert committee to review the project and add new conditions, and the process is still underway.

POSCO strives to grow together with the local community by actively investing in the state of Odisha, which is one of the regions with a high growth potential. POSCO invited the local residents and held business information sessions to ease their groundless anxiety. In addition, POSCO acquired land in a fair and transparent manner to address the concerns of the residents.

National Green Tribunal ruling statements

Social Cost Benefit Analysis of NCAER

Developments of the Odisha Project

Date	Progress
2005. 06	· Signed MOU with the Odisha state government (12 million ton-scale steel mill and harbor construction, iron ore mine development)
2005. 08	· Established the POSCO-India Private Ltd
2006. 01	· Set up an office at the site and an exhibition center in Kujang
2006. 02	· Carried out the 'POSCO R&R Package and Investigation on Economy and Society' for TISS (Tata Institute of Social Sciences). - The investigation was interrupted after completing 73% of the investigation, due to the residents' shutting down of the site.
2006. 11	· NCAER(National Council for Applied Economic Research) Analysis of the impact of the Odisha project on the economy and society
2007. 05	· Ministry of Environment and Forest, approved minor captive port environment · Cleared coastal protection area
2007. 07	· Ministry of Environment and Forest, approved steel mill construction environment
2008. 09	· Ministry of Environment and Forest, approved the clearance of phase 1 forest following the Supreme Court orders
2009. 12	· Ministry of Environment and Forest, approved clearance of phase 2 forest
2010. 01	· Odisha state government, renewed allocation of water resources
2010. 06	· Established the POSCO Foundation
2010. 07	· RPDAC(Rehabilitation and Periphery Development Advisory Committees), approved the R&R compensation for residents in the project area
2010. 07	· Odisha state government, compensated the site and started tearing down 99 betels
2007.10 ~ 2010. 07	· Odisha state government, rented 548 acres of non-forest land (not enough for steel mill construction)
2010. 08	· Ministry of Environment and Forest, gave stop order for land acquisition
2011. 01	· Ministry of Environment and Forest, devised new conditions after review the approval and announced the effectiveness of the previous approval
2011. 05	· Ministry of Environment and Forest, finalized the approval to the Odisha government for the forest area confirmed that there were no resident in the forest area)
2011. 05	· Odisha government, restarted the acquisition of state-owned land (until now, 2 betels of Gram panchayat were pulled down, and 631 farm owners received compensation)
2011. 12	· Established offices at sites to prepare for the construction and facilitate communication with the residents
2012. 03	· National Green Tribunal(NGT), ordered a re-examine the additional conditions given on Jan., 2011, while acknowledging that the previous approval was effective

THE ODISHA PROJECT

In order to assess the socio-economical impact before starting the business, we conducted a socio-economical impact assessment through a third party organization and analyzed the validity of the project by calculating the amount of creating shared value* created through the project.

After signing the MOU, the Odisha state government tried to provide POSCO with 4,004 acres of land for approximately 7 years. Out of the 4,004 acres of land that POSCO needed to construct the steel mill, 3,566 acres - 89% of the total- is the property of Odisha state government and 438 acres -11% of the total- is private property. Obtaining the land from Odisha state government was peaceful. POSCO also promised a fair and transparent project management.

Compensations for relocating were also determined through sufficient discussions with the local residents. The outcome is represented in POSCO's R&R Package*, which received the approval of Rehabilitation and Periphery Development Advisory Committee (RPDAC) comprised of the NGOs, local representatives, government officials and others in 2010. POSCO's R&R Package provides a higher standard than what the Odisha state government requests.

There were no violations of human rights during the project either. The Human Rights Commission under the Indian Supreme Court carried out investigations on violation of human rights several times, but POSCO did not receive sanctions or advice of any kind. POSCO requested the Odisha government to protect the rights and livelihood of the residents and also asked to ban illegal violence. POSCO considers ethical and fair business practices as its basic principle. We support the 10 Principles of the UN Global Compact, which is a global guidance on CSR. Also, POSCO complies with ISO 26000 and the OECD Guidelines for Multinational Enterprises. Therefore, we carry out our business without infringing upon any international standards.

POSCO respects human rights under the ethical business policy. Based on the POSCO Family's ethical standards, POSCO respects the tradition and culture of the local community and strives to co-develop with the local community. In addition, POSCO complies with the international standards and local regulations on human rights, environment, culture and economy.

Creating Shared Value

Activities that create both company and social values

R&R Package

Compensation Package for Displaced Residents

POSCO-India R&R Package

6.8 times the average price of estimated residential/agricultural land (250,000 rupees)

01. Compensation for families moving out of private land (holder of a title deed)

Offered compensation money, vocational training, subsidies

02. Those who lost 100% of their land

Same compensation as that of the Odisha state government's R&R: provided priority for employment, vocational training

03. Those who lost part of their land

Not stated in the Odisha state government's R&R, but provided vocational training

04. Those moving from state-owned land (who unlawfully occupied state-owned land)

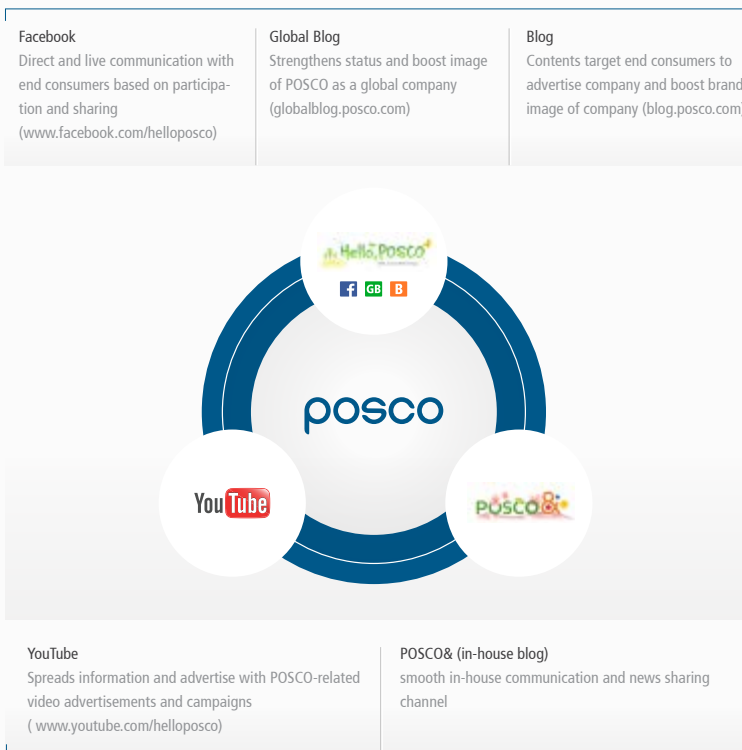
Not stated in the Odisha state government's R&R, but provided houses or compensation money by family

05. Those in agriculture and fisheries, who illegally occupied land

Provided double the amount of Odisha regarding betels, even compensated for laborers not defined in the Odisha state government's R&R, shrimp ponds, rice paddies, and fruit trees in the national land

SNS

From 2012, POSCO is operating internet blogs, YouTube and Facebook pages in order to openly communicate with domestic and foreign stakeholders. With the help of social media, POSCO is strengthening communication not only with company members but also with the public, and we constantly made an effort to help spread POSCO's rather unfamiliar company stories and events to people. As a result, the company blog 'Hello POSCO' recorded 400,000 accumulated visitors within 7 months of launching and the company Facebook page garnered 50,000 fans in 4 months.



In January of 2013, to improve POSCO's brand value, POSCO created a global blog and a LinkedIn page to share information such as latest company news, product information, and employment information with. Through the pages, people can find POSCO's news wherever and whenever, share ideas and opinions, and also ask questions. In a situation where the general public lacks a point of contact to help understand and experience B2B company's business activities, POSCO's active social media activities help form online POSCO community, and contribute to POSCO's accessibility and intimacy towards the public.

POSCO's in-house blog 'POSCO&' is an online space where POSCO Family can 'participate' and 'communicate'. We also combined and reorganized the existing staff communication channel, so staff of POSCO Family can communicate conveniently. 'POSCO&' consists of message boards such as NEWS, PEOPLE, FUN, TALK and it allows staff members to check messages from the CEO and company policies quickly and accurately, share in-company episodes, and ask questions by posting comments. The free board 'Talk Time' is particularly used as a space to communicate horizontally, among staff members or executive members. With the establishment of 'POSCO&', we created a media that allows us to 'communicate easily, quickly, and equally' which helps spread the company's important news and policies, strengthen communication between POSCO Family and also process business management.

POSCO's official blog 'HELLO POSCO' is an online space open to the public that shares information such as company news, new material energy, episodes of steel in everyday life and employment news. It is divided into POSCO, PEOPLE, TOGETHER, CAREER CULTURE, SOCIAL tabs. The POSCO Facebook page, which consists of contents from the previous blog, YouTube, and other POSCO company episodes, helps create a message space where people participate and sympathize.



+ POSCO in SNS



01

POSCO reminds me of a [bull]. A bull is bold and has endurance. It is also not lazy and does its job without any fuss. Thus it is loved and recognized by its owner (people). A bull runs hard. It runs endlessly to make its value higher. POSCO is a [bull].



02

Isn't POSCO a company so different inside and out? It is a steel company creating cold, hard steel but it's also a company that listens to small details and spreads love ^^ . It was very impressive to see the advertisement for POSCO's contributions for a better society.

THANKS SHARING MOVEMENT



POSCO carries out Thanks Movement for colleagues, families and facilities. Pictured, employees giving and receiving Thank-you cards.

With the belief when the employees actively do their tasks with gratitude for everyday life and a sense of ownership at work, POSCO started the Thanks Sharing Movement. The Thanks Sharing Movement was voluntarily started at the steel mill from July, 2011. In 2012, education on the purpose and method of the Thanks Sharing Movement was carried out to the management and department managers. Currently, these activities are held even in affiliates, subcontractors, and foreign branches.

Stages of the Thanks Sharing Movement

Forming Sympathy

Jul. 2011~ Oct. 2011

- CEO announced the promotion of the company-wide Thanks Sharing Movement
- Chief of Pohang steel mill adopted the Thanks Sharing Movement
- Special lectures/discussions on thanks sharing
- Giving out notebooks, badges, and Thanks Sharing newspaper, operating the Thanks Sharing blog

Practicing Thanks Sharing

Oct. 2011~ May. 2012

- CEO and chief of steel mill took the initiative of the Thanks Sharing Movement (phone calls, twitter)
- Writing gratitude journals, gratitude APP, gratitude board, gratitude piggy bank
- Held a Thanks Sharing Movement Fair
- Thanks Sharing newspaper, interviewed/promoted exemplary cases

Settlement and Expansion

May. 2012~

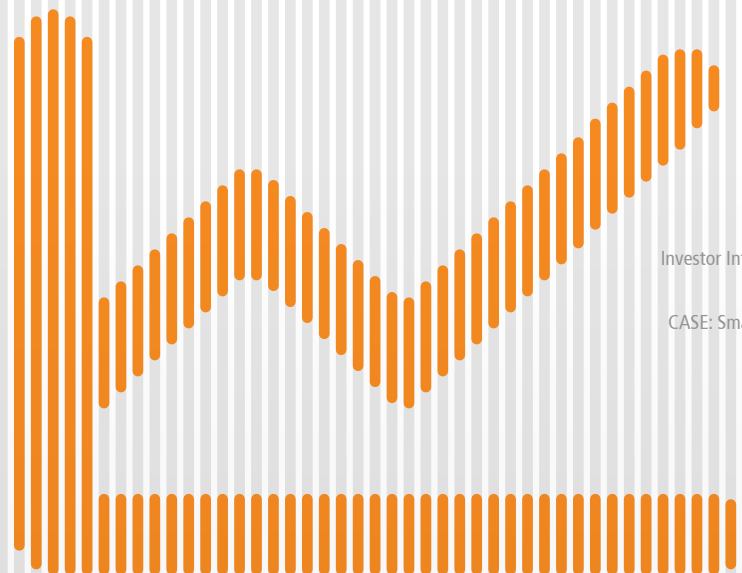
- Established the Trans-POSCO Thanks Sharing Movement Promotion Headquarters
- Arranged a pool of local community support instructors (20 people)
- Expanded to global enterprises including Toyota, Tangshan Iron and Steel Group, and Shougang Group
- Supported the Thanks Sharing Movement in Daewoo Shipbuilding & Marine Engineering Co., Ltd., and Samsung Heavy Industries Co., Ltd

The movement took root in its early stage, with the leadership taking the initiative; the CEO calls employees at least 3 times a day; chief of steel mill sends SNS and visits sites to encourage employees; department managers send thank-you cards. For employees, writing 5 things to be grateful for a day and cards/letters, positive conversation and attention grew among colleagues. As a result, we were able to achieve the best quality in the world thanks to higher attention on tasks and maintenance with the Thanks Sharing Movement in work sites.

As a part of our Thanks Sharing Movement for customers, we expressed our thanks with thank-you cards. Gwangyang Steel Works' activities are regarded as an exemplary case by delivering 1000 thank-you picture frames to Gwangyang city and collecting, delivering 1,245 thank-you articles to the steel mill.

From May 2012, POSCO systemized the know-how and experience of the Thanks Sharing Movement and expanded the program to the local community and partners. The city of Pohang is nurturing Thanks Sharing Leaders to promote the Movement in earnest.

02 INVESTOR



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Task Innovation · Technology Innovation
CASE: Smart Workplace · CASE: Lithium Extracting Technology

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PAGES

Park Ki-hong, Head of Strategy and Finance Division

The most important factor in Vision 2020 is 'Sustainable Growth'. In order to achieve the visions, the Financial & Planning Office is striving to set directions to induce sustainable investment and manage risks. We will expand to overseas businesses to become a global sustainable group as well as a beloved company in the local community.

Kim Joon-sik, Head of Growth Investment Division

In order to achieve Vision 2020, the Growth Investment Division seeks to create an integrated synergy effect by expanding supply chain, including the material and energy sector, securing competitiveness, and making our business clustered. In addition, amidst the growing need for CSR activities regarding human rights, labor, and the environment, we will do our utmost to carry out our business based on comprehensive understanding of local community.

INVESTOR INFORMATION

With more uncertainties surrounding the business environment, POSCO continuously communicates with our stakeholders in the business activities. POSCO annually reports the financial and non-financial performance for stakeholders throughout the Sustainability report and other various IR activities. We not only report our performances and business activities through the quarterly result announcements and CEO forums held at the beginning of the year, but also provide opportunities for investors to hear from the C-level officers on our major issues. Apart from the regular result announcements, we occasionally hold Non-Deal Roadshows*, global conferences, face-to-face meetings and conference calls as well as field trips to steel mills in order to meet with the investors through various channels and give them an update on the current business status.



Non-Deal Roadshow

Usually held to attract investment, but also held without involving such purposes

POSCO held the CEO Forum at the Korea Exchange, in Yeouido, Seoul on Jan. 29, 2013. It reported on the results and major activities of 2012 and plans and outlook for 2013.

Dividend

In spite of the declining profitability with the slow steel industry, POSCO has been steadily maintaining its dividend policy by raising shareholder performance. For the past 3 years, it has recorded dividend payout ratio of over 20%, and dividend rate at around 2%.

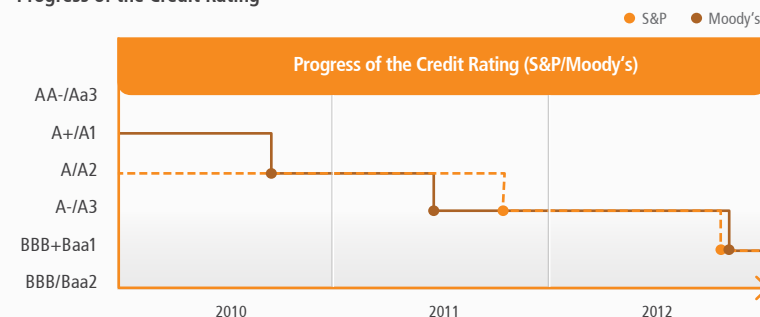
	2010	2011	2012
cash dividends per share (in KRW)	10,000	10,000	8,000
total cash dividends paid (in billion KRW)	770.3	772.4	618.0
cash dividend payout ratio (%)	20.4	24.2	24.7
cash dividend rate (%)	2.03	2.56	2.27

Credit Rating

International credit rating agencies downgraded the ratings of major global steel makers due to the low growth and low earnings trend in 2012. S&P and Moody's took POSCO's outstanding competitiveness into consideration and kept the credit rating at A until 3Q 2012. However, with the protracted slump in the steel economy, they downgraded POSCO's rating to BBB+(Stable) and Baa1(Negative), respectively.

Nonetheless, the agencies appreciate our world's lowest production cost and technology competitiveness, giving POSCO a high stand-alone rating compared to other global players.

Progress of the Credit Rating



CORPORATE VALUE AND EXTERNAL EVALUATION

POSCO made swift responses to business challenges with emergency management system such as reducing production costs in 2012 but could not stop the downhill business performance during the global recession. In 2012, POSCO achieved 35.665 trillion KRW in sales and 2.79 trillion KRW in business profit decreasing by 9.0% and 35.6% respectively. The stock price which was 393,500 KRW in January 13th 2012, was brought down to 349,000 KRW in December 28th 2012.

However, POSCO lowered the production cost by reducing raw material mixing cost and optimizing facilities, as well as strengthening development and sales of high value-added products. As a result, POSCO was able to record an operating profit to sales ratio of 7.8%, the highest among global steel makers. In addition, we enhanced the financial soundness of the company by paying back debt. As of Dec., 28, 2012, market capitalization is \$ 28.37 billion, the highest among global steel companies.

POSCO was selected as No.1 World's Most Competitive Steel maker by World Steel Dynamics (WSD) for four consecutive years. In 2013, POSCO scored 7.76 points in the evaluation covering 23 categories including technological competence, profitability, cost saving, financial health, and raw material procurement.

WSD's World's Most Competitive Steelmaker

Rank	2012	2013
1	POSCO (Korea)	POSCO(Korea)
2	NLMK(Russia)	NLMK(Russia)
3	CSN(Brazil)	Severstal(Russia)
4	Severstal(Russia)	JSW Steel(India)
5	Baoshan Iron and Steel(China)	Nippon Steel & Sumitomo Metal(Japan)
6	JSW Steel(India)	Gerdau(Brazil)
7	SAIL(India)	Nucor Corporation (U.S.A)
8	NSC(Japan)	Hadeed(Saudi Arabia)
9	Nucor Corporation(U.S.A)	Tata Steel (India)
10	Sumimoto(Japan)	Baoshan Iron and Steel(China)

In September 2012, POSCO was included in the SAM-DJSI as a leading company. POSCO is the first steelmaker which has been selected for 8 straight years even though the steel industry has higher environmental risks. It is noteworthy that POSCO has achieved such an outstanding sustainable management performance amid the continuing global recession since 2009. The future value of POSCO has been highly recognized especially shown in 2012, when it was selected as the most admired companies for 10 consecutive by the Korea Management Association.

CORPORATE VALUE AND EXTERNAL EVALUATION

SAM-Dow Jones Sustainability Indices (SAM-DJSI)

DJSI is a set of indices provided by Dow Jones, the financial information organization that monitors changes in corporate values of business with outstanding sustainability performance. The DJSI is set and managed through transparent evaluation by the Switzerland-based SAM's Corporate Sustainability Assessment on 2,500 or so companies that are included in the Dow Jones Global Indices. These indices not only consider the financial performance of the companies but also non-financial performances, thereby displaying the current performances and future potentials.

SAM constantly monitors member corporate and replaces 10~15% of the members through yearly reassessments. The member companies included are recommended as the preferred investment to the Social Responsibility Investing Fund, and are expected to attract stable and long-term investment.

Results of the SAM-DJSI Assessment

Unit: points

Classification	Economy	Environment	Society	Total score
POSCO score	64	84	70	74
percentile score*	82	100	79	96
highest score in the steel industry	83	84	84	77
average score of the steel industry	49	38	47	44

Percentile score

The percentile rank of POSCO in the steel industry, 100 points for rank 1

Awards received in 2012

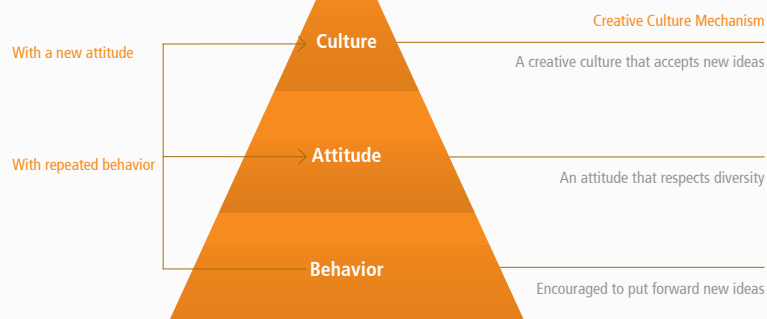
Overseas	Feb. 2012	Global 100 at the World Economic Forum (no.1 among domestic companies/global steel makers)
	Mar. 2012	Fortune's no.3 World's most admired company in Metals,
	Jun. 2012	World Steel Dynamics(WSD)'s no.1 Most Competitive Steelmaker, for 3 consecutive years
	Sep. 2012	SAM-DJSI-elected Top Industry in Steel, for 8 consecutive years
	Oct. 2012	World Knowledge Forum's Asian MAKE (Most Admired Knowledge Enterprises)
	Oct. 2012	World Steel Association's Innovation of the Year Award
	Feb. 2013	World Steel Dynamics(WSD)'s no.1 Most Competitive Steelmaker, for 4 consecutive years
Domestic	May. 2012	Ministry of Gender Equality and Family's Most Family-friendly Company Award
	Jun. 2012	Ministry of Culture, Sports and Tourism's Company with Outstanding Vacation Culture Award
	Jul. 2012	Forbes Korea, 2012 Global CEO of Korea
	Jul. 2012	KORCHAM's Company with Outstanding Climate Change Competitiveness
	Sep. 2012	Large · SME Shared Growth Fair's SMBA Administrator Award
	Oct. 2012	Presidential Citation for Outstanding Company for Benefit Sharing
	Nov. 2012	Korea's Eco-Friendly Award Committee, 2012 Korea's AV Award in Environmental Management
	Dec. 2012	Korea Communications Commission's Information Protection Award

TASK INNOVATION

Innovation has become an indispensable factor for corporate growth in a global market. A company that innovates survive, while others do not. Especially for POSCO which faces a severe economic slump in the steel industry, innovative capacity is critical. POSCO lays the foundation for a new progress with its own innovation model called the Pi innovation(π innovation).

POSCO's innovation

CREATIVE POSCO FAMILY



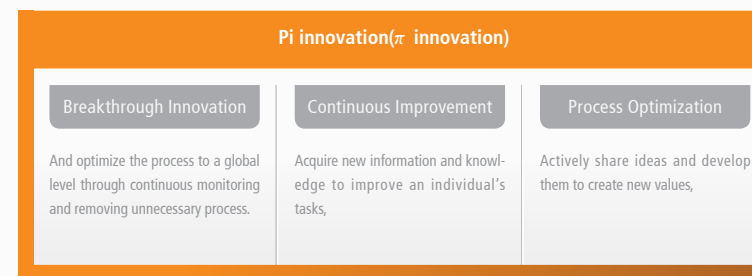
POSCO has been leading its growth by establishing the ERP* system and by utilizing POSCO's unique innovative activities including POSCO's version of the Six Sigma Model, Quick Six Sigma (QSS, an innovative method to allow easy application of the Six Sigma Model). Also POSCO has announced the new innovation model, the Pi innovation(π innovation).

The Pi innovation(π innovation) is based on the concept of pursuing continuous improvement and creating values like the infinite number, pi. It is also based on John Stuart Mill's 'logic of pie', where, if the pie, the source of distribution, gets bigger with improved productivity, then individual performance improves as well. POSCO Family will not be able to grow in a sustainable manner only with the previous innovation that focused on heightened execution and problem-solving. POSCO's Pi innovation(π innovation) is a model that enables new value creation and efficient management to keep pace with the expansion into the global market.

Pi innovation(π innovation) consists of BI(Breakthrough Innovation), CI(Continuous Improvement), and PO(Process Optimization). BI(Breakthrough Innovation) literally means innovative activities that can bring about breakthrough for growth. Its objective is to generate ground-breaking profit and identify future business through the Big Thinking process that realizes creative ideas.

All members of the management participates in sharing ideas on developing new businesses, innovative cost reduction. After the ideas are pooled, they go through the CDAM process. Namely, they are combined, or deleted if not adequate, and added to other ideas, and modified to fit the work-site operations if more explanation is required. After the ideas are processed through the CDAM, they become candidates for the BI project, where the final BI project is chosen from.

Pi innovation(π innovation)



In 2012, 290 ideas were chosen through the CDAM process as project candidates, and 26 projects in total were carried out. The BI projects in particular are decided by Gate Reviews*, which enhances execution of the projects.

ERP (Enterprise Resources Planning)
Company-wide resources management

Gate Review
Official review process on key phases of projects

TASK INNOVATION

+ WHAT ARE POSCO'S ORIGINAL INNOVATION ACTIVITIES?

QSS (Quick Six Sigma)

an innovative method to allow easy application of the Six Sigma Model easily

TRIZ

a theory for creative problem-solving that solves problems by finding the fundamental contradiction

Mega-Y

A TF innovation activity to achieve company-wide strategic objective with cooperation among multiple sectors under the supervision of the executive officer

Big-Y

An innovation activity that brings out improvement through cooperation among division in a certain sector, unlike the Mega-Y

CI(Continuous Improvement) is an innovation activity to realize Family-management by expanding POSCO's unique innovative success models to POSCO Family. The previous QSS, TRIZ, Mega-Y, and Big-Y are standardized to expand and organized into a part of the company. In 2012, QSS was adopted in 18 (34 in total) of our overseas branches. We improved the order/reporting methods by increasing reports through SNS and e-mails. Therefore, the amount of print-outs per person decreased 50%, from 59 pages to 30 pages. In addition, we improved the way meetings are held, by educating the relevant personnel, the meeting expenses were reduced from 8.6 billion KRW to 4.5 billion KRW. Moreover, by providing guidance on Smart Leadership and writing pledges, the level of communication rose from 64 points to 82 points. Also, Visual Planning, which was previously carried out as meetings but now, it can be done online, through Smart Workplace. With Mega-Y, which is a company-wide cooperation for innovation, we were able to innovate 8 projects, such as improving the profitability of by-products and reducing work accidents to zero. As a result, we were able to generate 1.119 trillion KRW worth of profit. The Big-Y enabled us to carry out 155 cases of innovation.

PO(Process Optimization) diagnoses ethical risks and inefficiencies and removes factors that are unnecessary. This leads to a transparent management and brings out business performance. The process of the PO diagnosis consists of the following steps: Customer, Output, Process, Input, and Supplier. Using a systemized diagnosis method, we interview the person who is in charge of processes and suppliers to identify issues that undermine customers' needs.

The 2012 process diagnosis results show that POSCO and POSCO Family reduced production costs by 44.4 billion KRW and 45.9 billion KRW. POSCO Family enjoyed significantly improved profitability. Especially for Daewoo International Corporation, we strengthened cooperation on overseas project orders, and shortened export processes within the corporate group. POSCO E&C improved its engineering and estimating capacity and made overseas project claim management process more efficient.

TECHNOLOGICAL INNOVATION

+ DETAILS OF PROCESSING

Iron Making process

FINEX : FINEX is a simplified iron making process that reduces air pollution and coal usage, and enables the use of cheap raw material and fuel

Blast furnace: Iron ore and non-coking coal are put in from the top, then hot air at a temperature of 1,200°C is blasted into the furnace reducing the iron ore and producing liquid iron ore.

Steel making process

The liquid iron ore produced at the blast furnace contains impurities such as carbon, phosphorus, and sulfur. Blasting oxygen eliminates these impurities, refining the molten ore.

Continuous casting process

The refined product is then continuously casted into interim materials such as slab, bloom or billets.

Rolling process

The slab, bloom or billets pass through rotating rollers to be stretched or thinned out. The rolling is divided into hot rolling and cold rolling.



TECHNOLOGICAL INNOVATIONS

Steel Sector

Securing World's Top Technology Competitiveness

POSCO has established 5 major technological strategies with the aim to obtain global no.1 technology competitiveness. Innovative steel products and processing technology unique to POSCO have been developed and commercialized. Therefore, POSCO was able to reach 103% of the World Top Technology which is a measure for technology in manufacturing.

We are actively pursuing the development of independent engineering technologies. In addition to the high-speed Air Knife technology to improve productivity of finishing plates for automobiles and CEM* rolling technology*, POSCO is undertaking over 20 innovation projects to develop future original technologies.

Major Technological Achievements



Iron Making Process

Developed technology to design the largest blast furnace in the world (also has technology to design the best blast furnace in the world)

- Designs and constructs the largest blast furnace based on the blast furnace operation and design know-how. (Gwangyang no.1 blast furnace, 6000m³)

Developed economic iron making technology using cheap iron ore and coal (diversified raw material, enhanced cost competitiveness)

- Used more than 40% of low rank raw material compared to the previously used material, maintaining stable operation at the same time

Developed FINEX Coke-less operation technology (Proved FINEX can be constructed in regions with low rank coal mine)

- Grasped possibility of coke-less operation for the first time in the world by developing high strength extruded activated carbon.

Developed technology to economically operate large-scale coke ovens (more use of low rank carbon coquizable, maximizing profitability)

- Secured technology that enables the use of low rank carbon coquizable to a maximum of 50%



Steel Making Process

Developed steel making technology that enables low production cost and high efficiency

- Excavated cheap ferro alloy and optimized input pattern for ferro alloy, securing cost reducing technology

Enhanced thick steel plate slab production technology to respond to higher demand for energy steel ▶ differentiated quality from other competitors

- Enhanced the quality of thick steel plate with the development of PosHARP, and 400mmt slab production technology

Developed CEM high speed casting and Endless Strip Technology

▶ **Acquired high productivity think plate production technology**

- Secured globally recognizable level of thin slab productivity by obtaining high speed stabilization technology
- Enhanced quality of thin slab material and product competitiveness with the CEM rolling technology



Rolling

Improving production technology of high performance hot rolled steel products

▶ **Quality differentiation from competitors**

- Applying CEM* technology to improve and width control

Establish system to increase supply of automobile wire with billet material inner and outer surface flaw re-examination and refurbishment facility

- Introduced devices to examine flaws inside billets
- Secondary examination to remove surface flaw and secondary refurbishing system was established at the integrated finishing and inspection yard(refurbishing facility in each wire factory was put in one place and examined, refurbished in the same place)

Developed high function cold rolled material (World First product)

▶ **Quality differentiation form competitors**

- High clarity UV coated products for luxury home appliances, and corrosion-resistant GI Hybrid coated products

Developed top tier Hyper-NO production technology for eco-friendly automobile engine

▶ **Can dominate the luxury Hyper-NO market in advance**

- Strive to lead the best NO market in the new growth eco-friendly automobile industry and production technology

Building the 750,000 ton production system for STS cold rolling products

- Developed stainless cold rolled steel pickling technology that significantly reduces NOx emission
- Developed High-gloss 430 manufacturing technology
- Developed ultra clean steel refinement technology
- With POSCO's original stainless ultra clean steel refinement technology, quality of cold rolled steel

CEM (Compact Endless casting and rolling Mill)

Integration of the previously separate steel production processes of steel making, continuous casting, and rolling. The CEM rolling technology is a technology that does not have to cut the slab from the continuous casting process to rolling process where the final coil is produced.

Endless Strip Technology

After rolling the slab, material for hot-rolled steel, a bar with 25 to 35mm thickness is formed. Then the preceding heat bar and the succeeding heat bar are connected for the second rolling.

Coking coal

Low-priced coal used to make coke, and has very low coking property, making it difficult to become coke by itself.

TECHNOLOGICAL INNOVATIONS

New Growth Technology

Developing Technologies for New Growth

In 2012, POSCO focused on promoting technologies for new growth such as FFT(Family Flagship Technology), World First-World Best, and linking them to be commercialized. We commercialized technology to extract lithium out of saltwater directly, technology to smelt Nickel, and also started on the verification to scale these technologies up. Regarding the magnesium smelting vertical heat reduction process technology, industrial LED lighting, and SNG(Synthetic Natural Gas) production/ process technology, POSCO successfully completed the development of 7 new growth pilot projects. We are currently planning on follow-up development and commercialization. Also, POSCO is expanding the network of universities and research institutes at home and abroad to check the direction of the projects and develop next generation technologies in collaborative efforts.

Major Technological Developments



New Nickel Smelting Technology

Nickel is gaining popularity as a secondary battery material and has been extracted from sulfide ores till now but as sulfide ore is scarce, and new mines are hard to find, it is difficult to produce nickel economically. POSCO used a low rank oxidized ore, which is relatively abundant. We developed a new process with hydrogen reduction and maceration, to smelt nickel through a pilot research project using hydrogen reduction. With this technology, POSCO is able to retrieve more than 90% of nickel from nickel oxidized ores which will contribute to raising nickel self-sufficiency rate of Korea.



Developing Secondary Battery's Cathode and Anode Material Manufacturing Process Technology

In order to secure price competitiveness of LMO in cathode material which is a major component of secondary battery, we have completed the dry LMO process as opposed to the wet LMO process. In addition, world's top class NMC* anode material is on its final stage of development. We are expanding customer base by improving the performance of the previous natural graphite anodes. We are also conducting researches on commercializing artificial graphite, Si-Graphite composite anode. POSCO Family will focus more on diversifying the product portfolio as well as leading the next generation secondary battery material technology.

NMC a ternary system of Nickel-Cobalt-Manganese



Wide Magnesium Strip Casting

POSCO successfully developed the technology to cast 1,800 mm-wide magnesium sheets using Twin Roll Strip Casting and is currently working to cast magnesium sheets with 2,000 mm width. In addition, it is conducting a research with an automobile parts company to apply this to automobile panels.



Magnesium smelting vertical heat reduction process technology

POSCO developed an eco-friendly vertical technology to smelt magnesium using green energy and applying the heat-storage high-temperature air combustion technology. This technology was applied to the POSCO's magnesium smelting facility in Oct. 2012, in Ok-ye, Gangwon Province. With stable facility operation, it is expected to meet a significant amount of the domestic demand (20,000 tons/ year), which is 100% dependent on exports currently.



Fuel Cell System for Buildings

A Solid Oxide Fuel Cell (SOFC) is a highly efficient and eco-friendly power generation technology, expected to be used in various fields from heat-convergence system with dozens-of-KW level for buildings to MW-level system for power plants and ships. POSCO secured the world's top technology in high-performance and wide-area cell manufacturing, which is a core technology of SOFC. We plan to apply this technology to renewable energy projects from 2015.



Industrial LED Lighting

POSCO has succeeded in developing the world first LED lighting equipment specialized for industrial needs. Industrial LED lightings have high durability against high temperature, humidity, and dust, which are common conditions in the industrial environment. They are also lighter, and have a longer lifespan. They also employ POSCO's original technologies for greater heat protection utilizing Smart Fan. From 1H 2012, the industrial lighting system has been applied on steel mills and POSCO Family. From 2013, this technology will be applied to other domestic and overseas businesses.

TECHNOLOGICAL INNOVATIONS



Smart Industry*: technology for more efficient use of energy

In 2010, POSCO introduced the new idea of "Smart Industry" in the Smart Grid sector for the first time in the world and implemented the idea at the POSCO Gwangyang Works oxygen plant, saving billions of KRW in electric costs as of 2011. The "Smart Industry" is being expanded to operations in POSCO Family, and is showing visible progress with outside businesses. In addition, we are reviewing application of Smart Grid to make energy use more efficient for industry and buildings in connection with the Energy Savings Scheme (ESS).



Synthetic Natural Gas(SNG) Production Technology Development

Synthetic Natural Gas (SNG) is a green energy source, made of the same components as natural gas through gasification of cheap coal at a high-temperature and high-pressure, refining, followed by methane synthesis. POSCO succeeded in developing a methane synthesis technology. Compared to the existing device, it has many advantages; simpler facilities, higher thermal efficiency, and more effective catalyst technology. Once the SNG plant in Gwangyang is completed, it is expected to cut 150 billion KRW in cost annually. We are promoting the development of eco-friendly technology that changes CO₂ to other useful materials such as compounds and fuel.



Offshore Wind Power System

In order to obtain original technology on the floating substructure for deep seas, we are conducting a basic research. Global offshore wind farm makers have been developing large wind power generators over 10MW scale to dominate the large wind power generator market from 2020, by applying the superconductivity technology. POSCO is also considering superconductive power generator development to secure original technology and proactive market competitiveness.

Smart Industry

A system that shows the flow and use of all energy that is used in a business. It allows businesses to use less energy as well as reduce CO₂ emission by showing the data and managing them

SMART WORKPLACE

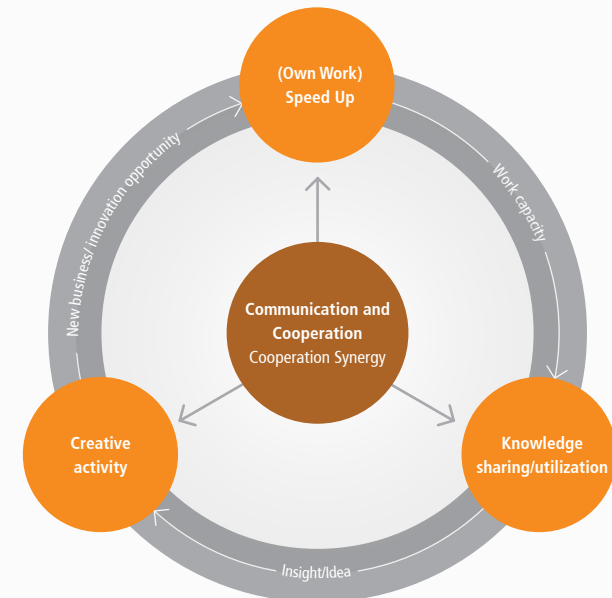
To adapt to a smarter working culture along with advancements in IT, POSCO has developed a unique method of working. By forming a strategic partnership with Google, the Smart Workplace (SWP) system was completed on December 10th. The SWP system creates an environment where employees can always communicate with each other, working efficiently, and supports them by making a process of the idea generation and development.

From the initial stages of the system development, we input the experiences and ideas of employees. The outcome, this innovative platform is applied with state of the art IT technologies. Moreover, it helps the employees understand the validity and utility of their working methods, and the system allows the user to proactively accept the change through a process of coaching and feedback.

The SWP promotes communication and cooperation, knowledge sharing and utilization, and creative activities based on collective intelligence. The infrastructure that uses the web, promotes more communication and cooperation. The actual numbers show that videoconferencing was used over 3,000 times per month, reducing the amount of long distance business meetings by 14%, and as a result the company could save up 30% on expenses.

The system manages all the information needed for work in one integrated pool, so employees can look up and share knowledge freely. All employees are to upload knowledge through their blog, which can further be developed into collective intelligence through various actors working together. The shared knowledge can be accessed and spread easily through the intranet SNS and search tool. As for the café-style blogs and the Wiki-style co-works, about 860 companies including group subsidiaries, suppliers, and partners all participate to share information, which then becomes the basis for improving the quality of work. Such group activities using blogs amount to 14,000 cases every month.

POSCO will spread the knowhow that built this SWP system onto partner companies to expand the scope and increase the ripple effect of the system. In addition, we will expand the number of partners to participate in pooling in their knowledge, and steadily expand the system to external experts to raise the level of information sharing and utilization.



LITHIUM EXTRACTION TECHNOLOGY

Lithium is a next generation material that is an essential element for mobile phones and e-vehicle batteries. The lithium extractable from salt water amounts to 230 billion tons worldwide, which is 16,000 times the 14 million tons available for extraction on land. Various minerals other than lithium such as potassium, calcium, and magnesium can be found in salt water.

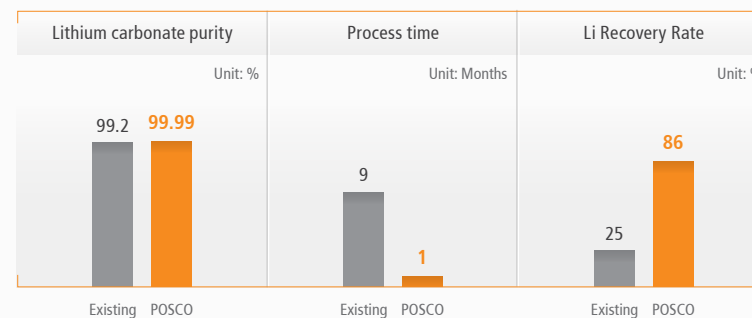
In 2012, we developed the non-evaporative lithium extraction method to secure supply of the so-called material of the future. The previous evaporative method required 12 months to complete the process. Compared to this method, POSCO's unprecedented technology only requires 1 month, and only 8 hours at minimum, and produces a high purity recovery rate of over 80% compared to the maximum 50% of the previous method. Unlike the natural evaporative method, this technology does not have climate or location restrictions, and it is eco-friendly as it has no harmful impacts on the ocean. This method can separately extract the magnesium, calcium and potassium which were once regarded as impurities to extracting high purity lithium. This means that we can make use of all the other minerals found in sea water.

In 2012, POSCO established a joint venture with a Bolivian state owned company and Korea Resources Corporation to promote the lithium battery business. In addition, we have completed building a plant in Chile to test the technology, and we are now preparing the equipment operation to test for the possibility of mass production.

Lithium Extraction Technology Comparison

	Existing Method	POSCO Method
Lithium Extraction Method	Natural Evaporative Method	Uses absorbent
Lithium Extraction Period	12 months	1 month
High Purity Lithium Recovery Rate	Approx. 25%	Over 80%, Potassium, Calcium
Other Minerals Extracted	Potassium	Over 80%, Potassium, Calcium

Lithium Extraction Technology Comparison



Utilization of minerals found in salt water

- Lithium** Mobile devices such as mobile phones and laptop computers, and secondary batteries for e-cars
- Boron** Glass fibers, medicine, metals, cleaners
- Calcium** Paper, paint, rubber, PVC, etc.
- Potassium** Mostly used in fertilizers
- Magnesium** Animal feed, rubber and plastic hardeners, cement, flooring

03 CUSTOMER



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Creating Customer Value · Quality Management
CASE: Eco-Friendly Cars



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Chang In-hwan, Head of Carbon Steel Business Division

POSCO has been continuously adopting various marketing strategies to heighten customer satisfaction in order to maintain the best competitiveness in a market where competition is getting fiercer due to oversupply. At the basis of this, there were EVI activities that contributed to lower production cost, such as meeting deadlines, securing quality and better processing. However, we need to upgrade these activities to the next level.

In order to maximize customer satisfaction, we will discuss and cooperate on the customers' business management as well as sell products. In addition, we will continuously exert our efforts to maintain the world best competitiveness by carrying out Customer Value Innovation through ideal combination of POSCO Family capacity, going beyond all divisions of our company and the marketing division.

POSCO PRODUCTS

There are customers at the heart of POSCO. We raise customer value through continuous and innovative product development. We strive to make the world's best products for the new as well as our 1st-tier customers. POSCO is trying its utmost to develop high-performing new products that are trusted and safe.



Hot-rolled Steel

Major Applications Pipes, beams, automotive frames/wheels, containers, etc.

Hot-rolled products include the hot-rolled coil, which is formed out of hot strip mills, and the hot-rolled sheet, which is made by cutting hot-rolled coil. Some of the hot-rolled coils from hot strip mills are sold as finished products or used as intermediate materials for cold-rolled coils and electrical steel to be reprocessed later into high value-added products.



Cold-rolled Steel

Major Applications Automotive plates, high-end home appliances, metal equipment, etc.

Cold rolled steel is produced by rolling hot rolled materials at a low temperature. Its high quality surface finish and formability make cold rolled steel ideal materials for a wide range of products, from home appliances such as refrigerators and washing machines, to cars, industrial machinery and various construction materials.



Steel Plates

Major Applications Major Applications : Ships, large structures, and bridges, etc.

Plate products generally refer to steel plates with a thickness of 6mm or more. While they are mainly used for vessels, bridges, large structures, and shipbuilding plates, usage also includes a wide variety of special applications such as extremely low temperature containers, industrial machinery, and military equipment. More investment is underway in developing plate manufacturing technologies for welding and offshore structures, pressure containers and products under severely cold weather conditions to respond to sophisticated industrial needs.



Wire Rods

Major Applications Bridge wire, tire cords, architectural structures, springs, etc.

Wire rod products are materials of "wire," produced in the thin and long shapes, instead of coils or plates. They are divided into general and special steel. General steel can also be classified into general wire rods that are used in daily life, like screws and nails, and special wire rods which are used in the manufacturing of cars, bridges, machinery, submarine cables, etc. Special steel is used to manufacture automotive bolts/nuts, high tensile architectural bolts, bearings, springs, piano wire, tire cords, etc.



Electrical Steel Plates

Major Applications Transformer, motors, power generators, etc.

Being highly electromagnetic, electrical steel is in ever greater demand as the need for clean energy grows to support continuing efforts to conserve energy and prevent environmental degradation. This steel is also called silicon steel, due to its high silicon content, and is divided into grain-oriented and non-oriented steel sheets according to its magnetic property.



Stainless Steel

Major Applications Kitchenware, medical devices, building interiors/exterior, car parts, etc.

Being highly corrosion-resistant, stainless steel products are made from high value-added special steel that can be used in various applications without extra surface treatment. Stainless steel is mainly used in kitchenware, automobile parts, and chemical facilities. Ever since it was used in the construction of Incheon International Airport and the Seoul World Cup Stadium, in particular, its popularity as a material for building exterior has been rising.



Titanium Products

Major Applications Nuclear/thermal power plant, petrochemical plant, etc.

Titanium is a non-toxic eco-friendly metal with excellent strength-to-weight ratio and high corrosion resistance. In many applications, titanium offers opportunities for reducing operating costs by; better fuel economy through weight savings; improved energy conservation by efficient heat transfer; resistance to aggressive materials such as crude oil with hydrogen sulfide; and reduction in environmental cost caused by corrosion leakage.



Magnesium Products

Magnesium is a metal with the highest strength-to-weight ratio and mainly used for automotive parts, cell phones, and aluminum alloy. It is emerging as a popular material for the 3Cs (Computer, Communication, and Camera) and car die-casting parts along with aluminum alloy.

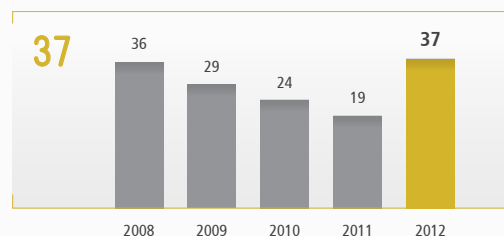
ECO-FRIENDLY PRODUCT

New Eco-Friendly Products

POSCO actively developed Eco-Friendly products which took up 65% of all the products developed in 2012. Also POSCO sold 252,000 tones of Eco-Friendly products that were developed between 2008 and 2012.

Development of Eco-Friendly Products

Number of Eco-Friendly Steel Products



Types of Eco-Friendly Products

Category	Key Features	Number of developments (2008~2012)
Environment Protection	<ul style="list-style-type: none"> Not containing environmentally hazardous substances/Blocks elements harmful to the human body Reduces noise or vibration/Enhances off-gas cleaning performance 	21
Energy saving	<ul style="list-style-type: none"> Lighter automobiles/Products that can skip a process or heat treatment Enhanced energy efficiency and processability 	90
Recyclability	<ul style="list-style-type: none"> Enhances corrosion resistance and life cycle/Enhances durability 	34

	High performance hot-rolled steel Hot-rolled high tensile structural steel ATOS 100, heavy equipment
	High performance cold-rolled steel <ul style="list-style-type: none"> Alloy coated steel plate with high resistance to corrosion Highly lubricant GI Cr-Free steel plate enamel steel plate for processing
	Steel Plates <ul style="list-style-type: none"> High-strength large heat input steel (more efficiency for shipbuilders when welding) Steel for marine structural uses in extreme cold High strength corrosion resistant petroleum and gas pipe steel plates
	Electrical steel sheet <ul style="list-style-type: none"> Extremely efficient non-oriented electrical steel sheet for air conditioners Cr-Free insulation coated non-oriented electrical steel sheet
	Wire Rods <ul style="list-style-type: none"> 2200Mpa grade wire rod for offshore structure wires Ball bearing steel for wind power generators



ECO-FRIENDLY PRODUCT

Side sill

Lower part of the vehicle body between the front and rear wheels

Crossmember

A structural section below the engine room to resist twisting

Martensite

A form of steel structure, very hard but not so malleable



Hot rolled high tensile steel over YS 900MPa (ATOS100)

With global warming, depletion of fossil fuel, the need for lighter automobiles to heighten fuel efficiency is ever more rising. Therefore, in order to make automobiles more compact, we are doing our best to develop high tensile structural steel which is stronger compared to the previous materials. In this sense, POSCO's high tensile structural steel ATOS100 has strength of over YS 900MPa, greatly contributing to the needs. We are also developing products with tensile strength of over YS 1100MPa.



YS355 MPa level steel for offshore structure for use in low temperatures

Due to the recent rise in oil prices, petroleum and natural gas development are taking place in deeper ocean. Therefore, offshore structures are also being built in polar regions or deeper sea. This is because development in these extreme regions can be profitable and the need for resources is growing due to depletion. The deep sea is still known to hold considerable amount of energy, and thus the offshore structure market will expand in the future as well.

POSCO developed the EN-S355G10M for offshore structures, which can guarantee temperatures down to -20°C compared to the previous -10°C. In addition, the thickness was raised from 75t to 100t, securing the safety of the structure even in the harsh oceanic environment. Moreover, the life cycle of the structure was extended, preventing oil leaks due to damaged offshore structures.

POSCO's offshore structure steel will be developed to have tensile strength of over YS 500MPa, with better performance in low temperatures and lighter weight.



35PNH1400L non-oriented electrical steel for efficient air conditioners

To keep pace with the high efficiency strategy in the home appliances industry following the new economic paradigm of low carbon green growth, POSCO has been continuously striving to enhance the features of compressor motor material, to enhance the energy efficiency of air conditioners and refrigerators, which are the most energy-consuming products. As a result, POSCO created the 35PNH1400L with better magnetic properties.

This product has 13.8W/kg of iron loss and magnetic flux density of 1.7T in 200Hz high frequency, which is a 3.5%, and 2.3% enhancement respectively compared to the previous 35PN 230. In addition, it enhances the efficiency of compressors for home appliances, contributing significantly to eco-friendly white goods.

In order to respond to the higher demand on motor core material in the HEV/EV eco-friendly automobile market, POSCO is not only focusing on developing the 35PNH1400L, but also highly efficient non-oriented electrical steel plates of various standards.



PosMart GI1470 steel plate for car stiffener

POSCO is consistently putting efforts to develop ultra high tensile steel plate to keep pace with the trend of making automobile frames lighter. In line with the regulations on CO2 emission, efforts to lighten the weight of auto bodies, and tighter safety regulations, the need for automobiles with high strength steel increase.

The 25%-offset crash test adopted recently by IIHS (Insurance Institute for Highway Safety) requires a safer manufacturing of automobiles by car makers. The side sill*, crossmember*, and bumpers are required to be made with high strength steel of over TS 1,400MPa to guarantee the safety of the passengers. POSCO's PosMart GI1470 steel plate is a Martensite* steel plate has strength of over TS 1,470MPa. With low carbon design, it has excellent weldability and also has better form compared to products of other companies. In addition, we also have developed a unique GI material before other competitors, so now we can apply this on the underbody of automobile that requires high corrosion resistance.

By developing the PosMart GI1470 steel plate, we plan to fulfill the expectations of the market, possessing both strength and corrosion resistance.

CREATING CUSTOMER VALUE

CEO's Philosophy on Creating Customer Value

In order to achieve the ultimate goal of sustainable growth, we need to understand the market changes and be equipped with a swift response capability. In the past, POSCO had been achieving growth by responding to the needs of the market requiring more stable steel supply. However, with fiercer competition in the steel industry both at home and abroad, and facing limitations in creating added value due to surging raw material prices, a new strategic measure is needed to maintain growth.

POSCO has upgraded its marketing strategy, going beyond price competition, expected in the harsh competitive business environment to value competition. This will enable us to provide customized values for each customer and build long-term trust with customers. POSCO will realize win-win growth between customers and the company by making continuous technological innovation and sales increases.

The CEO's business philosophy is to carry out customer-oriented marketing. 'Creative Management' is one of our 3 major business policies, which is to establish a virtuous cycle of creating customer value, to customers' success and customers growing together with POSCO. In this regard, 'Marketing 3.0' is serving our customers with our services and products with sincerity, and by doing so, we seek to share happiness with the customers and serve as a foundation for customer success.

Toward Customer-oriented Marketing

POSCO has been promoting a customer-oriented marketing program to realize Marketing 3.0. In the aspect of marketing strategy, POSCO established marketing strategies for each customer and region. In addition, the KAM (Key Account Management) department, set up to tend to customer's needs promptly, has been expanded to include global car makers, shipbuilders, and home appliances companies. To effectively deal with global sourcing from customers, POSCO had assigned one KAM team to take care of both domestic demand and exports by the same customer so that they can make an integrated response.

SOW(Share of Wallet)

Share of a person's total spending that's dedicated to buying products from a specific company

In order to realize our marketing vision of 'Your Trust and Success, Our Tomorrow', we need to listen to the customers as soon as possible. Therefore, we have been consistently strengthening field operations to stay close to the market and make decisions focusing on the customers. In addition, we are actively carrying out brand marketing and emotional marketing to facilitate communication with the customers. We are also providing capacity building programs for sales representatives to make the aforementioned activities possible.

Marketing Vision

Your Trust and Success, Our Tomorrow

Objective

- Company that customers want most to do business with Long-Term Business Partner
- SOW* (Share of Wallet)* No.1 Provider
- Leader that spearheads change toward a customer-oriented system

Strategy

- Establish customer principles and keep promises
- Provide global one-stop service
- Build a global brand asset
- Cultivate global B2B strategy marketers

Core Values

Customer Centricity



Global Mind



Creativity and Flexibility



Professionalism



Execution

Marketing Division Practice Guideline
Individual Promises to put into Practice

CREATING CUSTOMER VALUE

Promoting Customer Success Marketing

Based on the understanding gained through customer-oriented marketing, we are continuously working to satisfy hidden needs of customers as well as providing customized values for them. However, with acceleration of fiercer competition in the steel industry, the expectations of the clients are becoming higher, with various reasons behind customer's purchase decision due to globalization, we now need to go beyond customer satisfaction with products and services. Instead, we need a customer success marketing to address the customer's potential problems.

Customer success means achieving business objectives that the customers want, with the co-operation of POSCO. It is not just meeting the expectations of the customers. The marketing division established the customer success model to support customers with tailored products, services, and business solutions to systematically help the customers' success. POSCO has expanded its scope of marketing activities; from satisfying customer's primary needs related to Quality, Cost, and Delivery* to across-the-board marketing initiatives to care about all the departments – purchasing, marketing, production, and R&D – and even the customers of the customer. To this end, POSCO is pursuing active customer lock-in strategies; buying shares of customer companies, and making investment in overseas operations and logistics centers to maximize customer value.

EVI Activities

EVI (Early Vendor Involvement) first started with automobile companies, where the core parts suppliers participated early in the new product development process to improve quality and reduce costs. POSCO expanded this to a "POSCO style EVI (Expanded Value Initiative for customer)" that identifies the needs not only of our customer, but also the customer of that customer, to suggest and provide a total solution including product and technology, before even being asked.

In the energy industry, we adopted the concept of the Total Sourcing Solution, which provides various materials for a project to accommodate the requirements of the energy industry as a new growth business. POSCO concentrated its competence – and the whole Family's – to meet the needs of energy customers with huge growth potential.

EVI teams were formed to proactively respond to customers' needs – home electronics, construction, steel plates, wire rods, and API steel* - in addition to the automotive industry and the efforts are beginning to pay off in each sector.

First, for industries with high demand for steel such as automobiles, we implemented the EVI program to suggest new materials even before the demand is created, which is a step further from the involvement in the development process of a new vehicle. For this, we participated in the very beginning phase of the development, applied high strength steel for cars and were able to achieve lighter weight and lower cost.

In the shipbuilding sector, we started the development of steel products for offshore plants to respond quickly to the changing needs of shipbuilders, who are moving from the traditional bulk carrier business to the energy and plant sector. In addition, regarding the energy sector, we adopted the concept of Total Sourcing to provide various materials that are need in individual projects. Moreover, we have been meeting the demands of the energy industry that have a big growth potential with POSCO Family's capacities.

With home appliances, POSCO is responding to the needs of the home appliances companies for quick reduction in costs. POSCO suggested a cost reducing thin plate with black resin, and applied it in our production. Therefore we were able to provide more than 30,000 tons of steel annually, and clients enjoyed cost reduction of more than 300 million KRW. Moreover, by applying black resin coated steel that does not require protection films, POSCO was able to provide 33,000 tons of steel to reduce 4.86 billion KRW in costs.

In the construction sector, we suggested to use hot rolled plates for flanges instead of steel plates when making large H beams (width 1,200~1,800mm, thickness 18~25t). Thanks to this, the clients reduced production loss, gaining about 5% of price competitiveness and better meet the date of delivery. As a result, we were able to support the new business of our client. As such, based on higher value of the clients through continuous provision of total solutions, POSCO seeks to build a foundation for win-win situation for customers and the company.

Quality, Cost, Delivery

Abbreviated as Q.C.D

API steel

API is an Abbreviation of American Petroleum Institute, API steel is used in making petroleum, gas pipes

CREATING CUSTOMER VALUE

Maximizing Customer Satisfaction

POSCO conducts annual customer satisfaction surveys to identify their reaction, complaints, and improvements to be made to its services and products in general. The survey, which is commissioned to a professional survey agency for objective results and to hear VOC*, is the basic tool with which POSCO can become more customer-oriented. The survey consists of a questionnaire and in-depth interviews of domestic and international customers involving 6 categories including sales representatives, service, delivery, and product quality (5 categories for overseas), on a scale of one to seven. In the survey conducted on 220 domestic and 301 overseas customers from 2012 August to October through a survey agency, the satisfaction rate for domestic customers was 88, and overseas customers was at 81. The results for domestic customers dropped by 3 points and the results for overseas customers are the same as the year before. This is believed to reflect customers' higher expectancy in the midst of severe economic recession and fierce competition in the steel market. Based on the survey results, POSCO analyzed elements of customer dissatisfaction, identified improvement tasks, and is currently implementing them at the POSCO Family level including the head office, overseas sales branches, processing centers and trading companies.

Moreover, in order to support customer success in the midst of fierce market competition, POSCO is operating "marketing college" program, providing education to strengthen work capacity by ranks, customer service manner training, lectures for customers and many other tailored education. By implementing customer-oriented mindset through such training, POSCO can nurture talents that create customer value and lead global business.

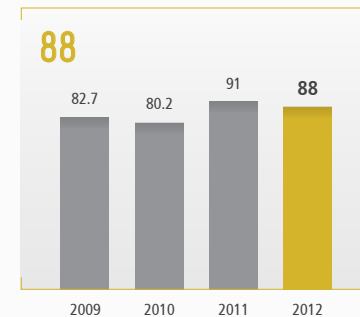
POSCO is also running group education and e-learning classes to provide marketing training for customers not only to train POSCO employees but also to strengthen customer competitiveness and friendship with POSCO. Through such activities we hope to help the customers enhance their merchandiser's understanding of steel products and its manufacturing process, thereby contributing customer satisfaction. And through training at steel mills, POSCO hopes to create more communication opportunities with its customers.

Since 2003, POSCO has been operating the CRM (Customer Relationship Management) system that accumulates integrated customer data. The CRM system enables POSCO to keep track of business history with the customer and operates an integrated database that helps it better understand the customer to provide services tailored to their needs. Also, POSCO improved the level of customer service and the efficiency in sales and marketing.

Customer Satisfaction

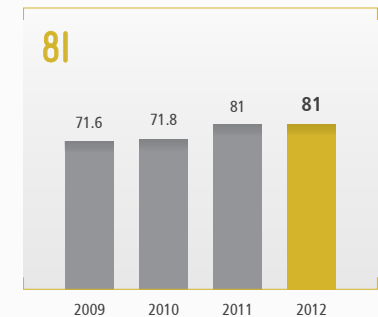
Domestic

Unit: points, out of 100



Overseas

Unit: points, out of 100



CREATING CUSTOMER VALUE

Customer Success Cases

● DAEWON KANG UP Co., LTD.

– High Tension Coiled Spring Steel for the Suspension of a Car

These days, creating environmentally friendly products is the top priority of the auto industry. In particular, how to improve fuel efficiency is gaining much attention. POSCO has been trying to secure the quality of products by developing the lightening of automobile parts to improve value of customers.

One of automobile parts is a spring made from steel for suspension, which gives a comfortable ride by absorbing impact from the road and protects a car body and engine. In order to make light spring steels, POSCO asked its supplier DAWON KANG UP, a spring processing company, for the production of light spring steels. It hesitated the offer at first, because of huge amount of money, efforts and expected troubles in its production, but it finally agreed the joint development of light spring steels with POSCO and conducted the joint research for twelve months.

Thanks to the high tension coiled spring steel, a result of joint effort, a suspension with a smaller volume of spring steel could be produced. The result of quality tests done by auto companies showed the product's quality beat our expectations, with fatigue life and corrosion resistance increasing 10 %. DAWON KANG UP could save manufacturing cost by reducing the amount of material use, and working hours was also saved, which led to the enhanced productivity. Auto companies could increase fuel efficiency, and by purchasing low cost springs, they could achieve cost competitiveness in the global market.



POSCO developed a high tension coiled spring through joint research with its partner DAWONKANGUP. An employee at DAWONKANGUP is testing the corrosion resistance of coil springs.

● High Strength Thick Plate for ENK-CNG Buses' Fuel Tanks

Among intra-city buses, CNG buses use Compressed Natural Gas (CNG) for fuel. CNG is produced by compressing vaporized Liquefied Natural Gas (LNG), and recognized as a clean fuel because it emits less pollutant. However, CNG buses have disadvantage in safety: they are at a risk of explosion because they run carrying CNG tanks.

CNG tanks used in Korea are 70 kg hot pipes imported from a Japanese steel mill, and were produced by adding iron plates at both sides of opening. However, this method had financial and safety problems: It required expensive materials, the manufacturing process was complicated, and welding parts which had high risks of producing faulty tanks.

In order to solve these problems, ENK, a Korean manufacturer of compressed gas containers, developed Deep Drawing & Ironing (DDI) method, an easy way of manufacturing tanks, and reinforced their strength by using thick plates. At first, POSCO supplied 70 kg thick plates to ENK. And after that, POSCO has tried to develop a 110 kg steel with super high strength to expand the storage capacity of CNG tanks.

Thanks to this effort, buses with 110 kg CNG tanks has been installed not only all buses in Seoul but also in red buses in Gyeonggi area. A CNG tank is gaining recognition because it's cheaper and safer than exiting imported products. Made with POSCO's thick plates and ENK's DDI method, it acquired the certification from Korea Gas Safety Corporation, and is expanding into the overseas market by achieving ISO certification.



CNG tanks, installed in intra-city buses as a result of joint effort of POSCO and ENK, are praised that they're more excellent than existing imported products.

QUALITY MANAGEMENT

Maturity of Quality Management

	Beginning
	Improving
2011 Level ▶	Succeeding
2012 Level ▶	Controlling
	Leading

With the goals of achieving “The POSCO Quality,” which will touch the customers’ soul, POSCO pursues win-win quality management not only at the head office, the works, and overseas production plants, but also with the POSCO Family and suppliers. Under the supervision of the Quality Management Group, POSCO implements various strategies to complete the global quality management system and provide differentiated customer values, enhancing the competitiveness of POSCO Family.

Declaration of the POSCO Family Quality Charter

In 2010, POSCO Family Quality Charter was declared in order to rise as a global leading company through customer value creation. Quality is the solemn pledge to the customer. POSCO will continue building its unique quality identity differentiated from competitors based on the management’s strong will for quality management.

The Charter is composed of the vision of The POSCO Quality and the three core values. In the vision of “The POSCO Quality,” POSCO is synonymous with world leading quality, that will touch the customers’ soul. The three core values are Customer Inside, Basic Inside, and Synergy Inside. The following is the code of conduct to practice each core value.

POSCO Family Quality Charter

THE POSCO QUALITY

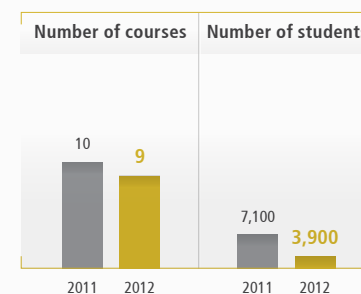
Top quality that touches the customers’ soul

Customer Inside	Create value reflecting potential needs of the customers
Basic Inside	Value basics and principles and eliminate declinations and wastes
Synergy Inside	Pursue win-win growth of the supply chain based on trust and communication

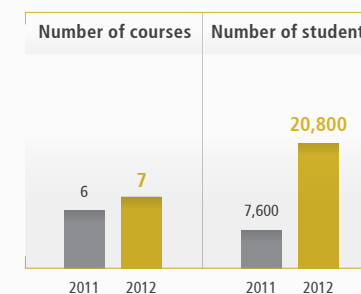
Customized Quality Education by Ranks

To raise awareness on quality among employees, and help them learn more about quality management, POSCO runs a customized education programs for each rank. In 2012, a total of 24,700 employees received quality education through 10 offline classes and 7 e-learning courses including quality strategy lecture for executives and group leaders and quality mind education for new employees. In particular, quality management expert academy, which provides in-depth education on the overall quality management, was first created, producing 64 quality experts. They are playing a leading role in diagnosing and providing guidance for quality management.

Offline Classes



e-Learning



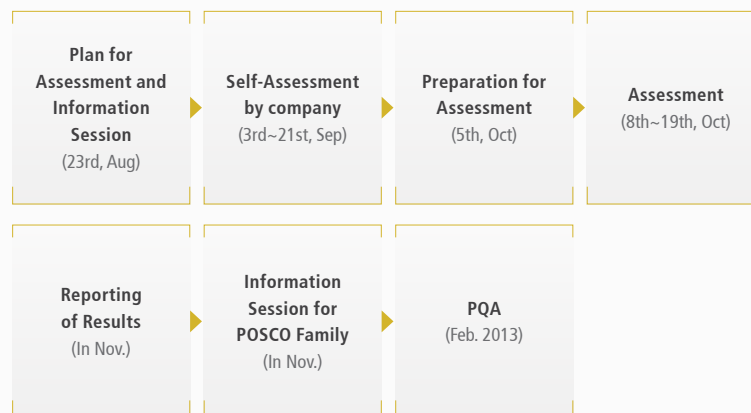
Quality Management Assessment

POSCO conducts quantitative evaluation of its process achievement and effectiveness of quality management system, and carries out quality management analysis of POSCO Family every year in order to make continuous improvement. The diagnosis system is based on the core values and code of conduct, and consists of about 50 categories. It evaluates quality management maturity by dividing it into 5 stages of Beginning ▶ Improving ▶ Succeeding ▶ Controlling ▶ Leading. POSCO is at Controlling level, serving as a control tower of quality management of subsidiaries, and POSCO Family has been showing continuous improvement, moving up one stage in 2012 to Controlling stage from Succeeding level in 2011. In particular, in order to secure service quality competitiveness in manufacturing, POSCO developed service quality diagnosis model for the first time in the industry in 2012. From now on, POSCO plans to develop diagnosis model not only for manufacturing but also for subsidiaries operating in E&C and service industries.

QUALITY MANAGEMENT

2012 Quality Assessment Overview

Subjects : 25 companies of POSCO Family (13 manufacturers, 4 E&C, 8 services)
 Period : 2012.10.8~10.19
 Diagnosis Committee : Quality management group + KMAC
 Contents to diagnosis : Execution and materialization of core values of the quality charter (45~50 detailed items)



POSCO Quality Awards

POSCO Quality Awards (PQA) are granted to POSCO Family companies with outstanding quality management through the annual POSCO Family Quality Diagnosis. The types of awards are categorized as the Grand Innovation Prize, Take-Off Prize, and Synergy Prize. Candidates are classified into five groups as to the size of the company, e.g., large corporations, medium corporations, small corporations, suppliers, outsourcing partners, in which one company per group is given awards. PQA motivates subsidiaries to implement the POSCO Family Quality vision, greatly contributing to the continuous upgrade of quality management and synergy creation between POSCO Family

Classification	2011	2012
Grand Prize	POSCO Gwangyang Works	POSCO E&C
Innovation Prize	POSCO TMC	POSCO Chem Tech
Take-Off Prize	POSCO A&C	eNtoB
Synergy Prize	Stollberg & Samil Corp.	Buhmwoo
Synergy Prize	Po Roll Tech	Gwanghee

POSCO Supplier Quality Certification

POSCO founded the POSCO Supplier Quality Certification in 2012 in order to establish a quality management system for core material suppliers and outsourcing partners to continuously improve on quality and to seek shared growth of supply chain by implementing the system. The POSCO Supplier Quality Certification is managed through 5 stages of PDCA cycle which consists of selection, operation, evaluation, certification, and monitoring. The quality certification is issued according to the supply capability on core quality materials and is a system which can be applied to the final evaluation and selection of future POSCO suppliers and outsourcing partners. This system is managed mutually along with the quality management systems of the suppliers and outsourcing partners, and is planned to expand from the 6-company pilot run conducted in 2012 to include all POSCO core material suppliers and outsourcing partners.

ECO-FRIENDLY CARS

Eco-Friendly automobile material development

POSCO creates customer values while enhancing corporate value through innovation and also contributes to increasing social values. POSCO produces green materials to pave the way for the development of eco-friendly automobiles.

An automobile requires many different materials such as steel and magnesium. If the materials get lighter, automobiles become more eco-friendly as mileage and efficiency increases. POSCO is developing steel with better weight-to-strength ratio and other materials that could make the same products but are stronger, more flexible and durable.

POSCO has focused on R&D and production of steel precuts to make automobiles lighter by supplying eco-friendly materials such as AHSS (Advanced High Strength Steel). PosMart GI1470 is an ultra-high strength steel plate of POSCO that guarantees a tensile strength of over 1,470 MPa. PosMart GI1470 is a material that has good weldability due to a low-carbon design and better form compared to similar steel plates from other companies, which can satisfy customer needs. Because of these qualities, automobile companies are able to use PosMart GI1470 steel plates when they need automobile parts that require weight reduction and corrosion resistance.

POSCO's high-elongation 1180 steel plate is an outstanding product with a high elongation property. It has a superior processability compared to existing materials which allows its use in parts such as B-Pillars in automobiles where forming is difficult. High-elongation 1180 steel plate reduces alloy elements from POSCO'S TRIP steel, previously used for producing B-Pillars, which improves weldability, strength and elongation property. These properties ultimately improve mileage and contribute to the eco-friendly movement by reducing the weight of automobiles.

POSCO is also reducing weight of automobiles through our new material, magnesium. By developing seat frames of automobiles in magnesium, which is lighter but also stronger than aluminum, we are able to make automobiles more fuel-efficient and comfortable while maintaining the same strength. POSCO is especially focusing on the development of light bodies for electric automobiles, a popular trend in the current automobile industry. In May of 2011, 17 steelmakers around the world announced the result of the Future Steel Vehicle (FSV) project started the WorldAutoSteel consortium and POSCO joined the project with the development of lightweight body panels for compact electric vehicles.

Now, POSCO is in the process of developing the POSCO Body Concept-Electric Vehicle (PBC-EV). In February 2011, the company completed the prototype after a series of steps from review of styling package, design, analysis, part manufacturing and assembling. PBC-EV uses over 40% of the Ultra-High Strength Steel (UHSS) than average car materials, and employs cutting-edge technologies including hot press forming and a multi-directional roll forming (MDRF) process. This has proved to reduce the automobile weight by 26% and reduce GHG emission about 50% compared to conventional vehicles in terms of the Life Cycle Assessment (LCA).

Project	Car Body Weight	GHG Emission	Development Goal
World Auto Steel FSV (17 companies, including POSCO participated)	35% reduction in compact cars	70% reduction	Commercial production goal for 2020
POSCO Body Concept Electric Vehicle	26% reduction in medium cars	50% reduction	Commercial production goal for 2015

B-Pillar

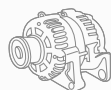
B-Pillar is the vertical support on a car's side and designated as A, B, C from front to rear.

ECO-FRIENDLY CARS

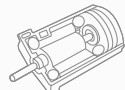
Along with developing lighter car frames, POSCO is also in process of developing electrical steel sheets for electric vehicles. POSCO created a project team called EM-ES (Eco Motor-Electrical Steel) at POSCO Technical Research Laboratories to develop eco-friendly car plates. We are also promoting the EVI initiative with over 10 carmakers home and abroad.

Materials for Eco-Friendly Automobile

Motors used in Eco-friendly Automobile



Alternator 50PN470



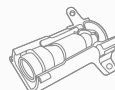
Electric Compressor Motor 50PN350



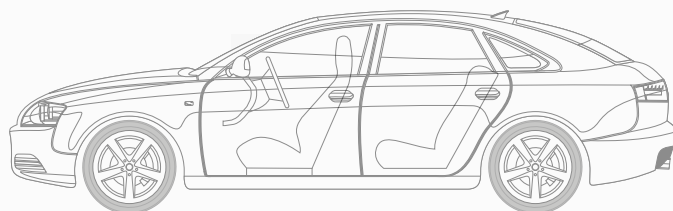
Traction Motor 35PN230



ISG 35PN230



EPS Motor 50PN470



Wire rod of 2300MP α grade for high-stress engine valve spring · PosMart CR/ GI 1470 steel plate for automobile reinforcements · high-elongated CR 1180 steel plate for automobile reinforcements · GI 550 Hot Press Forming steel plate for automobile frames · High YS 1180CP Steel · Develop magnesium plate for automobile seat frames · 4000MP α grade Ultra-high strength wire rods for tire cords

04 ENVIRONMENT



CONTENTS

Environmental Management · Climate Change
Eco-Friendly Process
Environment Partnership · CASE: Biodiversity

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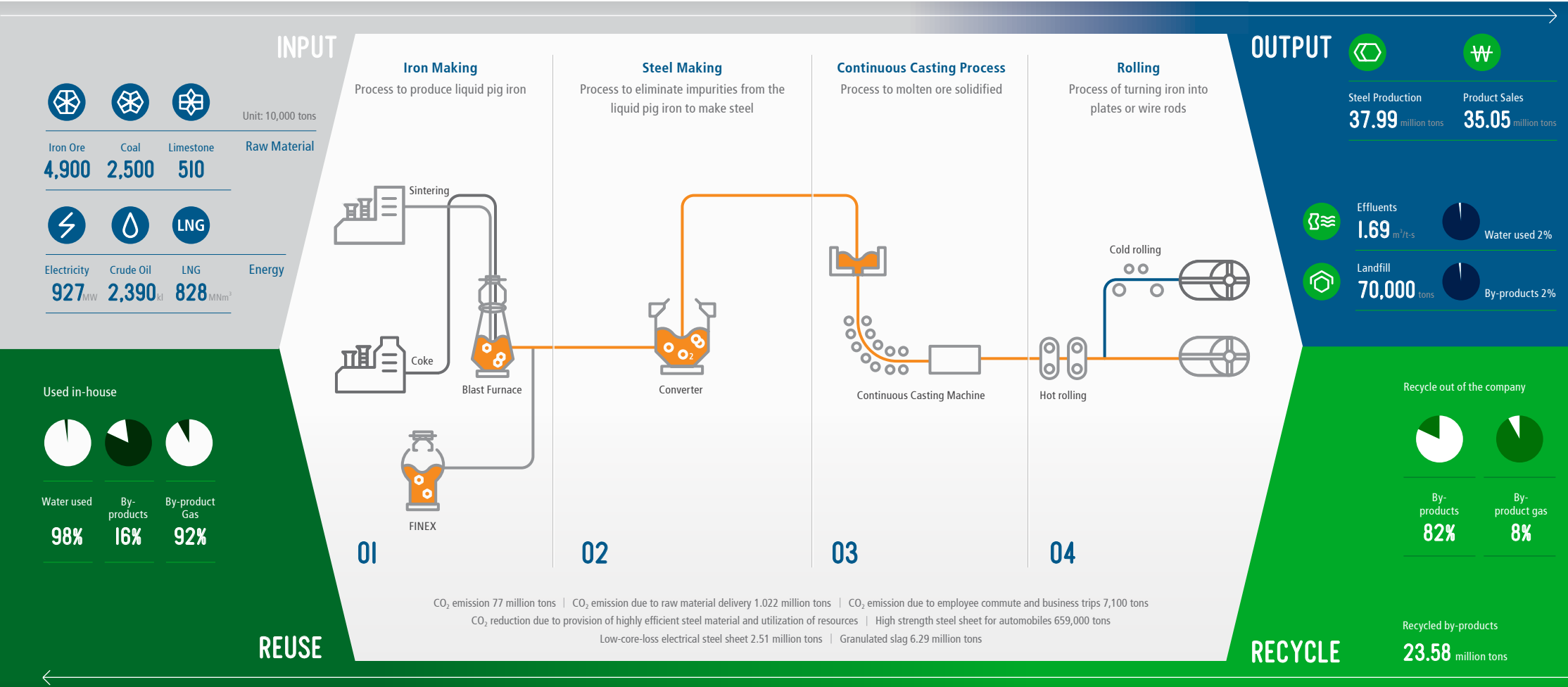
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PAGES

Kwon Oh-joon, Chief Technology Officer

POSCO strives to reduce greenhouse gas emission through reducing energy use and developing innovative technology. In particular, to reduce greenhouse gas emission on the customers' side, POSCO develops and provides various eco-friendly products that to beyond the expectations of the customers.

Through continuous R&D, we will not rest on better quality compared to our competitors but will do our utmost to raise POSCO products' competitiveness by producing World First products with innovative quality.

DIAGRAM: CIRCULATION OF RESOURCES



ENVIRONMENTAL MANAGEMENT

POSCO has set environmental management as its business management philosophy, seeking to become an authentic eco-friendly company by keeping in mind the environmental ethics and carrying them out. We are preparing for another take-off for low carbon green growth by protecting the environment with our environmental management system and POSCO's original technology development as well as go beyond the limits of the steel industry.

Global POSCO Family Environmental Management

POSCO recognized the importance of the environment and its responsibility for a sustainable development. Thus, from 1995, we have been putting the environmental management system in place by publishing environmental reports. In 2010, we adopted the POSCO Family Environmental Management Directive and with the 'Charter of Firm of Endearment', we are doing more to focus on the company-wide environmental management. In 2012, we standardized the Environment Impact Evaluation process, and established the new business environment impact evaluation and response procedures. We have shared them with our subsidiaries and plan to use them when they expand their business.

POSCO Family Environmental Management Directive (Revised in December 2010)

Recognizing the environment as the core element of our management strategy, we will practice the following in order to spearhead low carbon green growth, assuring environmental integrity based on technology development and open communication.

- Build a Family-wide environmental management system based on ISO14001 and secure global leadership.
- Comply with environmental regulations and continue to improve the entire process in consideration of the environment.
- Minimize the discharge of contaminants by adopting cleaner production methods and implementing the best available pollution preventing technologies.
- Capitalize on natural resources and byproducts efficiently to establish a resource circulating society and improve ecological efficiency.
- Lead low-carbon green growth by using cleaner energy sources and implementing green technology.
- Disclose our environmental management performance to secure management transparency and sustainability.

Green PCP (Green POSCO Certified Partner)

POSCO's own voluntary environmental certification program that issues environmental management certificates to outsourcing partners and suppliers

Environmental Policies

POSCO recognizes environment as an important factor of our business management, and comprehensively manages environmental management system and environmental risks. As POSCO's business expands, POSCO declared the POSCO Family Environmental Management Directive that includes subsidiaries, suppliers and outsourcing partners. By doing so, we are promoting the vision, strategy, and action plans to execute the environmental management system.

POSCO Family Environmental Vision/Strategy/Action Plan

Vision

Set a global standard in the environmental management leading low-carbon green growth

Strategy

Establish integrated environmental management system
Strengthen environmental risk response capability
Open communication core performance indicators

Core Performance Indicators

ISO 14001 Certification Rate (subsidiaries)	Green-PCP Certification Rate (Outsourcing partners /suppliers)	ISO 14001 Cultivating ISO 14001 Assistant Auditor	Environmental Management number of e-Learning Program enrollment
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POSCO Environmental Management Policies

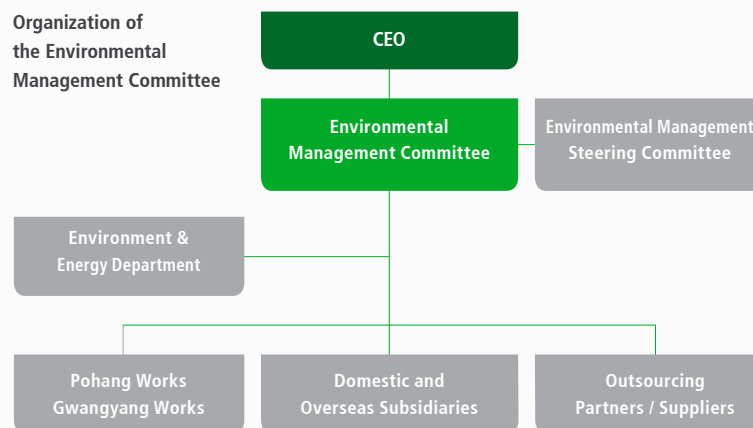
Category	2012 Objective	2012 Results
ISO14001 Certification (subsidiaries)	28 companies	28 companies (100%)
Green-PCP* Certification	95 companies	95 companies (100%)
Cultivating ISO 14001 Assistant Auditor	20 individuals	22 individuals
completion of environmental management e-learning	2,000 individuals	9,697 individuals

ENVIRONMENTAL MANAGEMENT

Environmental Organization

Chaired by the CEO, POSCO operates the Environmental Management Committee, consisting of presidents and executives from domestic and overseas subsidiaries, outsourcing partners, and suppliers. The Environmental Management Committee holds regular annual meetings to analyze domestic and international environmental trends and discuss issues to establish mid-term environmental and energy strategies at the POSCO Family level. The mid-term plans discussed at the Committee are evaluated and decided upon together with the mid-to-long-term business strategy at the Management Committee (expert committee under the Board of Directors). Then, the plans are reported at the monthly Enterprise Management Meeting and Executives' Meeting. In addition, we cooperate with POSRI and RIST to analyze the policies and management trends of in and outside Korea, and develops technology.

Organization of the Environmental Management Committee



Organization of Environmental Committees

Category	Environmental Management Committee	Environmental Management Steering Committee
Meetings held	Once (Nov.)	Twice
Organization	<ul style="list-style-type: none"> CEO Chairman : CEO Members : CEO at Subsidiaries 	<ul style="list-style-type: none"> Chairman: Head of Environment and Energy Planning Department Members: Executives in charge of environmental management at Family companies
Main Functions	<ul style="list-style-type: none"> Approve POSCO Family environmental management directive strategy and objective Discuss major environmental issues and establish response measures Reporting of environmental management performance and present the Green Environmental Management Award throughout the Group 	<ul style="list-style-type: none"> Establish implementation plan for each environmental management task Identify and manage environmental risks Spread outstanding environmental technology and management system

Key Family Environmental Management Programs

Environment of Education

POSCO provides various programs to enhance POSCO and POSCO Family's management and employee's understanding and awareness on environment. The Environmental Management education is provided online, encouraging the participation even outsourcing companies and suppliers to actively take part in enhancing the environmental activities. We are also providing internal auditor and international auditor education and environment education for the management to develop environmental management capability. In addition, we operate the Family environmental management community to promote information exchange among subsidiaries' working-level employees in the environment division.

Environmental Evaluation of Subsidiaries

To support the establishment and improvement of environmental management system, we carry out environment evaluation on subsidiaries which acquired ISO 14001 certification. We have provided ISO 14001 international audit training program for personnel in the environment division in subsidiaries. By doing so, we were able to secure experts for environmental risk assessment. The trainees take part in mutual environment assessments among subsidiaries, leading the POSCO environmental management system. Moreover, they execute theme-based assessments on major environmental risks (e.g., waste water, harmful chemical substance), managing environment risks in the Family level.

Environmental Management Awards

In order to strengthen environmental management competitiveness, POSCO holds the 'Environmental Management Awards' to award subsidiaries which achieved outstanding environmental performance. The subsidiaries are evaluate on the environmental management system, innovation to improve the environment and energy sector, utilization, and effort, and the CEO awards outstanding subsidiaries. The evaluation group consists of the CTO as chairman, and the management of Environment and Energy Dept., Steel Technology Strategy Dept., POSRI and RIST.

ENVIRONMENTAL MANAGEMENT

Environmental Performance Management

POSCO manages its environmental performance in an organized manner to effectively run the environmental management system and to achieve its environmental goals. We assess the impact and risks that its business activities have on the environment, continuously manage and analyze the environmental achievements, and share the result with our stakeholders in an attempt to keep on improving its environmental commitment.

Environmental Risk Management

In order to minimize the environmental impact and management risks due to the environment, POSCO is managing and analyzing risk factors in an organized manner. We see opportunities in the rapidly changing market as well as the domestic and global regulatory environment and relevant issues, and reflecting the possible impacts of these in drawing our mid to long-term business strategy and investment decisions. As part of an effort to deal with the policy and economic risks such as the restriction on green house gases and energy use, environmental protection, etc., we monitor the relevant regulations and policies to identify lurking risks to our business, while actively taking part in related discussions to support the development of rational policies.



Environmental Impact Assessment

POSCO is conducting a regular examination of the ecosystem-air, water, and other living environment-around Pohang and Gwangyang steelworks to prevent the surrounding environment. We operate an environmental patrol to check the air quality around the two sites and measure the pollution level of a specific area at the request of the residents and provide the results immediately to update them on the environmental conditions. We commission professional agency to perform environmental impact assessment prior to the construction of overseas plants and national steelwork facilities and submit the findings to the government.



ENVIRONMENTAL MANAGEMENT

Operating an Environmental Management System

POSCO has been running an ERP-based environmental management system (POEMS: POSCO Environment Management System) for the systematic management of environmental data since 2001. The environmental data collected through the TMS at Pohang and Gwangyang Works is transmitted in real-time to the local government and the Ministry of Environment. The collected data is open to employees, and major environmental indicators are displayed on the electronic display located outside the plant so that local residents can see them as well. Since POSCO acquired the ISO 14001 certificate in 1996, annual external verifications as well as semi-annual internal examination lead by our environmental division are being carried out. The results will be reported to the top management, which will then be reflected in POSCO's environmental strategies and goals to ensure the efficiency in our environmental management system. POSCO is making improvements on the existing system to build "New POEMS," a global web-based environmental management system, by end 2014.

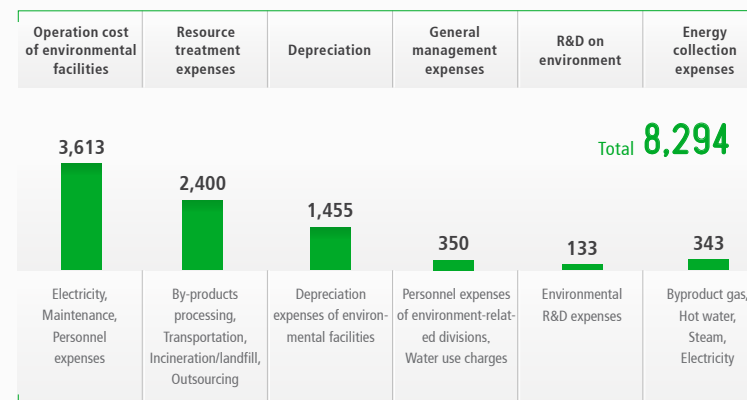
Environmental Accounting

POSCO has been operating an environmental activity costing system based on the ABM (Activity Based Management) method to analyze our environmental performance from an accounting perspective and reflect the result in decision making in the top management. It is designed to simultaneously analyze costs and environmental benefits from energy recovery and turn by-products to resources and provide information to major stakeholders such as the shareholders, investors, community members, etc. The "New POEMS" will produce a visual presentation of the environmental accounting results for the executives to assist a swift decision making on environmental investment and cut costs.

In 2012, POSCO continued to invest in improving the environment despite the headwinds. POSCO's investment in environmental facilities rose by KRW 151.2 billion from the previous year to reach KRW 634 billion, representing 32.6% of the total facility investment.

Environment Costs in 2012

Unit: KRW 100 million



Environmental facility investment in 2012

Unit: KRW 100 million



* Major investments in 2012

- Pohang: Installed closed storage tanks and B/C as well as a CSU (Continuous Ship Unloader). Increased the collecting capacity of the steelmakers 2 and 3, etc
- Gwangyang: Installed closed storage tanks and B/C. Improved the drainage system within the site. Installed additional collecting chambers in the sintering plants 1 and 2.

ENVIRONMENTAL MANAGEMENT

Environmental management achievements

In order to minimize emissions and the use of natural resources, POSCO has been making continuous efforts to improve our processes and eventually contribute to preserving the community's environment. POSCO aims to maximize the eco-friendly value of steelmaking by-products through recycling and to create added value for the community through various activities to protect biodiversity.

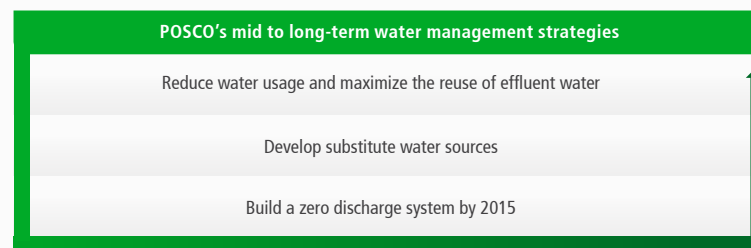
Water Management

Recognizing water as a major risk factor on a global scale, POSCO conducted an analysis on water usage, potential risks and opportunities and established mid-to-long-term water management strategies. POSCO aims to reduce the risk of water shortages and secure the stable supply of water by recycling wastewater, cut water usage, and produce replacement water. POSCO participated in the Water Management Project by the WSA from 2007 to 2011 and has been actively utilizing the WBCSD guideline on water supply and WBCSD Water Tool to keep on improving its water management programs. And we have been participating in the Water Disclosure program of the Carbon Disclosure Project to address related risks by providing information about corporate responses to climate change, for 4 years since it first started in 2010.

POSCO analyzes the water usage and discharge at each plant and identifies areas that need improvement to optimize water efficiency. At Pohang, we reduced water usage by 6K tons per day after tightening up the management of leakage ratio. Water usage was also reduced by 10K tons per day through raising the degree of enrichment by better managing the cooling water. We keep working on ways to increase the degree of enrichment, and we strive to cut the water usage further to bring down the amount of water purchased to 3 tons for every 1 ton of crude steel by 2015. At Gwangyang, each plant is encouraged to submit ideas to further cut water usage and act on them. Gwangyang plants are also improving the wastewater discharging process of the water circulation system and installing rainwater collection system. The progress on such activities is shared through weekly newsletter to encourage our employees to actively take part in water conservation activities.

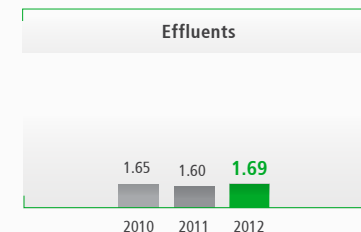
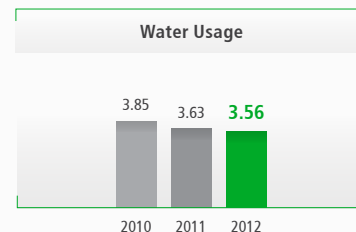
At Pohang, over 5,500 tons of treated water is being recycled. Rolling oil wastewater is separately collected and treated according to the chlorine levels, and this enabled us to reuse over 8K tons of wastewater per day. At Gwangyang, over 60K tons of wastewater such as the discharged water from treatment plants, muddy water, and the water from the new storage yard for materials, and over 14K tons of clean wastewater such as alkaline wastewater from cold rolled mill, etc.

R/O (Reverse Omosis)



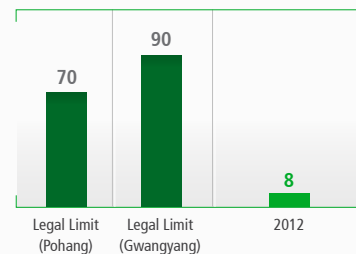
Water Intake for Operations and Effluents

Unit: m³/T-S



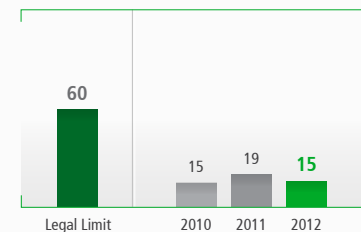
Final COD Concentration in Effluents

Unit: mg/l



Final T-N Concentration in Effluents

Unit: mg/l



ENVIRONMENTAL MANAGEMENT

VOCs Volatile Organic Compounds

NOx Nitrogen oxides

SOx Sulfur oxides

Voluntary Agreement to Reduce Chemicals Emissions(30/50 Program)

the target is to reduce chemicals discharge by 30% within 3 years, and by 50% within 5 years

Voluntary Agreement to reduce Persistent Organic Pollutants(POPs)

Reducing the dioxin emissions to 50% of 2001 levels

MSDS (Material Safety Data Sheets)

Data program to ensure material safety

REACH (Registration, Evaluation and Authorization of Chemicals)

The European Union regulation on chemicals

RoHS (Restriction of Hazardous Substances)

Regulations set by the EU on the restriction of uses for certain hazardous substances

PFOS (Perfluorooctane Sulfonate)

Fluorosurfactant that contains persistent organic pollutants

SVHC (Substances of Very High Concern)

The producer or importer of the articles shall submit SVHC notifications to ECHA when the substance has been included on the candidate list as discussed above and the substance is present in the articles above a concentration of 0.1% weight by weight (w/w) and the total amount of the substance in the articles exceeds one ton per producer or importer per year.

Air

POSCO is pursuing various efforts and voluntary cooperation activities to improve the air quality near the steel works. Pohang Works is implementing the "Air Quality Improvement Big-Y Project," working with related departments to closely control potential emission facilities and to reduce the fine dust emission at the steel works.

17 industrial sites in the Gwangyang Bay region, including Gwangyang Steel Works, have been involved in the 2nd Voluntary Agreement for Air Pollution Reduction in the Gwangyang Bay Region (2012~2016) along with the Jeollanam-do Office and the Ministry of the Environment. In the 2nd agreement, VOCs* were included in addition to the NOx* and SOx* factors from the 1st agreement (2006~2011), and agreed on a reduction target of 13% by 2016, using the standard from 2008.

Chemicals/Dioxin

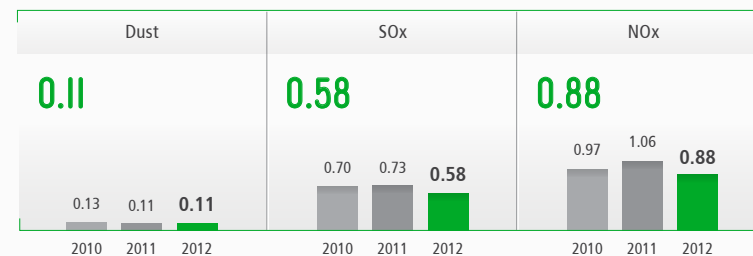
POSCO completed the 1st round of projects for the government and civic-group led "Voluntary Agreement to Reduce Chemicals Emissions(30/50 Program)*" (2005-2011) as well as the Voluntary Agreement to Reduce Persistent Organic Pollutants(POPs)* (2006-2010). The company continues its effort to reduce emissions. As a result, in 2012 POSCO was able to reduce dioxin levels by 15% (target: 50% of 2001 levels), surpassing the reduction target by 35%.

Chemical Control Framework

Chemical substances contained in products are increasingly controlled by strict regulations around the world. Against this backdrop, POSCO posted the results of the certified tests (ex. MSDS*, REACH*, RoHS*, PFOS*) by materials in reference to the EU RoHS and the latest candidate list of SVHC* at POSCO's e-business site (www.steel-n.com), available to the public.

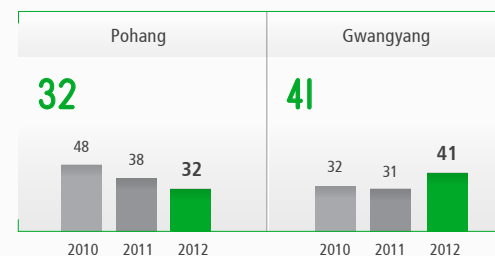
Air Pollutants Emission

Unit:kg/T-S



Chemicals Emission

Unit: ton/yr



* Gwangyang: Emissions increased due to more sintering facility and augmentation of cold rolling line installed

ENVIRONMENTAL MANAGEMENT

● Resource Management

The total amount of by-products produced at Pohang and Gwangyang Steel Works in 2012 was 23.96 million tons. Among the by-products, slag* accounts for 74% (blast furnace slag 46%, steel-making slag 27%), dust and sludge 15%, and others 12%. POSCO recycled 98.4% of the by-products and the rest was treated safely through either incineration or solidification for landfill. 100% of the blast furnace slag and steelmaking slag are recycled as cement material, aggregate substitutes, or others. POSCO found diverse ways to reuse its by-products to create high-additional value. 76% of the blast furnace slag is reused as granulated blast-furnace slag, and the steelmaking slag is reused as material to restore the marine ecosystem.

Eco-Friendly Use of Slag as Cement

Granulated blast furnace slag is obtained by quenching molten iron slag from a blast furnace with water spray, then dried and ground into a fine powder. It is used with cement clinker* to produce cement. The granulated blast furnace slag prevents the exhaustion of mineral resources and reduces CO₂ emissions. In 2012, POSCO substituted 8.01 million tons of slag for cement, which is estimated to reduce total emissions of GHG by 6.29 million tons.

POSCO developed a new cement material, PosMent, which is of better quality and eco-friendlier than the existing slag cement. PosMent, can help preserve natural resources such as limestone and reduce carbon emissions by roughly 70% compared to the conventional cement production process. It has been pilot tested on actual construction sites such as large scale constructions that are susceptible to cracks and buildings located in coastal areas, and acquired successful results.

Export of Granulated Slag and Slag Powder

In 2011, POSCO made its first export of granulated slag based on an annual contract, and in 2012, supplied a total of 410,000 tons to 4 countries in Southeast Asia. In August, 2012, the company made its first export of slag powder produced by a family company, Posfine to Singapore, securing export routes for not only granulated slag materials but also products. Through such efforts, POSCO is prepared to respond to increased output of slag, contributing to the reduction of fossil fuel consumption, protection of natural resources, as well as green growth. We will conduct research to diversify slag use and raise its added values and develop an eco-friendly cement material with the POSCO brand.

Cement clinker

A nodular material made by heating ground limestone and clay at a high temperature. The nodules are ground up to a fine powder to produce cement.

Slag cement

A mixture of Portland cement and slag powder at a specific rate.

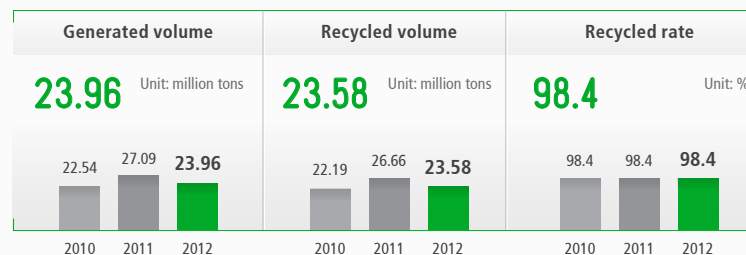
Slag powder

A high-strength cement material, produced by cooling molten iron slag from a blast furnace with water spray, and then grinding at a roller mill into a fine powder.

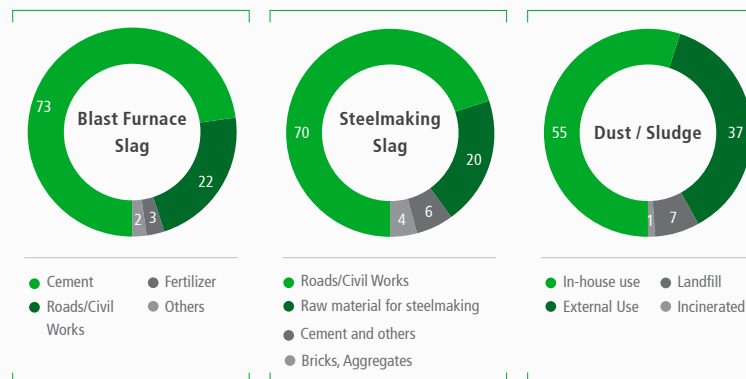
Developing Technology to Utilize Byproducts

Considering by-products of steel making process as valuable green resources, POSCO has been conducting the activities of "By-product Profitability Improvement Mega-Y" at the Family level since 2007. By establishing a unique by-product utilization model for POSCO Family members that expands synergy by cooperating with related businesses and by developing high value added technologies to make use of the by-products, the economic benefits from improving profitability increased by 126.4 billion KRW in 2012 compared to the previous year, and the aggregate amount reached 618 billion KRW. POSCO will continue to accelerate the discovery of by-product materials through reinforcing cooperation within the Family, and will continuously expand the resource circulation by broadening the boundaries to other industries.

Utilization of by-products



Details of Recycled by-products in 2012



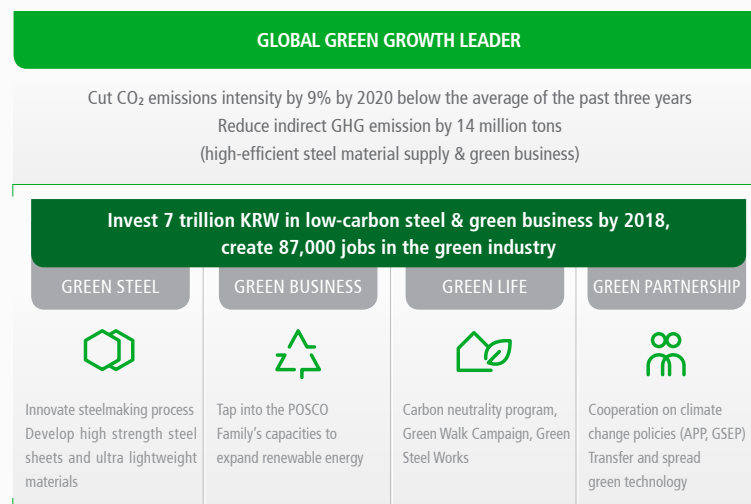
CLIMATE CHANGE

t-CO₂ CO₂ emission (tons)
t-S crude steel production (tons)

POSCO's CO₂ emission intensity reduction goal

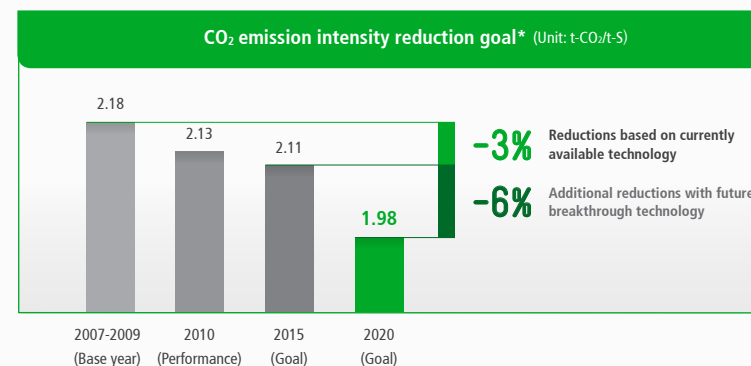
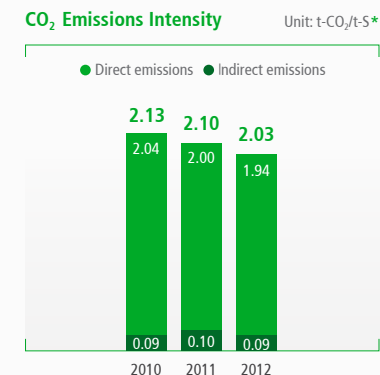
- Emission goals were set according to POSCO's greenhouse gas calculation guideline tailored to the iron and steel industry, which was developed in reference to IPCC Guideline for National Greenhouse Gas Inventories, WBCSD/WRI Greenhouse Gas Protocol, World Steel Association Guidelines, ISO TC 17/SC draft Calculation method of CO₂ emissions intensity from Iron and Steel production (2010.8.27).
Scope of calculation: Pohang and Gwangyang Works
Direct emission (Scope 1) : CO₂ emissions from automobile operation on site were not included
Indirect emission (Scope 2) : Indirect CO₂ emissions via use of purchased electricity
- Coal emissions figures are based on 2006 figures and have been applied the same since 2007.
- CO₂ emissions figures follow the Corporate Greenhouse Gas Emission Reporting Guideline, and may differ from calculations based on the "Greenhouse Gas & Energy Target Management Guideline" announced by the government in March, 2011.

As a "Global Green Growth Leader," POSCO seeks a low carbon green growth strategy for the POSCO Family to contribute to meeting the 2020 Voluntary Greenhouse Gas Reduction Goal. POSCO seeks to strengthen its Green Steel competitiveness by distributing highly efficient steel sheets and developing ultra light weight non-steel materials based on low carbon, innovative technologies such as low carbon emission steelmaking process, weight lightening and making use of CO₂. POSCO is fostering the Green Business as a key area, actively seeking renewable energy projects such as recovering fuel cell waste from wind power plants at the Family level, and finding new growth engines in the industry such as developing lithium materials for the smart grid. POSCO is also expanding the Green Life domain through the Green Walk campaign, in which POSCO Family board members and employees all practice green life, and the Carbon Neutrality Program, which supports social projects to reduce GHGs. Moreover, to secure a leadership position in fighting climate change, POSCO is pursuing the Green Partnership by cooperating in carbon polices from home and abroad, to reinforce corporate activities in building a low carbon society.



2020 Voluntary Greenhouse Gas Reduction Goal

At the Seventh Green Growth Committee held in February 2010 chaired by the Korean President, POSCO declared the 2020 Voluntary Greenhouse Gas Reduction Goal to respond proactively to climate change and sustainable growth. POSCO will reduce CO₂ emissions per each ton of crude steel by 9% from 2.18t-CO₂/t-S (average emission levels from 2007 to 2009) to 1.98t-CO₂/t-S by 2020. In order to meet this goal, coupled with efforts such as reducing coal usage and enhancing energy efficiency, POSCO will invest approximately 1.5 trillion KRW by 2018. In addition, POSCO will develop and distribute high strength steel sheets, motors and transformers for automobiles and high quality electric steel sheets that can enhance energy efficiency, and expand the supply of granulated slag which can be used as an alternative eco-friendly cement material. Along with investment companies, POSCO will invest a total of 5.5 trillion KRW into the green growth industry, with hopes of achieving the equivalent of reducing 14 million tons of CO₂.



CLIMATE CHANGE

Smart Industry

A system that shows the flow and use of all energy that is used in a business. It allows businesses to use less energy as well as reduce CO₂ emission by showing the data and managing them



For more information on Climate Change, please see our '2012 POSCO Carbon Report'.

Social GHG Emissions Reduction Effect

Unit: 1,000t-CO₂/yr

High-strength steel sheet for automobiles	Low-core-loss electrical steel sheet	Granulated blast furnace slag
659	2,510	6,290

* Based on the supply in 2012

Sales

Unit: 1,000 tons

High-strength steel sheet for automobiles	Low-core-loss electrical steel sheet	Granulated blast furnace slag
818	429	8,013

* Based on the supply in 2012

CO₂ Emissions Other Sources

Unit: 1,000t-CO₂

Transportation of purchased raw materials	Employee commuting	Business trips (domestic/overseas)
1,022	5.6	1.5



Energy Management

As a business that consumes a high level of energy, POSCO recognizes the significance of climate change, and pursues various efforts to reduce energy consumption. The company is implementing energy conservation TFT that adjusts rolling operation schedules so that the mills may make the most of midnight power, and conducts energy patrols to uncover and improve any energy wastes. Moreover, POSCO participated in a government-led program to adjust the level of energy consumption along with POSCO Specialty Steel, SNNC, Posfine, and AST. POSCO achieved energy conservation of 31.5GWh to secure an incentive of 15 billion KRW. The Gwangyang Steel Works set the standard model and reference for the Smart Industry* with Research Institute of Industrial Science and Technology (RIST) (a research institute wholly owned by POSCO) and POSCO ICT at the oxygen plant in Gwangyang, and is now seeking to apply it to other production facilities. The power generation from low-temperature waste heat technology, developed together with RIST and Sungjin Geotech, is to be applied to the Gwangyang sinter plant. POSCO has been participating in the Energy Management System pilot project led by the Korea Energy Management Corporation since 2008, and as a result, POSCO became the first company in the Asian steel industry to obtain the ISO 50001 certification in October 2012.

CLIMATE CHANGE

POSCO Family Green Business

Along with all subsidiaries POSCO has a vision of becoming a Global Green Growth Leader to achieve 10 trillion KRW in sales by 2020, and is promoting green businesses such as energy, ICT, and new materials as major projects for the future business portfolio. While securing the alternative energies necessary for the transition into hydrogen energy from fossil fuels, POSCO is continuing the renewable energy business on the Family level to cope with resource depletion and global warming.

Waste-to-Fuel

Municipal Solid Waste (MSW) power generation project (RDF: Refuse Derived Fuel)

- generating power by separating/sorting and then combusting MSW as refuse-derived fuel (RDF)
- Busan RDF and power generation facilities: started construction as the first RFD facility in Korea in 2010 Processes 900 tons of MSW per day to produce 500 tons of RDF per day, and generates 25MW/h of electricity.
- Waste-to-energy facility in Pohang: Negotiation closed in 2011, construction to start in second half of 2013. Will use RDF to produce 12MW/h of electricity

Sludge-to-power business

- Process sewage sludge to be used as auxiliary fuel for thermal power plant
- Signed an agreement with Seoul city as a priority supplier of the Sewage-to-power project (Feb. 2012)
- Facilities will be set up at the Tancheon Water Reclamation Center, Seoul. Projected to produce 200,000 GCal of heat a year by utilizing the difference in temperature of the effluent



Tancheon Aerial View

Solar Power Generation | POSCO Energy

Completed Shinan Solar Power Plant (in Palgeum and Anjwa Island, South Jeolla Province) (Jan. 2012)

- Started from a 2MW plant in an abandoned saltern the size of 30,000m² (total capacity of 2,600MWh a year)
- Second construction on 5MW solar power plant started in Dec. 2012, scheduled to complete construction on 12MW plant by 2014

Solar Power Generation in Nevada, US:

Construction of a solar power plant with capacity of 300 megawatts

Wind Power Generation | POSCO E&C, POSCO Energy

POSCO E&C: Manages wind farm in Kangwon province

- Has been managing a 40MW wind farm in Mt.Taegi, Kangwon province since 2008 (annual power generation 82,860MW/h)

POSCO Energy: Constructed offshore wind farm in Jeju island, land wind farm in South Jeolla province underway

- Construction of an offshore wind farm of 30MW capacity in Jeju Province underway; will start management of facilities after completion (annual power generation of 82GWh)
- Signed business agreement for a pilot land wind farm of 5GW capacity with the South Jeolla Wind Farm Association (Dec. 2012), work in process

Fuel Cells for Power Generation | POSCO Energy

Developed 100KW fuel cell for buildings

- Finished installation of the first urban green energy source in Seobuk Hospital and Children's Park in January 2012, Produces 100kW/hr of electricity and 46Mcal of heat

Started Construction on Indonesian Fuel Cell Plant (Sept. 2012)

- Installation of 300KW capacity power plant in the Ancol amusement park in Jakarta

Signed contract for the transfer of technology for cell production with US company Fuel Cell Energy (Nov. 2012)

- Construction of 20,826m²-size cell plant scheduled to be completed by first half of 2015 inside the fuel cell plant in Pohang, expected to produce 70MW of cells annually

Ultrahigh-speed Lithium Extraction Technology

- Developed the world's first non-evaporative lithium direct extraction technology in Feb. 2012
- Signed an HOA in March, 2012, to establish a joint venture with a Bolivian state owned company and Korea Resources Corporation to participate in the lithium battery business

ECO-FRIENDLY PROCESS

POSCO seeks to reduce environmental impact of the whole production process through a greener supply chain. Moreover, it also considers the environmental effects of when the product is actually used; developing eco-friendly materials, pursuing various efforts to supply products that preserve energy and reduce GHG emissions.

Green POSCO Certified Partner (PCP) Certification

POSCO developed the Green POSCO Certified Partner (Green-PCP) program, a voluntary certification program for outsourcing partners and suppliers for adopting the environmental management system, and 95 major outsourcing partners and suppliers have acquired the certification by 2012. Based on the voluntary implementation and participation of subsidiaries, POSCO is actively supporting the environmental management and environment improvement activities of major outsourcing partners and suppliers. Through the Green-PCP program, POSCO seeks to spread the culture of environmental management throughout the supply chain to establish a POSCO Family-integrated environmental management system, and to minimize the environmental risks associated with the production process.

Green Purchase

In 2005, POSCO established the 'Green Procurement Guidelines' to minimize environmental impacts in purchasing. POSCO is a leading company in the 'Voluntary Agreement on Green Procurement', where POSCO and its suppliers have formed an eco-friendly supply chain. In 2006, POSCO expanded its guidelines to all group companies making an important contribution to sustainable consumption and production. POSCO has built a procurement system that classified government certified or other eco-friendly products into 7 categories, and promotes it by monitoring the green purchasing activities, as well as actively looking for more 3R(Reduce, Reuse, Recycle) products.

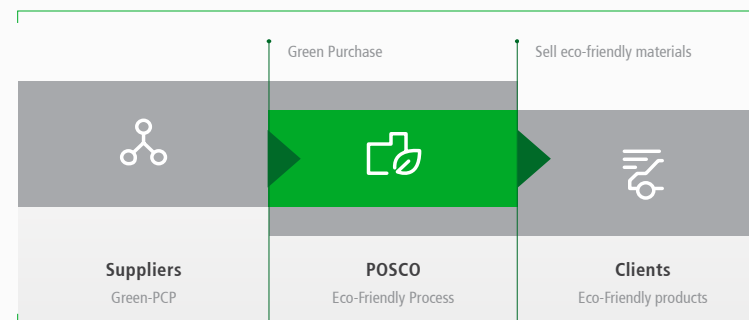
Eco-Friendly Process and Products

POSCO wishes to radically reduce CO₂ emissions through new technologies. The company was successful in developing proprietary technologies that can raise energy efficiency and reduce CO₂ emissions at the same time, such as 'CO₂ sequestration from gas produced in steelmaking,' which uses ammonia to absorb and sequester CO₂ from the blast-furnace by-product gas, and 'Slag Heat Recovery,' which recovers the heat from the high temperature melted slag produced in the steel-making process. Moreover, 'Hydrogen Reduction Steelmaking' technology was developed to use hydrogen instead of coal for iron ore reduction to prepare for the future when large amounts of clean hydrogen production will be possible. Likewise, POSCO has an ultimate goal of applying next generation steelmaking methods that do not use coal and do not emit CO₂.

Through R&D of eco-friendly car materials, POSCO aims to raise fuel efficiency and reduce GHG emissions. It is known that a car emits 5~8% less CO₂ when the total weight of the car is reduced by 10%. To reduce carbon emissions by lightening the weight of the car, POSCO has developed high-strength steel sheets and is expanding its use. Electric resistance or core loss arises once electricity flows through the electrical steel sheets generally used on generators, transmission and distribution transformers, and motors. To this end, POSCO has developed and is now distributing highly energy efficient electrical sheets with low core loss. In addition, POSCO has also developed a non-oriented electricity sheet for driver motors suitable for eco-friendly cars, and continues to meet customer demands of eco-friendly products.

* Please refer to the customer segment for further details.

Unit: billion KRW



ENVIRONMENTAL PARTNERSHIP

Colloquium

academic seminar, discussion by a group of people on a certain topic

 **Read more**
about environment colloquium



 **GreenWalk website**

POSCO discusses environmental issues with various circles of the society. We cooperate and exchange information with NGOs, domestic and overseas associations, academia and global steel makers. We actively support carbon neutral projects led by university students; the management and employees carry out green life activities to reduce greenhouse gas emission in their everyday lives; and participate in environmental conservation along with the members of the society.

Environment Colloquium

With higher interest for and stricter regulation on the environment both in and outside Korea, POSCO is holding 'Environment Colloquiums**' to effectively respond to global environmental issues and domestic environmental policies. We invite opinion leaders of relevant governments, corporates, academia and environmental organizations to ask for advice on POSCO's projects and directions as well as the role of the government and corporates. In 2012, under the theme of 'Green Economy', we discussed the direction corporates should take in the Green Economy era. The contents discussed at the colloquium are shared with domestic and overseas stakeholders through POSCO newspaper and website.

Carbon Neutral Program

Since 2009, POSCO has been operating a carbon neutral program, which publicly collects ideas about carbon neutrality projects and supports them, aiming at various groups of people including students, clubs, civic groups and even housewives. Since 2010, the program has been cooperating mainly with university students. It is a program that supports the activities of university students with creative feasible ideas for as long as 1 year by collecting ideas on carbon neutrality. POSCO is promoting the ideas and campaigns of university students by supporting publication of 'Carbonsium', a performance sharing magazine on the POSCO blog and SNS.

GreenWalk

POSCO launched the "GreenWalk Campaign" that POSCO Family employees and their families can participate in. It is one of the major eco-friendly movements that means 'footsteps for the Earth'. It is a company-wide campaign by the POSCO Family to habitualize eco-friendly life, saving energy in everyday life and reducing greenhouse gas emissions. We provide environment news and expert columns on the Green Walk website and with contents like Green Photos, Green Essays, employees can continuously take in green activities. This campaign has been implemented since Jan. 2011 in earnest, with the civic groups. 9,081 families from 41 companies have participated as of Jan. 2012 and will be expanded to include over 10,000 families with various events and activities.

International Cooperation and Technology Exchange

POSCO is actively participating in the support for climate change and green growth in developing countries with green growth-related international organizations. With Global Green Growth Institute(GGGI), we are developing a micro grid business model for developing nations. We are also helping to attract the Green Climate Fund(GCF), which is considered the World Bank of the environmental sector. As such, we are playing a critical role as a global green growth leading company.

Category	Activities	Details
Domestic	KOSA Environmental Policy Conference	Responding to changes in environmental policies and finding ways of voluntary environment improvement activities
	KBCSD	Sharing and discussing issues on corporate sustainability management
	Cooperation Committee for Marine Resources (Ministry of Agriculture, Food and Rural Affairs)	Cooperation for restoring marine ecosystems and replenishing marine resources
	Cooperation for Environmental Education with Environmental Foundation	"Green School with POSCO," Environmental Education for elementary, middle and high school students
Overseas	World Steel Environmental Policy Committee of WSA	Information exchange and cooperation of global steelmakers on climate change policy response and environmental issues
	The Environmental Committee (ENCO) of SEAISI	Technology exchange and cooperation of southeast Asian steelmakers on climate change policy and environmental issues
	2012 World Conservation Congress	Participated at the IUCN Congress, Jeju Island in September 2012
	World Business Council for Sustainable Development	Supported and Participated at the 2012 WBCSD Seoul Council
	GGGI	Participated in a public-private partnership for developing countries
	GCF	GCF(Global Climate Fund) Attracting Activities
	World Energy Congress	Member of the executive committee and preparation for 22nd World Energy Congress, Daegu Korea

Award History

Well aware of the importance of communication with stakeholders in practicing environmental management, POSCO discloses its environment-related information through the Sustainability Report, POSCO website, and newspaper since the first environmental report in 1995. In response to stakeholders' heightened interest in climate change, POSCO published the Carbon Report since 2010. In 2012, POSCO was the only steel maker chosen to be a leading company in carbon disclosure by the Carbon Disclosure Project, a global climate change evaluation organization. Also, POSCO was acknowledged for its consistent efforts for sustainable environmental management, being selected as the leading company by SAM DJSI for 8 years.

BIODIVERSITY



Video clip about Triton

Triton brochure

Triton

Mythological Greek god of the sea that calls fish and dolphins by blowing on a twisted conch shell like a trumpet. He has the ability to restore the marine forest. Also means a low carbon artificial fish reef using steel slag as aggregate.

Enhancing Biodiversity: Ocean Conservation

At the 2012 WCC (World Conservation Congress), President Ahok Khosla praised POSCO as the “the best leading company that effectively exercise green growth and operation in Korea,” and said that the Triton* project, preserving and reviving marine life, is one of the most important environmental protection efforts of Korea.

Whitening (Ocean desertification) was first found in the littoral sea of Korea during late 1970s, which then spread to the southern and Jeju coastal areas. With seaweeds decreasing, abalones, sea cucumbers, and fish also decreased that undermined the self-purification capability of the ocean. Therefore it is not only threatening the marine ecology but also the livelihoods of the local residents in fishery.

In order to recover the coastal region damaged by whitening phenomenon, POSCO and RIST developed an offshore structure made with steel slag, called the ‘Triton’. Steel slag is an eco-friendly material used widely from construction, materials construction, to fertilizers. Compared to general aggregate, it has high Calcium and iron content, which are useful to the ocean, thus facilitates the growth of seaweed and photosynthesis, and is effective for purifying contaminated sediment and water. A marine forest made with Triton can fixate CO₂ due to carbonization of the slag and photosynthesis of seaweeds. Therefore, it can restore marine ecology, fish and shellfish damaged by whitening caused by the rise in sea temperature.

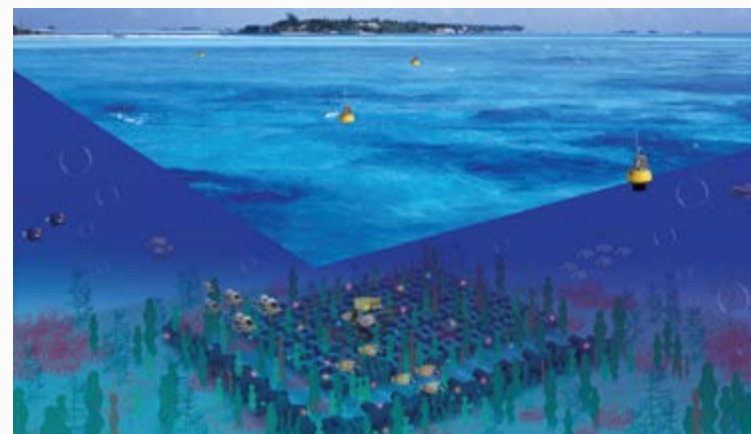
POSCO signed the ‘Mutual Cooperation on Marine Resources’ with the Ministry for Agriculture, Food and Rural Affairs, and will co-promote a marine forest project with Triton marine forests by 2014, in 17 regions. The Triton marine forests can recover marine ecology in the coastal areas and help marine resources such as abalone, sea cucumbers grow leading to higher profit for the local fishermen. The Triton marine forest was introduced in the ‘Biodiversity and Ecosystem Services’ published by the World Business Council for Sustainable Development.

POSCO will also actively carry out overseas marine ecology restoring projects such as coral reef and coastal area restoration projects based on the Indonesia steel mill. We will consider the issue of biodiversity as an opportunity, set strategies, and cooperate with our workplaces in and out of Korea, the government, and local residents to carry out various activities.

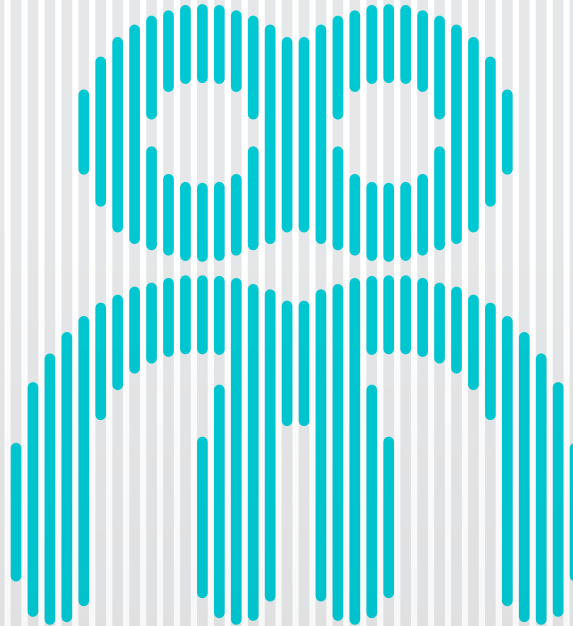
Triton Sea Forest at the Yeosu EXPO

The Triton sea forest at the Yeosu EXPO was created in a 1.4-hectare and 8~13-meter-deep fishery in the waters off common fishing ground at Deokchon-ri, Geomun Island. It consists of 510 artificial fishing reefs, 1,000 tons of steel slag. The artificial fishing reef was made with steel slag aggregate, and blast furnace slag cement. The structure was designed to maximize the area for seaweed attachment and took marine habitat into consideration.

The marine forest ecology study in Apr. 2012 show that the seaweed habitat density excluding gulfweed was 4kg/m² on average, exceeding the goal of 2kg/m². There were various species in the marine forest which included eklonia cava, gulfweed, sea staghorn, and young leaves. The covering ratio was over 90%. POSCO exhibited a sculpture in the form of the marine forest during the 2012 Yeosu EXPO, which served as an opportunity to promote the outstanding characteristics of POSCO’s Triton marine forest.



05 PARTNER



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Fair Trade · Venture Support Program · Win-Win Growth
CSR in SCM · CASE: POSCO's Benefit Sharing: FOCUS

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PAGES

Kim Yeung-gyu, Head of Corporate Staff Division

We believe that the value of POSCO can improve as the business ecosystem is more healthy. POSCO is at the front of establishing a fair trade and focusing Win-win Growth activities with partners and SMEs based on trust.

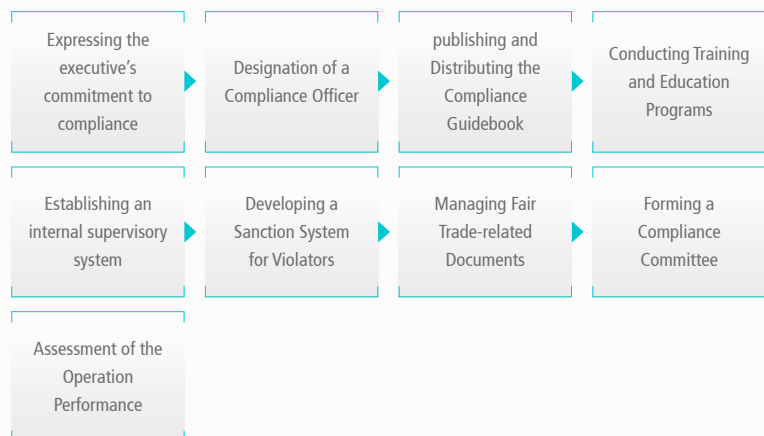
Especially, POSCO will continue its effort to support partners which can become independent medium-sized enterprises with technology competitiveness

FAIR TRADE

Since POSCO adopted the Compliance Program (CP) in 2002 to conform to a fair market order and promote liberal competition among businesses, it has continued its efforts to foster the culture of voluntary compliance. POSCO declared the POSCO Code of Ethics in June 2003 to express the commitment of the CEO on compliance and policies. Through annual operational meetings and Family CEO meetings, the CEO continuously emphasizes the importance of and compliance with fair trade.

Fair Trade Voluntary Compliance Program

POSCO implement the Compliance Program(CP) by the Fair Trade Commission in Korea including the 7 major elements and the unique program of POSCO. The CP components are as follows:



Since 2004, POSCO's BOD nominates the CP Director who is in charge of the overall supervision of the Compliance Program and reports the operation status to the Board on a regular basis. The Internal Transactions Committee was installed under the BOD for more transparent transactions with subsidiaries in 2004, and has deliberated on 79 agendas up to date. The Fair Trade Support Team was installed in 2004 to oversee fair trade related tasks. In 2012, the group was expanded to the 'Fair Trade Group', and since then, it has worked to ensure compliance with fair trade standards within the company.

Education Programs

POSCO is exerting much effort on preventive education to minimize the risks of fair trade violation. Since the adoption of the e-Learning course for the executives and employees in 2002, we opened a newly improved course in 2008. Up until 2012, a total of 47,872 executives and employees completed the course. From 2010, the previously separate 2 courses were integrated into a single 'Easy Fair Trade' course. During 2012, 6,119 individuals including new employees, promoted employees, employees in relevant divisions such as sales/purchases, and subsidiaries were educated and the courses were held 84 times.

Self-Audit System

In order to raise the employees' participation for fair trade audit, we opened an in-house fair trade website that enables self-audit and consultation online in 2004. Self-Audit System has been enhanced by designating 7 key departments such as sales, purchasing, and outsourcing as mandatory self-audit departments. The website's main role, "department-level self-inspection and consulting system," is an internal monitoring system. Fair trade-related departments conduct self-inspections by referring to the checklist, and if possible breaches are identified, must consult with the company's compliance department.

Furthermore, in order to enhance fair trade compliance spirit and strengthen execution, group leaders above division heads formed the Compliance Council, employees in working level organized the Fair Trade Leaders, and employees in subsidiaries in fair trade divisions hold FTA(Fair Trade Academy) and study sessions. By participating in regular seminars, information exchanges and workshops, they are contributing to the compliance culture at the POSCO Family level.

In 2012, we developed a fair trade self-audit application so that employees can check information through their mobile phones anytime and anywhere. Previously, employees were only allowed to inspect by logging on to the self-inspection system through the website or by referring to the self-inspection manual, but now they can do so conveniently by using their smartphones.

2012 Education

Offline Education

84

times

Offline Trainees

6119

individuals



FAIR TRADE

CP Adoption in Subsidiaries

In 2011, POSCO helped 4 subsidiaries adopt the CP and currently 22 subsidiaries have the program in operation. In addition, we conducted an internal audit on our subsidiaries regarding compliance of the Subcontracting Act and further supported mutual growth. At the same time, we heightened our employees and executives' awareness on fair trade through articles on the webzine, e-mailing weekly trends and publishing a guidebook that reflects revisions to the Fair Trade Act.

Time	Category	No. of Companies (Accumulated)
~2003	POSCO, POSCO E&C, POSCO ICT, POSCO SS	4
2006	POSCO C&C, POSCON, POSCO CHEMTECH, POSCO MTECH	8
2007	POSCO Machinery Co., Ltd., POSCO PLANTECH	10
2008	POSCO P&S, POSMATE	12
2009	POSCO A&C, POSCO ENERGY, SNNC	15
2010	POSCO ENGINEERING	16
2011	Daewoo International Corporation, Sungjin Geotech, POSCO AST, POSCO TMC	21(19)
2012	POSFINE, POREKA, POSCO NST, POSHIMETAL	25(22)

* Taking into account the number of companies decreased due to mergers

Future Direction

In 2013, POSCO will dedicate itself to enhance the culture of voluntary compliance and reinforce the implementation of the CP on a POSCO Family. In order to embed compliance processes into our business, POSCO will institute procedures such as; supporting subsidiaries except SPCs with the CP operation, improving the education courses to strengthen subsidiaries' expertise, monitoring supporting win-win growth activities to prevent violations, customized CP education, developing educational contents, and revising the guidebook. Also, we will actively prevent and deter non-compliance of competition law by our overseas corporations through various measures; offering education on international cartel for overseas corporations and business sites; providing materials on regulations of competition law of each nation.

In addition, based on the understanding that fair trade is the basis of win-win growth with SMEs, we will put more efforts on making fair trade culture expand within the POSCO group and settle among 1st and 2nd tier partners. In order to do so, we will adopt the standard subcontract agreements in the steel industry. Also, with the system, we will make sure that adjustments in the delivery costs are disclosed to the secondary partners. Moreover, we plan to increase the number of primary partners that sign fair trade agreements with secondary partners from 184 to 310. Furthermore, we will support all subsidiaries and affiliates that are doing business with subcontractors share growth together.

VENTURE SUPPORT PROGRAM

In Korea, it is not easy that venture companies grow the business than large corporations. It's the reason that the venture companies do not have enough capital, information and experiences. In addition, most of the venture companies start as small companies and thus face limitations to their growth. POSCO utilizes its own resources to support venture companies so that they can grow to be SMEs that are the basis for the corporate ecology. By doing so, POSCO makes a healthy corporate ecology and creates jobs for the youth, addressing various social issues.

Idea Marketplace

Since Nov. 2011, POSCO has implemented the Idea Marketplace to support venture businesses. The Idea Marketplace is a support program for youth's start-ups and venture companies in their beginning phase. Therefore, it takes on the roles of both an angel investor and business incubator. The role of a business incubator includes nurturing blue-chip venture companies, while an angel investor focuses on supporting the initial ideas of establishing ventures. To fulfill these 2 roles, POSCO organized a venture support group called 'POSCO Venture Partners(www.poscoventure.co.kr)'. With this organization, POSCO supports the overall process of establishing a venture company from coming up with ideas, designing the business to managing its growth. By doing so, we seek to let venture companies which struggled with insufficient resources go beyond their limits.

Ideas are selected through evaluation, and then developed through unique POSCO venture support programs such as idea developing camps and expert mentoring program. Finally, the business ideas are introduced to potential investors at the Idea Marketplace.

After POSCO held the 1st contest for New Business Ideas, the 1st Idea Marketplace was held on 27th October, 2011. Until 2012, the 29 companies received mentoring services and the 11 companies received investment of 3.15 billion KRW.

Since the 3rd Idea Marketplace, we adopted the 'SMEs Consolation Match', where we invest on SMEs who failed to attract investment so that they can stand on their feet again in the future. In addition, for those who completed the Revitalization Center for Strained Entrepreneur's Healing Camp and Small and Medium Business Administration's Re-start Support Program, we provide opportunities to participate in the POSCO Venture Partners Membership Program. Moreover, we expanded support for investment-neglected-class such as youth and women so that the vulnerable can stand on their own feet.

5 Steps of POSCO's Venture Support Program

Step1- Idea evaluation Business item registration and evaluation

Step 2- Idea camp

Specify ideas with the mentoring program
(Presenting ideas, group discussions, one to one mentoring mentoring, upgrading ideas)

Step3- POSCO Venture Partners Membership Program

Establish business model over 10 weeks, a concrete business plan

Step4- Idea Marketplace

Support investment attraction and business information session,
provide opportunity to exhibit ideas and meet investors

Step5- Angel investment and follow up

Attract initial investment, support for investment according to stages,
and legal/tax/sales channel/R&D support

VENTURE SUPPORT PROGRAM

Future Direction

POSCO is planning on holding regular idea exchange forums where venture investors, idea holders and experts gather together. By doing so, we seek to create jobs revitalize venture ecology as well as strengthen cooperation between large corporates and SMEs with a more systematic venture network.

In 2013, POSCO Venture Partners expanded the supported ventures and Idea Marketplace subjects to 150% to nurture various venture companies and share youth employment creation cases effectively.

Moreover, we will help SMEs grasp business opportunities within POSCO Family. This will be executed through expanding the adoption of SME products and technology in POSCO Family and POSCO New Business Office related groups, R&D support at the Family level, and also giving more opportunities to SMEs in the technology sector where sales channel can be opened.

POSCO will also introduce a new program called 'Technology Trade Program' to let the SMEs gain confidence to become an established company. In order to do so, we will provide technology exchange opportunities to SMEs within the Idea Marketplace to let them procure core technology efficiently. Furthermore, we will support the development of core technology by linking R&D of POSCO Family including POSTECH and RIST.

Major Achievements of the Idea Marketplace

Category	Idea Contest	Nurturing Camp	Membership	Investment	Investment Amount
1st	1,437 cases	19 companies	9 companies	5 companies	2billion KRW
2nd	183 cases	14 companies	8 companies	6 companies	1.15 billion KRW
3rd	376 cases	25 companies	12 companies	11 companies	1.02 billion KRW
4th	281 cases	24 companies	17 companies	(scheduled)	(scheduled)
Total	2,277 cases	82 companies	46 companies	22 companies	4.17 billion KRW



CEO Joonyang Chung visiting the 3rd Idea Marketplace

WIN-WIN GROWTH

POSCO's "win-win growth" policy is made up of 3 Ts: Trust, Together, Tomorrow. Based on its principle of mutual trust(Trust), POSCO has been exerting much effort into establishing a future-oriented (Tomorrow) win-win growth (Together) with its 1st as well as 2nd, 3rd and 4th tier SME partners. POSCO is currently operating a total of 67 programs in seven different categories to foster joint growth, including its branding program, financial support to solve financial problems and technical cooperation to boost its R&D capabilities.

In 2012, we expanded the win-win growth culture based on fair trade to the subsidiaries and 2nd tier partners. Also, as the 1st company in Korea to adopt and implement the benefit sharing policy, we established POSCO's own benefit sharing policy, FOCUS, to strengthen this policy and to build a foundation for spreading this policy over the whole industry.

In May 2012, we acquired the highest level, 'outstanding', for the National Commission for Coporate Partnership Win-win Growth Index. In September, POSCO received the presidential citation for its excellent benefit sharing policy adoption. As a company that leads the key industry of Korea, POSCO promises to pursue mutual interest along with the relevant SMEs and support enhancing the SME's core capacity to contribute to the development of the whole community including the nation and local society, and also share growth with all the stakeholders.



POSCO's "Win-win growth" policy, a part of the group-wide motto, is based on 3Ts; pushing for a future-oriented (Tomorrow), win-win growth (Together) based on mutual trust (Trust) with its first and second through fourth partner companies.

Efforts to promote win-win growth

1999~2004

- 1999 ~ - Early payment to suppliers before the holidays
- Placing construction orders under KRW 5 billion with SMEs
- 2003.06. - Introducing CRM system for SME customers and SRM, a first among global steelmakers
- 2004.07. - Introducing Benefit Sharing program, a first in Korea
- 2004.11. - Selected as SME Job Training Consortium participant
- 2004.12. - Initiating full cash settlement for purchases from SMEs

2005~2007

- 2005.06. - Launching SME support team
- 2005.06. - Participating in new product development under purchasing condition
- 2005.09. - Assistance Fund for POSCO Partners
- 2006.07. - SME Patent Consulting Center
- 2006.08. - Transferring of POSCO's patented technologies
- 2006.09. - Techno Partnership

2008~2009

- 2008.06. - Introducing the Management Doctor program
- 2008.11. - Fostering "World Best, World First" products
- 2008.12. - Agreement on Win-win cooperation and Fair Trade
- 2009.01. - Win-win Guarantee Program Agreement
- 2009.03. - Opened the "POSCO Suppliers Recruitment Center" at the Job World website
- 2009.09. - POSCO Family Network Loan

2010

- 2010.04. - Held POSCO Family Win-win Cooperation Meeting
- 2010.06. - Established POSCO Group Suppliers' Code of Conduct
- 2010.09. - Started to reflect win-win growth in executives' performance evaluation
- 2010.10. - Launched the POSCO Family Win-win Growth Support Team
- 2010.10. - Inaugurated the POSCO Family 2nd~4th Tier Suppliers Council
- 2010.11. - Held POSCO Family Win-win Growth Festival

2011

- 2011.03. - Launched project for fostering Independent Medium-Sized Enterprises
- 2011.04. - Declared the agreements on POSCO Family Win-win cooperation and Fair Trade
- 2011.06. - Opened the Global Growing Center (Indonesia)
- 2011.07. - Expanded the POSCO Family Win-win Growth Support Team(12▶28 companies)

- 2011.09. - Held fostering Independent Medium-Sized Enterprises Meeting
- 2011.10. - Agreement on Win-win cooperation Fund
- 2011.11. - Held POSCO Family Win-win Growth Festival
- 2011.12. - Agreement on a joint R&D fund by private and public sectors

2012

- 2012.04. - Held POSCO Family Win-win Cooperation Meeting
- 2012.05. - Achieved 'Outstanding' on Win-win Growth evaluation
- 2012.06. - Agreement on Creating funds for Win-Win Growth
- 2012.07. - Established unique POSCO program 'FOCUS'
- 2012.09. - Participated on Job fair for Baby Boomer partner companies

- 2012.09. - Presidential prize on Benefit Sharing Program
- 2012.11. - Held POSCO Family Win-win Growth Festival
- 2012.12. - Developed a system for FOCUS, POSCO's benefit sharing model

WIN-WIN GROWTH

POSCO's Unique Branding Program

Benefit Sharing

POSCO's Benefit Sharing Program, which was launched in July 2004, pursues to achieve joint improvements with its suppliers and to mutually share the outcome of the performance. POSCO provides various incentives such as; 50% compensation of the performance-based revenue raised over a period of three years, signing long-term contracts (3 years), awarding extra points to suppliers during evaluation. Since its inception until 2012, POSCO has awarded a total of 132.8 billion KRW compensation to 669 SMEs that successfully completed 1,389 different assignments.

Techno Partnership (Customized Technology Support Project for SMEs)

In September 2006, POSCO formed a technology advisory group together with 7 research centers including Postech, Research Institute of Industrial Science & Technology to provide free technological support to small- and medium-sized enterprises in Pohang and Gwangyang.

When SMEs apply for the Techno Partnership, the technology research institute reviews and selects SMEs and organizes a customized technology advisory group. Then, the SMEs enter into the Techno Partnership and receive support. Every month, the advisory group visits the company, and provides consultation on one to one on-site evaluation technology education. In addition, POSCO provides test devices, and also supports SMEs to set up a sisterhood relationship with Ph.D-level experts.

Techno Partnership agreement, which received positive feedback for providing much-needed human resources, facilities and technological support for SMEs, expanded into five subsidiaries with each of their own technology research institute in Jun. 2010. From Mar. 2011, started support for Seoul and Incheon region SMEs through the Songdo Global R&D Center. As of end-2012, it provided 1,057 pieces of technology advice to a total of 237 companies, and 412 cases of free test device rentals.

Techno Partnership Management Status (2012)

Partner Company	Technology Advice	Test Analysis	Participating POSCO Groups (7 companies)
237 companies	1,057 cases	412 cases	POSCO, POSCO E&C, POSCO SS, POSCO ICT POSCO CHEMTECH, POSCO C&C, SNNC

Cash-Out of All Payments to SMEs

To foster the stable business management of its partner SMEs, POSCO has been cashing out to all suppliers registered as a SMEs for its payments regardless of the sum within three working days following delivery, twice a week. In addition, during national holidays when capital flow is concentrated, POSCO conducts a daily cash-out starting one week before the holiday to control.

Win-win Growth Support Group of POSCO Family Executives

POSCO and the group executives launched the Win-win Growth Support Group in Oct. 2010 and took the initiative to promote win-win growth. The Win-win Growth Support Group contributes to raising the competitiveness of the SMEs by handing down the experience and capacity, such as management innovation and labor management, to 1st and 2nd tier partner SMEs.

The executive visits a partner SME once a month to have a look at the site and shares his/her expertise and know-how. To provide continuous activities and interest towards the SMEs, the performance of the Win-win Growth Support Group performance has been reflected on the personnel evaluation of the executives since 2011.

Since the launch of the Win-win Growth Support Group until Dec. 2012, 263 executives from 27 POSCO group companies have been supporting 677 SMEs. During a survey conducted in Jul. 2012, 91.7% of the SME respondents were 'satisfied' with the Group's activities.



2012 POSCO Family Win-Win Growth Festival

WIN-WIN GROWTH

Financial Support to strained SMEs

Creating Funds Worth 1.29 trillion KRW

In a bid to support SMEs that have difficulties procuring business capital, POSCO began operating six financial support programs and raised a fund worth 1.29 trillion KRW. They include the Partner Company Support Fund, Win-win Cooperation Special Fund, Shared Guarantee Program, POSCO Family Network Loan, and Private-public Joint Technology Development Fund that allow SMEs to take out loans at low interest rates.

In addition, POSCO is also taking part in a performance bond project implemented by the Machinery Financial Cooperative to support the local manufacturing industries that forms the basis of Korea's industrial sector, the so-called 'root industry (including metal casting, welding, etc.)' by raising funds worth 100 billion KRW.

Current Status of POSCO's SME Financial Support

Unit: billion KRW

Partner Company Support Fund	Shared Cooperation Special Fund	Shared Guarantee Program	POSCO Family Network Loan	Private-public Joint Technology Development Fund	Root Industry Performance Bond	Total
140	120	330	500	100	100	1,290



Activities of POSCO Family Executives Win-win Growth Support Group. CEO of Sanil Electric Co., Ltd., Dongsuk Park explaining the production process to POSCO CEO Joonyang Chung.

Win-Win Growth Investment Fund

In order to maintain continuous partnership with partner SMEs with core technology, major clients and new businesses through equity investment, POSCO created the Win-win Growth Investment Fund for Large and Small Companies worth 200 billion KRW with KB Financial Group Inc. and Hanhwa Group.

Private and Public Joint Investment on Technology Development

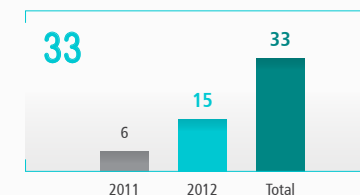
Private and Public Joint Investment

Private and Public Joint Investment is a project where the Small and Medium Business Administration raise the fund with POSCO to provide SMEs with cash grants for R&D under the condition that POSCO will guarantee the purchase of goods. SMEs can receive up to 75% of the total R&D expenditures or one billion KRW in cash. A successful R&D project will guarantee an SME a 3-year long-term contract rights. Following 2008, in December, 2011, POSCO signed an agreement with the Small and Medium Business Administration and, together with the government, created an R&D fund worth 100 billion KRW. Since 2008 until now, POSCO has funded a total of 33 SME R&D projects.

Number of Projects by Year

(Total is accumulated data since 2009)

Unit: No. of Cases



Patent Support Programs for SMEs

To boost technological competitiveness, POSCO offers patent support via diverse channels to SMEs. POSCO shares its patents via a website (www.steel-n.com) so SMEs can conveniently use POSCO patents. POSCO also provides full financial support for patenting costs for POSCO-SME joint patent application.

In addition, when delivering goods produced by using POSCO patents to POSCO SMEs are exempt from license fees to cut costs and to increase the application of patents. POSCO also operates a 'SME Patent Consulting Center' to offer consultations on patents transferred by POSCO.

WIN-WIN GROWTH

Technology Escrows system

POSCO introduced Technology Escrows system run by the Large & Small Business Cooperation Foundation and signed 50 Technology Escrows agreements in 2012 followed by 12 in 2011. It is designed to guard the technological assets from large corporations by depositing SME's intellectual properties such as technological knowhow to the Foundation.

Management Doctor Program

In a bid to solve technological difficulties of SMEs, POSCO has been operating a management doctor program since May, 2011. Through the program, POSCO offers support in all fields related to technology and business management, including machinery, metal, electronics, materials, control, environment and energy, etc. The program also offers technology consulting in the areas of diagnosis, consulting and training to solve problems related to production process and technological difficulties. As of 2012, 27 companies including KC Cottrell are participating in the program.

Strengthening partnerships and the competitiveness of SMEs

Fostering World Best World First Items

POSCO wants to secure the world's best corporate ecosystem by working in cooperation with excellent suppliers and fostering them into the companies with the world's best technology and products. Outstanding SMEs that have secured global competitiveness with their 'world best world first' items are invited to be a part of POSCO's joint growth program. In 2012, POSCO selected 33 new world best world first items. So far, a total of 58 items have been certified as world best world first products.

The number of certified
World First-World Best products Unit: number

2011	2012
12	33

Support Program

- Systematic support services by CFT, a support group formed by POSCO
- Technological support through techno partnership
- Business management consulting, management doctor program, QSS consulting
- Guarantee 3-year supply rights until the completion of product development.

POSCO Certified Partner (PCP) System

The PCP system aims to foster certified partner suppliers into professional suppliers (sourcing group) with world class quality and technical competitiveness. POSCO offers a diverse range of benefit programs to certified suppliers.

The number of POSCO-certified suppliers by year

No. of certified suppliers		Unit: number	No. of certified variety		Unit: number
2011	2012		2011	2012	
42	39		70	70	

* Selection Standard:

Positive SRM evaluation for two consecutive years, supplier that surpassed set figures in terms of stocked goods

Fostering Independent Medium-Sized Enterprises

POSCO announced that over a period of ten years from 2011 to 2020, it would foster 30 globally-competitive independent medium-sized enterprises in a bid to establish a positive business ecosystem where SMEs would grow into large enterprises and to create more jobs in order to boost Korea's competitiveness. As of 2012, POSCO has selected 31 suppliers and client companies and signed an MOU and has been offering comprehensive support in the areas of finance, R&D, professional human resources and overseas marketing. It has also developed 4 companies, such as KC Cottrell and BHI, into strong medium companies.

Supporting SMEs with Facilities

POSCO supports local SMEs by transferring steel-manufacturing facilities intended for large Korean companies and overseas companies to help Korean SMEs overcome difficulties that arise from a lack of global competitiveness. In addition, currently POSCO is partially ordering construction for large-scale projects such as the construction of new factories to local SMEs to during the business feasibility review stage.

SMEs' ordering status

Unit: billion KRW

Category	2007	2008	2009	2010	2011	2012
SMEs' volume of order	31.149	43.307	31.633	39.496	33.064	37.385

WIN-WIN GROWTH

Adjustment Product Price of 2nd to 4th tier Companies in Case of Changes

POSCO encourages 1st tier companies to help adjust the costs of 2nd, 3rd and 4th tier companies so that the overall principle of joint growth reaches out to 2nd, 3rd and 4th tier SMEs, in case of changes in raw material costs. POSCO stipulated this on the 1st tier companies' Win-win Growth and Fair Trade Agreement and General Provisions.

Category	Details of adjustment of unit price for products
Win-win	Article 4(6)
Growth and Fair Trade Agreement	Adjustment of unit price according to the changes in the price of raw materials In the event that the contract price is increased or decreased by 5/100 of the total contract price due to the changes in the raw material prices, the contract price may be adjusted by mutual agreement.
General provisions	Article 16-Contract Modification(4) When it is found that the quantity, unit price or costs and expenses applied to the calculation of the contract price has been underestimated or overestimated in comparison with its value in the general market transaction, or the standard price of the Buyer or when the contract price is increased or decreased by 5/100 of the total contract price in comparison with its price at the time of the execution of agreement, an application for adjustment of the contract price may be filed. In this case, discussion thereof must be commenced within 10 days from the application date and the contract price may be adjusted within 30 days. In the event that the contract price is adjusted due to the foregoing reason, the Buyer (first sub-contracted company) shall be, in principle, obliged to adjust such contract price by discussion with its aligned company (second sub-contracted company) in a reasonable manner.

Interim Payment for Purchase of Facility

POSCO has been giving support to SMEs for their production and operation by making advance payments for facility purchase to the extent of 20% of the total contract price, and making interim payments for facility purchase since 2010. Interim payments for purchase of facility refer to the system where POSCO makes interim payments in order for its counterparty- a small and medium-sized company- to reduce its preparatory period and the burden of financing as well as to obtain the fund liquidity. Any SMEs that has entered into a contract with POSCO, which amounts to more than 100 million KRW and has more than 180 day-term of contract is eligible. In such case, an interim payment is made after a half of the contract period elapses and to the extent of not exceeding 30% of the total contract price less the advance payment.

Support for SME's Overseas Market Extension

POSCO is providing overseas market information to its small and medium-sized client companies and suppliers through extensive overseas networks of Daewoo International, a group member and one of the leading trading companies in Korea. In addition, it offers various opportunities for the companies to begin relationship with local buyers.

It also supports SMEs products' overseas marketing activities by running product information centers in overseas manufacturing centers. In September 2009, 3 companies opened information centers in Thailand and 4 companies in India. Since then, 2,495 and 4,418 people visited those centers respectively. Visitors can see the excellence of these small and medium-sized client companies at these centers.

In addition, in an effort to help SMEs find new overseas market and provide overseas market information to them, POSCO built Global Growing Center in the construction site of Krakatau steel mill in India in June 2011 and has operated it since then.

WIN-WIN GROWTH

Win-win Growth Program with Customers

Flexible Price and Stable Provision of Products for Clients of Foundry Pig Iron

In a bid to strengthen the competitiveness of foundry pig iron industry, POSCO is operating a program to delay the application of raised price or provide discounted price for client companies of foundry pig iron, and is providing products on its own to substitute expansive imported products. In 2012, POSCO ran a total of 30.5 billion KRW price discount program.

Optimization for Customers and Localization of Exported Materials

POSCO is continuously make efforts to create steels whose manufacturing process can be cut to reinforce SEM's cost competitiveness. As of 2012, it developed 2 kinds of cost saving steels and supported sales of 64,000 tons' of steels.

Solution Providing Program for SMEs

Solution providing program for SMEs is designed to provide manufacturing skills (in particular, figuration, welding and painting) suitable for each material to client companies who purchase materials not only from POSCO but also from various domestic and overseas companies, and to solve the problems involved in all processes ranging from purchase of steels to the production of final products. Under this program, POSCO offers support in the analysis of quality of products made by client companies by using its own testing and analysis machines, and provides support in technology of press working and welding by using its own professionals. In 2012, 113 client companies participated in this program and 187 cases were dealt with.

Information Exchange Conference for SMEs

In order to help SMEs predict future steel price, POSCO regularly holds a conference by products and by industry, in which it explains POSCO's selling policies and elicits better understanding from SMEs. In 2012 alone, 1,093 employees from 778 SMEs participated in the information exchange conference for SMEs.

Education and Consulting to Improve SMEs Competency

SME Vocational Training Consortium and Saturday Classes for Executives of SMEs

POSCO puts its efforts into SME vocational training consortium, a program to nurture new employees and educate existing employees of SMEs. In 2012, 73,091 professionals completed the SME training consortium workshop. In the same year, POSCO also conducted Saturday classes for 2,903 executive, including CEOs of outsourcing partners and outstanding SMEs to share with them domestic and foreign management environmental issues and POSCO family's management strategy, and to help them cultivate entrepreneurial spirit.

Customized Consulting for SME

In order to help SMEs overcome their weakness and chronic problems, POSCO provides consulting services by using its own professionals. It provides customized consulting to the first round and subsequent 2nd through 4th rounds of Hope collaborative SMEs and POSCO-group-recommended SMEs. Consulting areas are various depending on their needs, such as quality, environment, raw material management, organizational management, and more. SMEs can apply for the consulting program by visiting the "SME Professional Support" Portal.

Productivity Innovation Partnership

In 2012, POSCO worked with The Ministry of Knowledge Economy to raise 0.84 billion KRW to pursue "Productivity Innovation Partnership" and consulted 20 1st and 2nd operational partners. Companies who participated in this program get a consultation on overall management, including innovation in technology and construction sites through professional consultants in Korea Productivity Center, and a total of 70 cases were conducted under this program. On September 13, 2012, BUKANG SPECIAL INDUSTRIES, one of the participants of this program, won the Minister of Knowledge and Economy award in a briefing session on the result of win-win growth supporting projects hosted by the Ministry of Knowledge and Economy. POSCO will continue to participate in this Productivity Innovation Partnership program in 2013.

"Management Doctor" Policy

POSCO works with partner SMEs and the Federation of Korean Industries Advisory Group, to form a three-sided support system to improve SME management environment in a practical way. The Management Doctor System effectively utilizes the knowledge and expertise of former CEOs of major corporations and executives, including former POSCO CEOs to effectively guide SME management. As of 2012, 15 SMEs (6 in the first half year, 9 in the latter half year) have participated in this program.

WIN-WIN GROWTH

Programs for Job Creation and Communication

● Operation of POSCO Partner Recruitment Center

In March 2009, POSCO became the first major Korean conglomerate to open a Partner Recruitment Center to assist SMEs in finding the best talent by providing pertinent information. It is a shared strategy to solve the problems of youth unemployment and labor shortage of SMEs at the same time by connecting job seekers with SMEs. The opportunity is open to all POSCO outsourcing service SME partners. They just have to visit the recruitment portal, www.ibkjob.cok.kr/jw/ (Job World) and post an opening. If the SME ends up making the hire through the Job World site, they would have the service fees at Industrial Bank of Korea waived, or receive discounts in interest payments (1 million KRW per 1 new hire through Job World). The Job World site can be used by our partners free of charge.

● Operation of Cyber Auditor (consulting center for SMEs)

In October 2010, POSCO started to operate a cyber auditor to aggressively tackle the problems and challenges SMEs' were faced with. A cyber auditor is located on the first page of POSCO homepage (www.posco.co.kr) and e-commerce site (www.steel-n.com) to allow easy excess for SMEs. Cyber auditor is divided into four categories: righteousness management (report unethical activities), win-win growth (consulting for SMEs), purchase part (open consulting on purchase) and selling part (consulting for client companies). Complaints and difficulties on any subject can be submitted.

● The POSCO Family Win-win Growth Council

POSCO pursues sustainable and systematic support of SMEs working with them like a family, and in order to support that goal, the POSCO Family Win-win Growth Council has been in place. In 2012, it spread its own win-win growth culture by inviting 2nd tier companies as council members, which was mainly consisted of 1st tier companies before.

POSCO CEO Chung Joon-yang, 1st tier company, Dong Joo Industrial CEO Na Chae-hong, 2nd tier company, Chungwoo P&T's CEO Lee Su-hyeon are joint commissioners and there are 53 members, consisting of chief executives of POSCO, CEOs of subsidiaries and CEOs of outstanding SME partners. The POSCO Family Win-win Growth Council meets to discuss, review, and coordinate annual projects on Win-win growth at a group level, and to decide on its systems and policies. The council not only looks for the win-win growth business opportunities, but, announces the tasks to realize "excellent win-win growth goal" for the members of the council. The council meeting is held semiannually.

● The Results of Win-win Growth Activities and its inclusion in Performance Evaluations

POSCO has established win-win growth with SMEs as one of the core management values and incorporated it into the business culture. In order to build confidence in the win-win growth activities between large enterprises and SMEs, it includes the results of win-win growth activities as evaluation criteria in the executives review process. As of 2012, POSCO and 13 other subsidiaries are participating in the initiative. Win-win Growth and Fair Trade agreement results along with activities of the Family Win-win Growth Council and "Excellent Growth Goal" are used as evaluation criteria.

2013 Plan for Win-win Growth

● Establishment of Benefit Sharing Program Made by POSCO

POSCO plans to lay foundation for the introduction of benefit sharing program by spreading this program throughout its affiliates. It will expand the number of subsidiaries that will adopt the program from 12 to 14 and increase the amount of performance compensation to 60 billion KRW.

● Strengthening of Win-win Growth Activities with 2nd to 4th tier SMEs

As win-win growth between 1st and 2nd tier companies is becoming a social issue, POSCO will reinforce win-win growth activities for 2nd tier companies. To do that, it will come up with ways to evaluate fair trade and win-win growth activities between 1st and 2nd tier companies, and quantify the competitiveness of POSCO family's corporate ecosystem and outcome of win-win growth. It also plans to establish a process to encourage its partner companies to pay in cash and keep their payment deadline while reinforcing activities of various consultative groups currently operated for win-win growth of 2nd tier companies. In addition, it will support 2nd tier companies by organizing win-win growth support team consisting of partner companies' CEOs and executives.

CSR IN SCM

+ POSCO Group Supplier Code of Conduct

Respect for Basic Human Rights, Voluntary employment, no child labor, no discrimination, business hours, salary, humanitarian treatment

Safety and Health Care Working environment, industrial safety

Environment Hazardous substance, wastewater/ solid waste and air pollution, prevention of pollution and reduction of use of resources

Ethics and Fair Trade Business integrity, compliance with special terms and conditions for ethical practice and fair trade principle, establishment of trust culture

Protection of Trade Secret and Intellectual Property Management and protection of confidential information, protection of intellectual property

Quality Management Quality management, change management, quality management between suppliers

Social Contribution of Win-win growth, social contribution

Improving CSR Competitiveness of Supply Chain

POSCO makes efforts to strengthen the competitiveness of POSCO's all supply chain partners. It enacted POSCO group supplier code of conduct that all suppliers should comply with, and has encouraged them to follow the code.

POSCO also has Supplier Relationship Management (SRM) Evaluation System, through which it spreads POSCO's social responsibility and CSR competitiveness to supply chain to strengthen suppliers' competitiveness and prevents CSR related risks in advance.

● POSCO Group Supplier Code of Conduct

POSCO set up the POSCO group supplier code of conduct in June 2010 so that all of SMEs engaging in a business with POSCO may perform their duties as global corporate citizens. POSCO group supplier code of conduct consists of 22 clauses under the 7 parts. It includes basic norms, such as human rights, labor, environment, and anticorruption plus other standards related to fair trade, quality management and Win-win growth. All suppliers who want to trade with POSCO group should comply with the code of conduct. They can start a business with POSCO after registering its electronic signature on "e-procurement (www.steel-n.com)," which is an electronic commerce system of POSCO.

● SRM (Supplier Relationship Management) Evaluation System

POSCO organized and has managed sourcing groups by product after considering products' supply markets, characteristics and convenience of contacts. It also evaluates basic states of companies who want to trade with POSCO, such as financial ability and scale of facility, and registers those who met the requirements as pertaining sourcing groups and give them a qualification to participate in a bid or negotiation of pertaining products. In addition, it publishes a quarterly report on the analysis and evaluation of suppliers' trading performance by sourcing group.

POSCO group's SRM evaluation system consists of credit, price, quality, deadline, cooperation and environment, and adding/subtracting elements are included. CSR elements, one of the evaluating elements, cover all areas, such as economic, social, and environmental aspects. CSR activities are reflected in the evaluation with 100 points given to the companies allocating more than 50 hours to voluntary service. Donation and CSR related awards are also included in the evaluation, after being converted into the number of hours dedicated to volunteering.

POSCO is encouraging its first-tier suppliers to help second and third-tier suppliers gain competitive edge in the market benefitting from POSCO's win-win growth policy. Additional points (from 0.25 to 3) are granted for financial support for the second and third-tier suppliers to maximize the synergy effect of the POSCO Family value chain and build healthy corporate ecosystem.

Safety and environment are also important criteria in the SRM Evaluation. One of the safety indicators is the number of certificates of safety health management system including KOSHA18001. Also, safety training, safety management activities, safety regulations compliance are evaluated to promote the establishment of the supplier safety system. On the other hand, points are deducted as to the number of safety incidents and the cases of safety rules violation at the steel mill. In the environmental category, certification of ISO14001 and other environmental standards, the amount of green buying, eco-friendly products suggestion, and carbon emission control are considered in the evaluation to promote environmentally friendly supply chain.

POSCO publishes quarterly and annual reports on the evaluation and analysis of suppliers, and sends the reports to suppliers to help them improve themselves. Suppliers who get 'poor' rating in the evaluation report, among 'poor', 'good', and 'excellent,' are restricted in their bid. In the worst case, they could face suspension of trade.

Those who get 'poor' rating in the evaluation report for two consecutive years cannot do business with POSCO for a year and their registrations as sourcing groups are concealed. They need to pass the same test as that for a new registration. POSCO selects POSCO-certified partners among those who get 'excellent' rating, and give them various benefits, such as price preference in case of contracts of important materials and exemption of various deposit payments.

By evaluating suppliers and giving them a feedback on their strong and weak points, POSCO forms an environment where suppliers improve themselves. The evaluation results are also used as criteria for supporting or throwing out suppliers, which leads to a healthy corporate ecosystem.

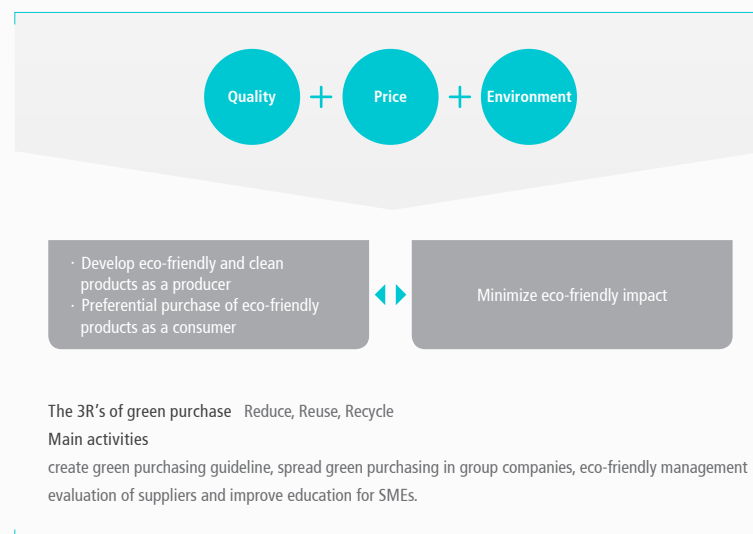
Not only that, it established the standard of social and moral responsibility and duty that suppliers should take, so companies who did socially irresponsible things or provokes complaints are deterred from doing business with POSCO. When they break POSCO's ethical code, provokes complaints, and create environmental damages, POSCO imposes strict punishment on them, (for severe cases, impose a permanent sanction), and therefore makes it impossible for them to do business with POSCO. Unethical practices of suppliers are monitored on a regular basis for earlier detection and its results are reflected in their evaluation.

CSR IN SCM

● Eco-Friendly material purchase and supplier competency enhancement training

In order to encourage more eco-friendly material purchase, POSCO allows a 10% price preference for suppliers of eco-friendly materials. For example, if an eco-friendly material is priced 10% higher than a regular material, we allow the purchase of eco-friendly material. We are making an eco-friendly supply chain, buying material that serves the same purpose but is less harmful to the environment and body.

Also, POSCO organizes an HRD consortium for the suppliers, because we believe that the supplier's competency reflects own competency. Through the consortium, POSCO enhances job competency in staff of suppliers- especially of the small and medium-sized suppliers- and supports the growth of suppliers by continuously spreading POSCO's excellent innovative business activities. Moreover, we implement an ethics training twice a year to guide the supply chain to manage ethically, and the participation of the training also applies to the performance evaluation of the suppliers.



Evaluation Criteria for POSCO Family SRM (Supplier Relationship Management)

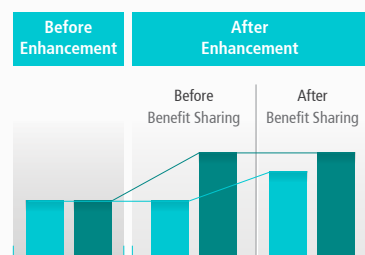
✓ Credit	Credit rating
✓ Price	Bidding price, Quote reliability, bidding participation rate
✓ Quality	Failure rate, defect rate, cost for defects
✓ Participation	Amount of stocking record, Volunteering performance, number of Benefit Sharing cases, financial result of Benefit Sharing, 2nd~4th tier supplier payment date, win-win growth agreement, SME education performance, material use department satisfaction level, innovative individual training performance,
✓ Environment	Amount of Eco-Friendly product delivery results, eco-friendly label certification, ISO 14001 certification
+ Added points	2nd~4th tier supplier financial support, emergency support, design plan suggestion: 0.25 points/case, Max 2 points safety and health management system certification : 2 points
- Minus points	Righteous management caution: -1 point / case, serious accident : -3 points / case, regular accident : -1 point / case, safety violation : -0.25 points / case

* Over 90 points Excellent / over 80 points Good / Less than 60 points Poor
Excellent SMEs are given preferences in contracts and a chance to be selected as an excellent SME

POSCO'S BENEFIT SHARING: FOCUS

- F | Fostering Partners Actively
- O | Open innovation
- C | Collaboration
- U | Upgrading life cycle, deliver, and quality of products
- S | Sharing performance according to the agreed upon conditions

Sales Compensation ● Delivery Price ● Productivity



*FOCUS shares the productivity enhancement sector (POSCO profit) with the SMEs

*Cash Compensation for Measurable Financial Effect

POSCO's FOCUS is a policy to benefit SMEs when POSCO and SMEs identify innovative projects together and achieve cost production, extend the life cycle of machinery, and localization. When cost reduction, higher productivity and such achievements are realized with innovation, POSCO rewards the SME with 50% of the achievement in cash and offers long-term contracts. With this, SMEs can enhance business quality and POSCO gains long-term competitiveness.

In Jul. 2012, POSCO upgraded the POSCO's original benefit sharing policy. It established the FOCUS, and launched the Benefit Sharing Team to actively spread the FOCUS model as a standard model at the industry-level. FOCUS is the name of POSCO's unique benefit sharing program. The name has been coined to focus on win-win growth between POSCO and partners, as well as Fostering partners actively, with Open innovation, bringing out Collaboration to Upgrade life cycle, delivery and quality of products and sharing performances according to the previously agreed conditions.

Through FOCUS, POSCO has set up 7 benefit sharing models with 25 concrete collaboration types to build infrastructure and enhance the acceptability and feasibility of the policy that allow win-win growth activities to translate into FOCUS. Moreover, we also built a foundation to promote FOCUS by implementing an incentive policy for participating employees. For those who participate, we link the performance with CEO reward, a maximum 3 million KRW in cash or benefit sharing mileage. The mileage can be drawn out in cash or donated.

Moreover, we have diversified routes to find benefit sharing topics and lowered the barrier for participation. Previously, the topics were mainly raised by partner companies which had more opportunity to discover room for improvement since they could access the steel mills. Now, not only partners but POSCO's in-house employees can suggest items online. Furthermore, when assessing partners such as outsourcing companies and suppliers, the level of participation in the Benefit Sharing program was reflected onto the process. Last Dec., we developed a system to manage FOCUS operation. Therefore open opportunities and motivation is guaranteed both in and out of the group, which will accelerate POSCO's unique win-win growth based on communication and trust.

POSCO's 7 Benefit Sharing Model

1. Target Production Cost Management

Joint improvement activities to achieve target production cost for items that are linked to POSCO's production// Method: Responsible Management Policy, Target Production Cost Management Policy

2. Joint Improvement for Production Cost

Cost reducing policies by improving the outsourcing process with partners through enhancing the outsourcing process// Method: Reducing costs in direct management and outsourcing, enhancing logistics cost and production cost

3. Joint Improvement for Performance

Cost reduction activities to remove unnecessary specification in facilities or enhancing durability// Method: Quality improvement, extending life cycle by enhancing specifications, reusing materials

4. New Product Joint Development

Localizing foreign products and developing them// Methods: Localization, developing new products or substitutes

5. Possessed Technology Support

Dispatching Ph.D-level experts without cost or supporting patents, technology// Method: Techno Partnership, transferring patents/technology, Management Doctor program

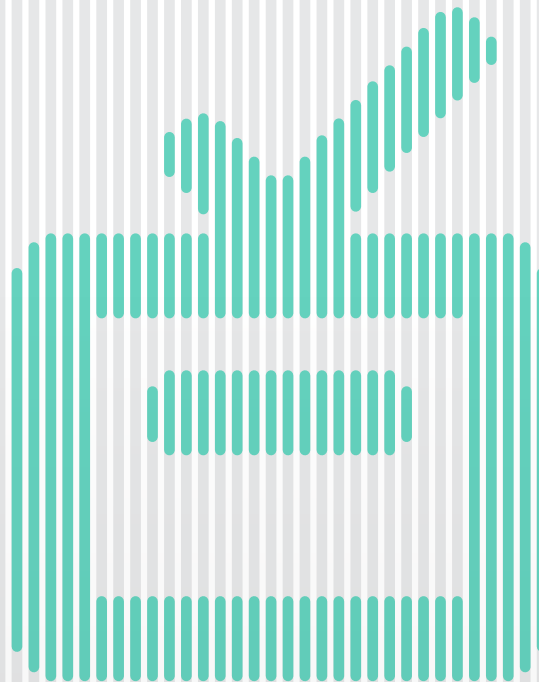
6. Partner Collaboration

Addressing chronic problems of POSCO with front back partners, Sharing performance including 2nd~3rd tier partners// Method: Joint improvement with partners

7. Sharing Innovation Performance

Workplace innovation for outsourcing partners residing at the steel mills to enhance productivity and quality, preventing safety accidents// Method: QSS(POSCO's own Six Sigma)

06 EMPLOYEE



CONTENTS

Safety · Health · Happy Workplace · Global Talents
CASE: Workplace for Women
CASE: Isolation Locking System

+

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PAGES

Kim Yeung-gyu, Head of Corporate Staff Division

The most valuable assets of a company are employees. Therefore, the Management Support Division's key role is to provide an environment and system where the employees work happily, responsively take on duty based on ownership, and concentrate on their work.

In particular, the successful implementation of POSPA 3.0 including Smart Workplace advanced the way of working. I am sure that these measures will enhance employee competitiveness, and contribute to the performance of the company.

SAFETY

POSCO puts safety first and considers it as one of our core values based on the principle of human rights. Keeping in mind that our safety management influences not only the life of all the employees but also their families, POSCO is committed to making the workplace safe like we take care of our own family.

By putting priority on safety in everyday work, POSCO practices its core value; respect for human life.

Promoting the Zero Safety Accidents

POSCO expanded and revamped the Office of Safety Innovation(Bureau of Safety and Health in 2013) in September 2010 and has been implementing the company-wide Safety Injuries Zero Mega-Y campaign to integrate and optimize safety and health activities at the POSCO Family level.

The Zero Safety Accidents Mega-Y is implemented throughout the whole POSCO Family, not only at the Pohang and Gwangyang Works, but also at subsidiaries and global production bases. During the 1st year of Mega-Y, we carried out paved the way for zero safety accidents by implementing 28 tasks in 9 sectors. In Oct. 2011, we established the POSCO Global Safety Center to provide training infrastructure on both theory and practice. POSCO Global Safety Center is also used as a safety experience center for citizens and students and thus serves as a foundation for shared growth among employees, local community and the steel complex. In 2012 POSCO is working on 35 tasks in the newly found 10 sectors, continuing its efforts to achieve the goal of zero safety injuries by; offering essential safety training to all employees utilizing its educational infrastructure; detecting and eliminating safety risks; and establishing a global safety system.

The year 2013 is set to be the starting year for creating a safety culture through realizing zero safety accidents. This will be executed with the participation of all employees, in particular, the All Employees Safety Management which is the process micromanagement by the relevant personnel.

PDCA Cycle
Plan-Do-Check-Act

POSCO's Safety Activity System

By eliminating workplace hazards, POSCO seeks to prevent accidents and enhance the employees' quality of life. Therefore, we devised the Safety and Health Policy. To pursue this policy, we are encouraging continuous improvement with the PDCA Cycle*. In addition, we strive to create a safe workplace by clarifying employee's roles, responsibilities and procedures and making employees adhere to them.

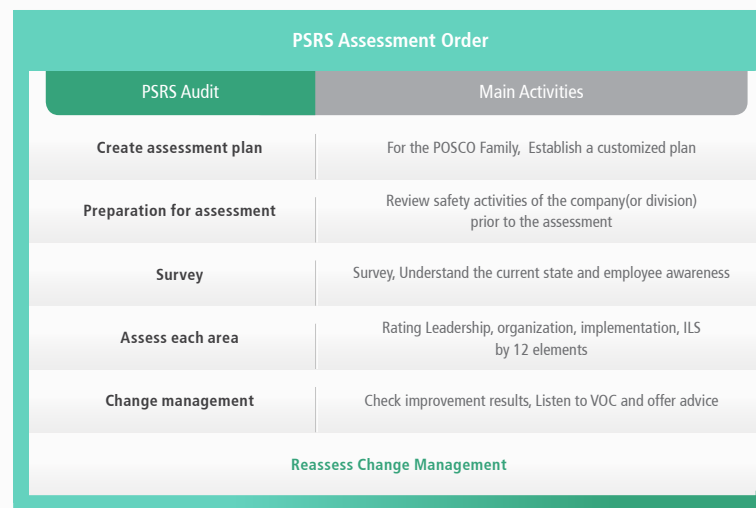
POSCO Family Safety and Health Management System



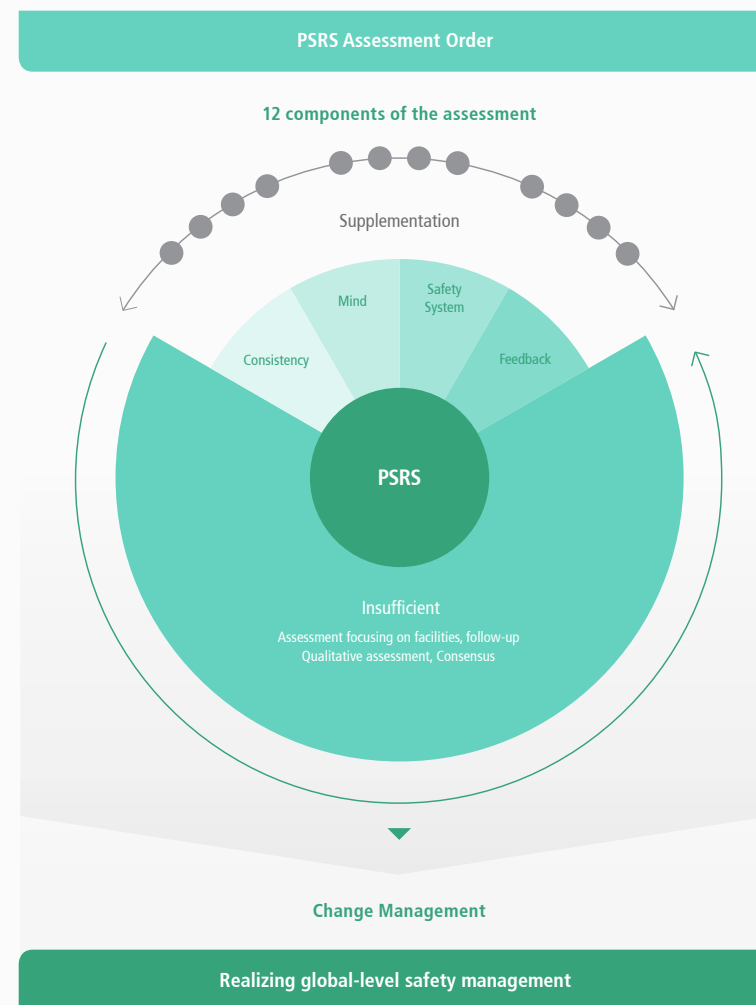
SAFETY

PSRS(POSCO Safety Rating System)

POSCO developed the POSCO Safety Rating System, or PSRS, which is a safety-rating tool that makes strengths into standard models and provides systematic change management consultations for weaknesses. It inspects and carries out quantitative evaluations on the execution of the POSCO Family, Safety Leadership which is a safety management level by companies, and facility safety.



* Rated companies in 2012: 11 departments in steel works, 10 subsidiaries, 26 outsourcing companies



SAFETY

Safety Acts Observation(SAO)

The SAO program is designed to urge position holders(leader level)to compliment workers at the site and ask questions to help employees realize their unsafe practices and correct them for themselves. This enables the company to identify unsafe practices on site or rooms for improvement as well as raise employees' awareness on safety and correct unsafe practices.

Establishment of Facility Safety System

From the facility investment stage, we design and build safe facilities, so that even when employees make mistakes or when facilities are broken, safety is not compromised. We have devised a process to ensure safety by making sure safety facilities are not left out when installing facilities and standardized installation procedures. We are also promoting these improvement processes to take root.

Innovation in Education and Training

POSCO recognized the importance of training for the safety of the employees, and therefore established the system and infrastructure for education. We established an education and training matrix for 36 courses of different levels including beginner, leadership, and professional course. It is designed to help employees build essential safety-related capacities to meet their responsibilities more effectively and expand communication between ranks and change management. In addition, the POSCO Global Safety Center, equipped with a lecture hall, exhibition room, 4D theater and laboratory, opened in September 2011 laying the groundwork for systematic and continuous safety training in both theory and practice. The center operates safety education programs for students and the general public as well as POSCO Family members. The programs contribute to raising safety awareness and serves as an opportunity for POSCO's safety activities to go beyond affection for oneself, colleagues to affection for family and the company.

Based on the advanced training infrastructure, POSCO is continuously carrying education programs to create a culture of keeping the safety standards and making them a part of our lives.

Safety Management Performance

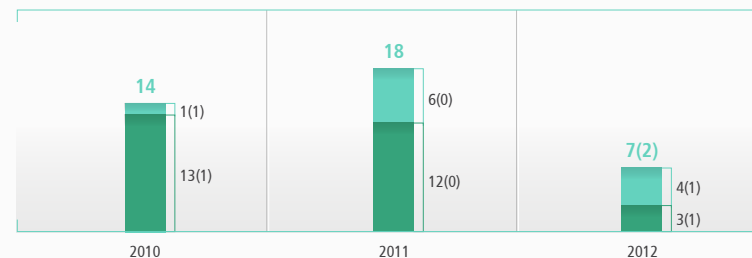
Material injuries

- ① Accidents with 1 or more fatalities
- ② Accidents with 2 or more persons with injuries at the same time that require 3-month or longer treatment
- ③ Accidents where 10 or more persons have been injured or fallen ill due to occupational disease simultaneously

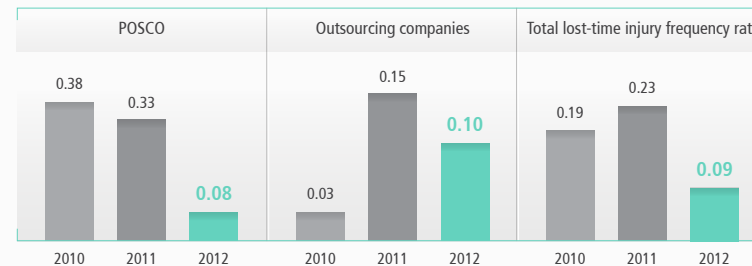
Number of accidents

● POSCO
● outsourcing companies

Unit: number of cases
(numbers in parentheses indicate fatalities)



Lost-time injury frequency rate*



* lost-time injury frequency rate = (number of lost-time injury case/ total working hours in a year) X 1million hours

SAFETY

Fun Safety Smart System

POSCO strives to achieve zero safety accidents through the "Smart & Fun Safety" initiative, where safety information is provided anytime, anywhere and hazards information is shared utilizing the smartphone mobile technology.



- Establish a Safety Portal Service
- Smart Hazard Forecasting System
- Safety & Health 'My health Traffic Lights'
- Safety Academy
- PSRS Safety Assessment
- Introduce Safety & health Apps
- My Daily Safety and Safety Statistics
- Introduce Unique POSCO Safety Activities

Fun Safety System Development

Fun and useful facts about safety will be provided through smartphones, thereby raising the positive image of safety and contributing to the safety culture to take root.

Safety Academy



- 01 Safety Questions
- 02 Check Promotional Materials
- 03 Problem Solutions
- 04 Select Awardees
- 05 Awards

Augmented Reality

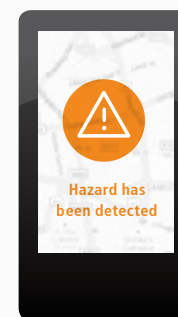
Technology that overlaps virtual conditions (e.g., additional information) on reality

* Health traffic lights by year, major factors to health risks, level of risk by disease, medical condition information and level, information on hospital provided

Hazard Forecasting System

With the hazard forecasting system using augmented reality* and the location-based technology, information on hazards within the factory is available. Also, we make sure to secure the safety of our employees utilizing gas leakage alarms and hazard approach alarms.

SMART-based Hazard Forecasting System



SYSTEM



SMART PHONE



PC



Provide hazard information on Video Mode



Provide hazard information on Map Mode



Hazard Navigation



Hazard Approach Alarm



Gas Leakage Warning System



Detailed Search by hazards



Registration of Hazard on Site

MAJOR FUNCTIONS

HEALTH

Employee Health Management System

POSCO conducts free health examination on all employees every year to maintain and enhance their health. Checkup results are recorded and saved to provide systematic and customized healthcare services for employees. Based on the data, health consultations with industrial medicine specialists are offered and customized diet and exercise routines are prescribed. Afterwards, health information and education are provided and, when necessary, it is recommended employees join counseling sessions and the fitness center of the company. In order to help employees keep in shape and prevent musculoskeletal disorders (MSDs), the Physical Therapy Clinic is available and fully equipped with a body analyzer, disc decompression system, and disk rehabilitation machine.

POSCO Healthy Guide

Quit Smoking	<ul style="list-style-type: none"> · No smoking has economic/environmental benefits · Alternatives: Favorite foods such as candies, vitamin · Realize the harmful effects of smoking(causes of disease and stress)!
Healthy Drinking (Moderate Drinking)	<ul style="list-style-type: none"> · 911 Movement (before 9 P.M, 1 Type of alcohol, 1 Place) · Drinking capacity is not talent! · Remember the harmful effects of heavy drinking
Diet	<ul style="list-style-type: none"> · Go on a diet, those with BMI of 25 and up · Intake 2,500kcal/day! Exercise at least twice a week (20 min./each) · Eat three times a day, low calorie food in small portions!
Low-salt diet	<ul style="list-style-type: none"> · refrain from eating salted, processed, instant food, and eating out · Grilled rather than salted, steamed rather than fried, soup rather than stew! · Don't put extra salt on already made food

BMI
Index for amount of body fat that is used
as a measure for obesity

Health Enhancement Campaign

POSCO believes that the health of the employees is the source of Happy Workplace and company's competitiveness. Based on this belief, POSCO is carrying out no-smoking, healthy drinking, reduce obesity, and low salt diet movements. Since 2009, POSCO declared its steel works "smoke-free" with all of the employees have succeeded in quitting smoking. The no-smoking campaign – of love for colleagues and family – has been expanded to all POSCO subsidiaries, encouraging them to pay more attention to employee health. All of the POSCO Family employees have succeeded in quitting smoking.

We are also campaigning for moderate drinking for healthy employees and happy family. As the 1st campaign of the 6th Labor-Management Council launched in 2012, 'No sharing glass, No forced drinking, No going home late' movements were carried out. Get-together culture also changed from drinking to going to good restaurants and sports games or cultural events.

In order to fight obesity, POSCO has implemented a range of obesity control programs for its employees; 8-week weight loss program, healthy walking campaign, and the development of healthy diet, and riding bicycles movement. These programs are designed to encourage employees to adopt a healthy life style such as regular exercise and proper eating habits. We regularly measure BMI*, so that employees can fight obesity.

Moreover, considering the fact that Koreans tend to intake much salt in a day, the possibility of adult diseases like hypertension and obesity is high. Therefore, we are campaigning for a low-salt diet to cut down salt intake since salt is the main cause of adult diseases.

HEALTH

Industrial Hygiene Management

In order to be in the best shape, the internal and external environment surrounding workers need to be pleasant. POSCO is enhancing the convenience and performance of protective gears with the help of protective gear manufactures. Meanwhile, POSCO developed health standards such as "Hearing Protection Program" and the "Healthy Work Program for Closed Areas". In addition, we strictly comply with the Material Safety Data Sheet (MSDS) based on GHS(Globally Harmonized System of Classification and Labeling of Chemicals) to use chemicals in an appropriate way. Thanks to such consistent efforts, POSCO showed an outstanding performance at the "Work Environment Evaluation Management" program, hosted by the Ministry of Employment and Labor every year, and designated by the Ministry as a "Self-evaluating Organization of Work Environment."

Health Education

To raise employees' health awareness, we provide e-learning courses under the topic of 'Industrial Health'. There are various programs in the course including health promotion, life-style improvement, health examination and workplace management · improvement, etc. We are also allowing not only POSCO employees but anyone including subsidiary employees to take the class.

Expand Health Promotion Center Access to POSCO Family (Subsidiaries and outsourcing companies)

POSCO has expanded the medical service provided only to POSCO staff by the in-house medical facility Health Promotion Center, to POSCO Family members in Sep. 2011 (Pohang) and Jan. 2012 (Gwangyang). Establishing infrastructure through expanding personnel and facilities to provide additional service, 66 subsidiaries and outsourcing company employees working in steelworks can receive the same medical service benefits as POSCO employees free of charge.

Stress Management and Counseling

For employees' happiness and mental health, we have been operating a counseling office where employees and their families can receive counseling through visits, phone calls, and e-mails. In addition, they can be transferred to the outside psychiatric clinic according to the results to receive free treatment when they need a deeper counseling and drug prescription. The counselor keeps all of these procedures confidential.



POSCO made an attractive staircase that makes people want to climb so that they can stay healthy in their everyday lives.

Attractive Staircase

We are putting efforts to create an environment where busy employees can stay healthy in their everyday lives. POSCO decorated the Seoul POSCO Center's staircase as 'Attractive Staircase' so that people can use the stairs more.

On the staircase, we inserted phrases to keep people entertained while climbing up and down the stairs, and wrote the number of calories burnt so that employees can actively measure how much they exercised and achieve their personal goals.

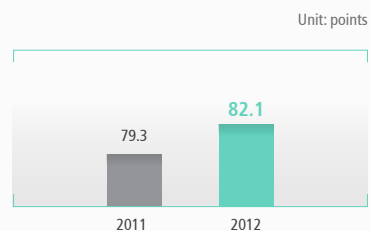
Major Results of 2012

- Augmented the health promotion center at Gwangyang Works (2,032 m² in scale): 100 users a day
- Pohang Works designated as Outstanding Workplace for Health Promotion Activities (by the Korea Occupational Safety and Health Agency)

Plans and Objectives of 2013

To promote the health of the employees, we plan to adopt the Exclusive Nurse policy where nurses can directly care for employees with medical conditions. Also, regarding the 4 major practice items- Quit Smoking, Healthy Drinking, Reducing Obesity, and Low Salt Diet- we will establish concrete plans and lead our employees continuously.

HAPPY WORKPLACE



* The previous Employee engagement index was lifted, and from 2011, we have adopted the Happiness Index.

Executives and employees are importance stakeholders and at the same time, the most valuable resources to POSCO. POSCO actively communicates with them and listens to their needs. Human resources development system, a reasonable compensation system, and welfare policy were put in place so that they can grow to be creative talents which leads to enhanced competitiveness of POSCO. Along with this, POSCO tries its best to secure as well as protect their rights.

Happiness Index

POSCO introduced the concept of a recent HR trend, "Employee Happiness" and developed and conducted research on its happiness index. In 2012, POSCO recorded 82.1 points, which is a 2.8-point rise from 2011.

In 2012, satisfaction regarding extension of retirement age, employment stability rose, and in-house communication, openness, and leadership contributed largely to the rise in points. In 2013, we will focus more on care activities by generation that takes into consideration the diversity of generations, organization culture improvement that reflects the uniqueness of each divisions, and also family-friendly management for work-life balance.



Trust and Communication with the Employees

For open communication among the employees, we have the Labor-Management Council, as well as Young Board, Junior Board as communication channels. In addition, we established the POSCO& so that employees can share their opinions bilaterally regarding companies' major policies. Since 2012, we implemented the Smart Leadership to enhance the communicative capacity of the leaders.

● Labor-Management Council

To make the executives and employees, who are one of POSCO's important stakeholders, proud, we put various efforts in listening to their complaints and difficulties. Based on the Act on the Promotion of Worker Participation and Cooperation, the Labor- Management Council was launched as an employee representative body on 17th Nov, 1997 with 20 members from management and labor unions.

The labor members negotiate on company-wide interests including wage, working policy, welfare, increased productivity and allocation of outcome, safety, health, and also workplace and more. They attend the company operation meeting, regular and ad hoc meetings with the executives to share the status of the business management and participate in the overall management. The company holds quarterly presentations, meetings and workshops on management and policy to share their views with the employees.

The Labor-Management Council has affiliate organizations such as Steelworks Council and Division, Department-Office under it, and the Section-Factory Council is the smallest unit with 374 basic members. Based on the agendas brought out by the affiliate councils, the Labor-Management Council holds a regular meeting at the end of each quarter to achieve shared growth between employees and the company as well as employee welfare.

In addition, by swiftly addressing employees' complaints and difficulties, the trust for this employee representative body has been raised. In particular, we have promoted Multi-year wage agreement 2012 to 2013, and 1% donation movement to create a symbiotic labor-management culture. We will also make sure that the company and employees can enjoy win-win.

The members of the Labor-Management Council are selected by direct and secrete voting, with a 3-year tenure. The 6th members of the council as of 2013, were chosen in Oct. 2012, with their tenure ending tin Nov. 2015.

HAPPY WORKPLACE

Communication Index

A survey of 21 questions conducted among all POSCO employees on how employees feel about meetings and the reporting culture, to find ways to improve the existing culture

Young Board

Young Board is a group-wide communication body of young, competent employees that has been around since 1999, which conveys suggestions on company development directions to the top management. In 2007, this was expanded from employees of affiliated companies, and to POSCO Family including foreign branches from 2009. In 2012, the Young Board completed tasks such as "Review the Young Board's proposals to create other values", "Promotion of POSCO Family Ownership," "Capacities needed for a company to vitalize SNS," and "Structural improvements to raise profitability."

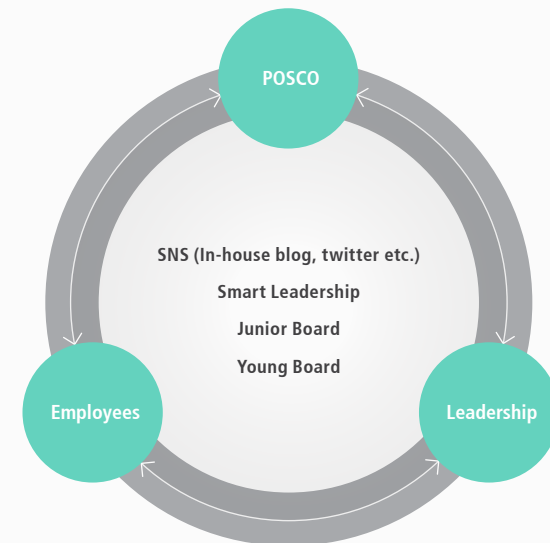
Junior Board

Started in 2009, the Junior Board is a division-level communication body of young employees. Its role is to secure open communication channels among departments, to discover creative ideas of young employees, and to improve the corporate culture and form an active organization.

From the second half of 2012, a new role of the Communication Facilitator was given to the Junior Board, by reflecting their requests of being allocated projects that were not task centered. Their roles have been simplified to act as Communication Facilitators within their departments. They are in charge of holding one meeting or debate session every half year to facilitate communication among the department head and the younger employees, and in the second half of 2012, a total of 9 Junior Boards freely selected a theme to hold a cultural event meeting to conduct better communication.

Promoting Smart Leadership

POSCO creates a working environment where employees can work smarter through communicative leadership. In August 2012, it was revealed through a Communication Index* survey that approximately 85% of the employees thought of the leader's role as most influential in creating a smart working environment. So once the hardware for smart work was completed, the Smart Leadership was implemented to change the software. Smart Leadership is a process of changing the leader's conventional role of directing, reporting, and communicating in a smart manner. To this end, POSCO got the signatures of leaders, promising to fulfill the "Smart Leader Pledge," and provided leaders with a smart leadership guideline. In addition, we developed a smart leadership behavioral index to continuously monitor the implementation of Smart Leadership.



HAPPY WORKPLACE

Compensation and Welfare Benefits

POSCO's salary system reflects how long the employee has worked for the company, performance, and the company's overall performance. In other words, the inflation rate and the extra year of work is reflected, raising the salary to support stable livelihoods, and the raises in salary is applied differently by each employee according to their performance.

In addition, the company's business performance such as reducing production cost and improving profitability is systematically applied through the business performance-based benefit system, to be evenly distributed among employees. With this method, there is less conflict among the labor union and the management compared to the previous method in which the labor and management had to agree upon the incentives. Especially, in 2012, POSCO reinforced the performance-based incentives by changing from the existing fixed incentives system of annual 400% to a variable business-performance based system.

Employee welfare fund has been established from some of company profits to boost the employees' quality of life. The fund is used for home loans and stabilization of livelihood, scholarship for employees' children, individually chosen welfare benefit packages, expenditure for congratulations and condolences, and support for employees with handicapped family members.

Aside from the above, POSCO manages a welfare support center to provide employees with recreational facilities and medical check-ups, as well as conduct assessments of the workplace environment. In 2012 the Goheung Training Center was open to the employees; the Walpo Center was remodeled to provide wider choices, and supported medical check-ups for spouses of employees as well, recognizing the importance of maintaining a healthy family life.

Employee Welfare Fund by Year

Unit : billion KRW

	2010	2011	2012
Total amount funded from company profits	59.3	62.1	59.1
Total aggregated amount funded from company profits	695.1	757.2	816.3

Advanced Wage Negotiation Paradigm, 'Multiyear Wage Agreement'

A Multiyear Wage Agreement is a negotiation method to decide the wage increase for over 2 years through one labor-management meeting. The method generally used by domestic companies is the single year agreement, but this method entails more costs due to repeated negotiations between the labor and management each year. The multiyear method is also an effort to better adjust to the changing global business environment, in which the labor and management can better work together to address the challenges.

POSCO labor and management agreed to adjust the basic wage increase for 2012 and 2013 at once, settling down the multiyear wage agreement. POSCO was the first conglomerate in Korea to introduce this method in 2007, and successfully agreed on multiyear wage agreements in 2007, 2010 and 2012. Moreover, 25 other subsidiaries implemented this method in 2012, establishing this wage negotiation method as a unique labor-management culture for the POSCO Family.

With the protracted global recession and the falling profitability in the steel industry, POSCO sought to maximize motivation for employees and minimize the excess costs that arise from having labor-management negotiations every year through the multiyear wage agreement method, to lay the foundation for the labor and management to pool their capacities toward sustainable growth. Such effort by POSCO is seen as an exemplary case in Korea, and we expect that our method will contribute to advancing the culture of wage negotiations.

GLOBAL TALENTS

POSCO's Hiring System

POSCO pursues "Open Hiring" where candidates can apply regardless of academic background, age, nationality, etc. We are pushing forward the "Structural Screening Process", an advanced hiring evaluation system to scout for talents. The Structural Screening Process is a capability evaluation process based on the "Assessment Center", utilizing various interview techniques to evaluate analytical, planning, communication skills and leadership of applicants in a comprehensive manner. Through such methods, POSCO assesses the future growth potential of the candidates, rather than their current talent, to hire the outstanding candidates who can grow with us. In addition, POSCO announces the company's values, kind of talents we are looking for, and the plus factors for hiring 1 year in advance to select and hire the talents best suited to POSCO.

Hiring Activities in 2012

Hiring was one of our priorities in 2012 to hunt out global and professional talents, who will be at the very center of POSCO's future success. Under the "POSCO Scholarship" we selected sophomores and provided various programs, such as liberal arts and engineering consilience courses, internships and overseas studying opportunities, cultivating exactly the kind of talent the company needs, talents with consilience. In addition, by hiring students studying abroad near overseas branches and by hiring foreign students studying in Korea, we sought to hire global talents with language skills and a good understanding of other cultures. Moreover, POSCO is conducting a special hiring process that is not focused on the candidate's specifications. We seek to hire talents with various capabilities, by hiring through a special selection process; those holding a new invention patent (creativity), those with entrepreneurial experience (challenging spirit), those who can speak multiple languages (global), those from the low income bracket (coexistent growth).

Personnel Status

	2010	2011	2012
Pohang (Number of Employees)	8,318	6,638	6,521
Gwangyang (Number of Employees)	6,394	6,254	6,217
Headquarters / Technology Research Center / Others (Number of Employees)	2,186	4,661	4,885
Number of Employees	16,898	17,553	17,623
Number of New Hires	913	992	818
Turnover Rate (%)	5.58	2.94	5.85
Number of Retired Employees	923	496	1,029
Retired Employees who reached default retirement age (Number of Employees)	566	1	654
Female Employees (Number of Employees)	570	624	702
(Ratio,%)	3.4	3.6	3.98
Female Employees in Manager(G10)* Positions and Above	101	105	146
Employees with Disabilities (Number of Employees)	405	445	474
(Ratio, %)		2.3	2.5
(POSCO)	234	253	254
(Withplus division of POSCO Humans)	171	192	220
Employees on Parental Leave (Number of Employees)**	19(5.2M)	22(2.6M)	61(4.9M)
Employees on Maternity Leave (Number of Employees)**	24(79D)	15(75.4D)	56(71.3D)
Employees on Paternity Leave (Number of Employees)	461	244	532

* G10 corresponds to an assistant manager in the previous title system (Level system changed as of 2011)

** Average length of leave in brackets

GLOBAL TALENTS

Nurturing Talents

POSCO fosters creative talents that together turn the company's vision into reality. That's why we are establishing a lifelong, self-learning education system to allow all of employees to be empowered and contribute to the organization. Customized education is provided to all employees, supporting everyone to become a professional through work-specific training. Special courses are also prepared for employees nearing retirement age and their families, so that they can plan for their lives after retirement. We are also practicing coexistent growth by empowering employees at subcontracting companies under the "HRD Consortium".

Empowering New Employees

POSCO's training for new recruits is focused on empowering employees to share core values of the company. New employees that have been with the company for less than three years are subject to "Training-OJT-Assignment" that offers systemic learning opportunities that cultivate field experience early on and we support them to become experts in their individual area. New recruits receive e-learning training, POSCO family and POSCO introduction training, which helps them learn the spirit and culture of POSCO as a true member of the company. Prior to working in the field, recruits are trained in consilience of work and technology for 4 months and after work assignment they engage in OJT, carry out tasks for performance improvement and prepare research papers over the course of first 6 months with the company.

New Employee Self-Department

Before deployment: 4 weeks of online training

After deployment: 3 weeks of POSCO group-wide · 1 week of POSCO classes

Phase 1 (On-site Training for 26 weeks)

Training for engineers: 4 weeks of basic operations · 14 weeks of field operation techniques
5 weeks of maintenance · 2 weeks of Consilience · 1 week of GB training

Training for office-workers: 4 weeks of basic operation · 6 weeks of knowing your process
8 weeks of knowing your products · 7 weeks of on-site visits · 1 week of GB training

Phase 2 (1 year 6 month)

2 days mentoring session · 6 months of field operation + OJT · 1 yr Field Operation + Tasks for Improvement

Phase 3 (Field Operation / Research Paper Preparation (1 year)

1 year field operation/Research Paper · 2 days of Junior Conference

Cultivating Global Leaders of the Next-Generation

POSCO operates diverse education programs to cultivate leaders of the next-generation with creative and strategic thinking, fit for the ever-changing age of global competition.

First, we established 「Learning roadmap for potential leader」 in 2011, which is an education system to develop the leadership of core talents so that proven talents would be assigned to the right positions. POSCO is also operating the Strategy University to cultivate strategic talents with mid and long-term outlook, with consilience competence. We are cultivating managers through problem-solving action learning method, so that participants can apply the detailed and challenging solutions to their work on site.

To foster talent for global businesses, we are also providing various education opportunities. Through the Global Mini-MBA provided at Hawaii University, we are enhancing the employees' expertise and comprehensive thinking ability, and there is a language course for leaders to cultivate global communication capacities. In addition, for expatriates who are crucial to the success of overseas projects, training programs are prepared for before and after they are deployed, for them to successfully prepare for the various capacities required on the field. We have also introduced a program for the expats and their spouses to get the training together, so that the family members can better adjust to the new environment.

POSCO cultivates core local talents who will be the key agents for the overseas branches. These local employees are offered various programs to better understand the vision, core values, innovation activities and other important aspects of POSCO. The "Education of Model Employees at Overseas Corporations" course is offered to junior and senior employees recommended by the head of overseas corporations, in order to raise understanding about Korea as well as POSCO. Education about the history of POSCO, its core values, and Vision 2020 are designed to inspire pride as a member of the POSCO Family. In addition, the POSCO Culture Innovator course is offered for the in-house teachers and training experts so that they can raise their job competence and the Global Junior Executive Development Program is offered to local leaders who are accustomed to the POSCO values and working methods, to appoint them in managerial positions.

GLOBAL TALENTS

● Cultivating Creative Consilience Talent

POSCO believes that it is important to cultivate creative consilience talent in order to grow into a global advanced company that can weather through the challenges facing the business environment at home and abroad. To this end, it operates humanities courses to cultivate consilience talent, satisfying the standards of "Creative Management" and "Open Management," along with reinforcing leadership skills.

Moreover, POSCO employs the TRIZ University to foster employees' creative problem-solving capacities. The TRIZ University course offers a different perspective, addressing any contradictions that arise in the problem solving process in a systematized matter. The program has multi-level (1 to 3) international certification course to enhance expertise, and fosters creative talent by offering greater expertise befitting the level.

● Sharing Core Values and Leadership Education for On-site Managers

To build a corporate culture based on optimism, trust and communication, POSCO provides courses on trust/communication leadership as well as education on cutting production cost/raising productivity so that the employees can foster a managerial perspective. For prospective retirees and employees slated for a change in their employment status, we provide change management education for them to well adjust to the new environment.

Meanwhile, under a challenging business environment, POSCO published the "POSCO Family Value Handbook," systematically organizing the POSCO values such as its spirit, core values, and business philosophy in an effort to gather all the visions of employees in one direction, and developed the Value Camp education program. This became an opportunity to spread POSCO's business philosophy, embed core values, and enlighten a total of 24,000 employees of POSCO and its subsidiaries about the global crisis and the business environment of the POSCO Family to raise the awareness on crises.

Education Support System

● Expanding Education at the POSCO Family Level

POSCO has clearly defined the common group level education so that the quality of POSCO Family education programs may improve and become coherent. POSCO operated a program where HRD personnel from POSCO would be dispatched to subsidiaries for training, and this program was expanded to small and medium sized subsidiaries in 2012. To vitalize networking activities among POSCO Family HRD departments, we are promoting gathering among executives, department heads, and working level employees.

● Self-Directed Learning System

Since 2000, POSCO has actively implemented the e-learning system, fostering self-directed learning. POSCO was the first company in Korea to be selected as the best e-learning company for 6 consecutive years by the Ministry of Employment and Labor. POSCO did not stop there, and went onto overhauling the e-learning system in 2011, to help employees to make a yearly study plan and take courses themselves. As a result, over 870 courses were open in 2012, allowing for over 200,000 employees to take the courses.

Even as the education paradigm changes with the advancement of the IT, POSCO's e-learning system is taking a leading role. In July 2011 the u-learning was implemented allowing employees to use their smartphones to take the courses. 3,700 video contents were provided to realize a true "Anytime, Anywhere" type of education. In addition, in the corporate education field, POSCO was a pioneer in introducing G-learning to provide business ethics courses on smartphones, and information protection education through role playing-type PC games.

POSCO employees are directing themselves to participate in the company's education programs, and are participating actively by playing games. The next step will be to promote employees to produce UCCs sharing their know-how on their line of work, to share it on the in-house Youtube, so that work and education can go side by side.

GLOBAL TALENTS

Strengthening Innovation Education to Accelerate Innovation

With the PI(Process Innovation) that started in 1999, POSCO introduced 6 Sigma in 2005 to cultivate innovative talent and fulfill tasks, and in 2006, developed POSCO's 6 Sigma* and is operating it, promoting continuous innovation. POSCO continues its training courses to nurture MBB, BB, and GB, the innovative leaders who will drive successful management innovation the POSCO way.

From 2012 we have been pursuing innovative business activities to secure competitiveness based on innovative capacity, along with activities such as BI(Breakthrough Innovation), CI(Continuous Improvement), and PO(Process Optimization).

In order to nurture operators, who can maintain their own facilities themselves, training courses are provided for QSS Improvement Leader and QSS Master, consultants for improving work sites. Recently, change management education programs have been enhanced by integrating POSCO's core values and the advantages of other training methods to motivate more employees to lead innovation at the company.



Employees who participated in the expat training

Major Education Indexes

Classification	2010	2011	2012	Note
Number of Trainees	487,968	530,086	432,859	Data is based on offline classes (POSCO Future Creation Academy, on-site training, lifelong learning, commissioned training) and e-learning courses
Training Hours (Hr)	243	252	234	
Trainee Satisfaction* (per Capita)	4.42	4.47	4.48	

POSCO's 6 Sigma

POSCO's proprietary business innovation model that integrates Quick Six Sigma and work standards.

Trainee Satisfaction

Overall learner satisfaction survey conducted for the offline classes and e-learning courses at the POSCO Future Creation Academy, in terms of the contents, method, and the lecturing skills

POSCO Training Hours per Capita by Position in 2012

Unit: Hrs

Dept. manager/ Group leader	Team leader	Part leader	Foreman	Staff
178	198	206	238	222

WORKPLACE FOR WOMEN

Enhancing work atmosphere



POSCO is trying its best to create a favorable work environment for female workers and to support for their growth. POSCO believes it will bring out the fullest potential of female workers contributing to the competitiveness of the company as well as ensuring diversity of the organization. In particular, POSCO helps relieve some of the childcare burden of its employees through childcare centers, and contributes to increasing the birthrate.

	Program	Details
Childcare	Childcare centers	Pohang, Gwangyang, and Seoul accommodate up to 100, 100, and 60 children respectively. They help relieve the childcare burden, expand female employment, and contribute to increasing the birthrate.
	Resting room for female workers	Especially for mothers and expectant mothers can take a rest and breastfeed their babies.
	Maternity Leave	Offers maternity leave of up to 2 years, twice the time legally guaranteed.
	Incentive pay for childbirth	Offers incentive payment for childbirth to overcome the low birth rate issue and to help out in childrearing
Female Workforce Growth	Mentoring Day for Women	Female employees meet their role models and learn about leadership from them in Pohang, Gwangyang, and Seoul
	Leadership Programs outside the company	Supports for female workers to join forums and workshops to encourage networking with others and motivate for further growth
	Communication channel among female employees	Operates 'Women Leadership', an in-house on-line study group, where female employees share information and concerns.

Recruitment

POSCO does not have any discriminatory factors against women for open recruitment, and has maintained a steady level of women recruitment goals. Women employees have been taking up 20% of our recruits since 2008, and in 2013 we seek to expand the number of permanent women employees to 30%. As for the lack of women engineers, we are thinking of various methods, including hiring women commissioned officers.

We are actively supporting women to participate in recruitment sessions, and in 2013 we are planning a separate promotion program aimed at women undergraduates with natural science and engineering majors. In addition, we are fostering women interviewers (Current number of women interviewers: 17), and we are including a certain ratio of women in forming the interviewers.

Assignment / Development

In determining the assignment and development of an employee, POSCO operates a strict performance-based HR system that does not discriminate against gender. We are deploying our women employees to on-site departments with a goal of fostering a women steel works site manager, and we are operating new-employee empowerment programs and women's CDP(Career Development Plan) so that our employees may plan their own future careers.

ISOLATION LOCKING SYSTEM

Analysis on accidents revealed that a large portion of accidents were serious. Based on this fact, POSCO focuses on removing Hazard Points from workplace to reduce safety accidents to zero.

As a part of these efforts, POSCO implemented the 'ILS(Isolation Locking System)' that shuts down, isolates, and locks the energy source preemptively to eliminate the hazard at the source, and the 'Operating Facility Access Management System' that prevents safety accidents while accessing facilities in operation. With continuous feedback, we aim to improve and stabilize these programs.

The Isolation Locking System(ILS) isolates and locks the energy source which is the cause of accidents beforehand. When a facility operates during maintenance/repairing, it can be a safety threat to the worker. Therefore, the energy source is cut in advance to prevent abrupt operation of facilities and other workers from operating the facility unaware of the situation. POSCO stores facility risk factors into a database to eliminate accidents during repair.

The 'Operating Facility Access Management System' is a system to control/manage access to facilities when they are being operated. Workers can think it is safe to approach the facility in operation. Thus, this kind of judgment is fundamentally blocked by controlling access of facilities that are being run. We categorized the facilities into Level 1,2,3 according to hazards, where highly hazardous facility is Level 1 and when doors to the facility open, the facility automatically stops to secure the safety of the workers.



Unit: cases

Safety facilities
40,000

Improvement on highly
hazardous manual labor
800

In addition, by improving and supplementing the safety facilities continuously, the rotors are covered with protection covers to prevent constriction and jamming. We also identified highly hazardous manual labor and removed or improved the risks.

Level 1 Facilities
2,127 (20%)

Level 2 Facilities
1,215 (14%)

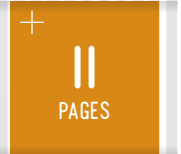
Level 3 Facilities
3,178 (66%)

01 SOCIETY



CONTENTS

Social Contribution System
 Social Contribution in Numbers
 For future generation · Multicultural Family Support
 Clean Ocean Volunteers · Social Contribution in Africa
 Hopeful Job Creation



Hwang Eun-yeon, Head of Corporate Relations Division

POSCO desires to grow together with and be loved by the society, partners, investors, customers, employees, environment and all interested parties In order to achieve that goal, we need to enhance synergy as one POSCO Family.

The entire POSCO family including POSCO, through enhancing CSR standards, will put in effort to create not only business values but also social values and strive to improve the sustainability in the overall business ecosystem.

SOCIAL CONTRIBUTION SYSTEM

New Social Contribution Vision

FOR A BETTER WORLD

A better world through dream, hope, materials and energy

Vision 2020 slogan

posco Family

COLLABORATION

BUSINESS ORIENTED

COLLABORATION

Share direction of collaboration between government, professional NGO, media

BUSINESS ORIENTED

Enhance connectivity in core competencies and business characteristics of each company

BIG DIFFERENCE

Draw a distinction between other companies' programs and become a luxury brand

- for Future Generation** **The most important resource for the future is the people**
POSCO TJ Park Foundation, POSTECH, POSCO Educational Foundation, Junior Engineering Class, School Anti-bullying Program, POSCO Youth Volunteers(Beyond)
- for Diverse Society** **Preparing for a multicultural society and globalization**
Support multicultural café Oasia, train native language instructors, support mother tongue education, multicultural family forums, multicultural marriages, Danuri Call Center
- for Local Community** **Independence/symbiotic model for the socially underprivileged**
Manage/support social enterprises, social contributions in regions with company presence, Global Volunteer Week, social contributions in overseas regions
- for Green Planet** **Initiate social changes through protecting the global environment**
Clean Ocean volunteers, "House energy efficiency" support program, Green Walk Campaign
- for Cultural Heritage** **Obtain insight of future strategy from knowledge and ideas from the past**
POSCO concerts, POSCO art museum, restoration of cultural assets using steel technology



SOCIAL CONTRIBUTION IN NUMBERS

Total Donations to Community Chest of Korea (1988~2012) **859.5** Billion KRW

Social Contribution Expenses in 2012

75.8 Billion KRW

Social Welfare	Sports Culture	Fostering Talent	Volunteer Work
26.6 35%	4.7 6%	42.2 56%	2.4 3%



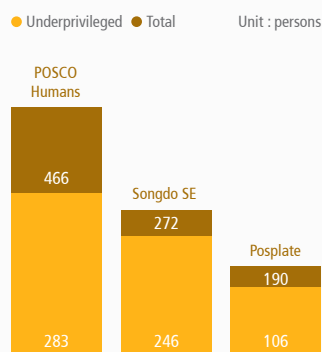
Job Creation for the Underprivileged

2012 POSCO Social Enterprise Employment
635

POSCO Humans
laundry, business support, steel house construction

Songdo SE
clean Songdo company building, parking service

Posplate
manage Gwangyang rear plate warehouse

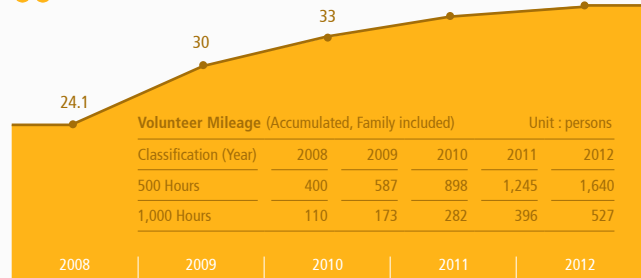


2012 Other job creations **125** Caregivers, Noodle Lovers, Eco Farm, social enterprise product purchase



Employee Contribution Activities

2012 Volunteer Activities
36

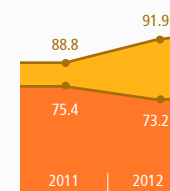


Global Volunteer Week Save Our Planet and Neighborhood
23 Countries 49,000 staff members participated

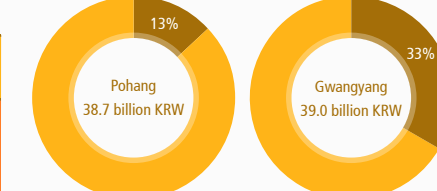


Local Community Contributions

Area Preference
Unit : Points



Local taxes paid in 2012
777



- Analysis on Attitude toward POSCO and Local Cooperation Performance (Survey of 1,200 people that are over 20 years old, Pohang residents or Pohang University students)
- Survey on Residents' Evaluation of Local Cooperation Projects and Sentiments toward POSCO (Survey of 1,005 people that are Gwangyang residents or Sunchon University students)

Local society contribution 37 POSCO Family company staff, department heads **947 people**
End of 2012 total including matching contributions from the company **1.45 billion KRW**

2012 Sisterhood Ties

Classification	Sisterhood Ties				Rate of Sisterhood (%)
	Villages	Schools	Organizations	Total	As to administrative district
Pohang	119	-	6	125	30.0
Gwangyang	90	14	13	117	31.8
Total	209	14	19	242	

FOR FUTURE GENERATION

Our students are witnessing and living through rapid changes of the world. In the midst of school violence and curriculum that focuses on grades, Korean teenagers are only focusing on preparing their resume instead of emotional learning such as personality education and establishing correct values.

POSCO has aimed to give back to the country not only by producing steel but also with education. We support the dreams of future leaders by fostering talents through POSCO TJ Park Foundation and fortifying education infrastructure through POSTECH (Pohang University of Science and Technology) and POSCO educational Foundation. With our long experience and philosophy in education, we give back to the teenagers

for Future Generation

Science Talents

POSTECH,
Junior Engineering Class

Local community talents

POSCO Educational Foundation,
School Anti-bullying Program

Sharing Talents

POSCO Youth
Volunteer(Beyond)

Global Talents

Asia Fellowship
(TJ Park Foundation)

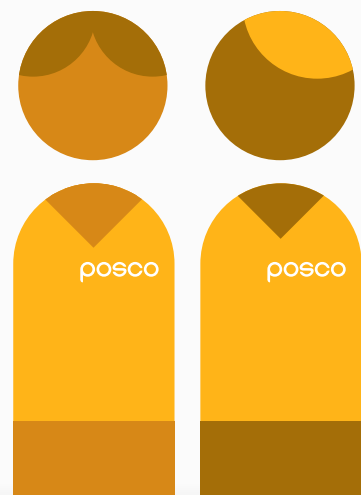
POSCO Youth Volunteers (Beyond)

To spread the culture of sharing and enhance the spirit of volunteerism in college students, POSCO launched the "POSCO Youth Volunteers – Beyond" in 2007. By 2012, 600 university students volunteered through different activities such as building houses and fundraising through flash mobs. They also experienced the value of sharing through overseas volunteer work in countries such as India, Vietnam and Indonesia during the winter time.

In 2012, the 6th Beyond was formed, comprised of 100 students selected from 52 universities. With the diverse experience gained from volunteer work in Korea, they built houses and exchanged cultures Such as K-POP and Korean Traditional Dance in a poor village of Banawa, located north of Delhi, India. As Beyond is preparing for the 7th Beyond group in 2013, it is ready to become part of a global community to foster global leaders, not limited to Korean students.



Image of Global Student Volunteer Group (Beyond) in Overseas Construction Project



FOR FUTURE GENERATION

School Anti-bullying Program, "Chin Chin Wi-fi Zone"

One of the biggest problems in today's Korean society is school violence. School violence in middle schools is especially serious. POSCO is thus supporting a school violence prevention program in order to create a safe school, egressing away from a traditional approach of having an attacker / victim relationship. The "Chin Chin* Wi-fi Zone" program launched in 2012, and it is a campaign that creates a school environment where students can communicate freely and happily at school, similar to a wi-fi zone where everyone and anyone have equal access the internet. Instead of the traditional approach of identifying the attacker and victim, the program is focused on prevention of school violence with the participation from not only the students and the school but also the society, company, parents and institutions.

In 2012, a test run was conducted in 5 middle schools throughout Korea (Seoul, Pohang, Gwangyang, Suwon, Jinju) with the participation from 1,410 students, 687 teachers and parents. In 2013, 7 middle schools throughout Korea (Seoul, Pohwang, Gwangyang, Suwon, Incheon, Ansan) will participate, with 2,065 students and 1,045 teachers and parents.



"Chin Chin Wi-fi Zone" TV Advertisement

Chin Chin (Good Friends)

Main Programs

01. Healing and education time for teachers (Teacher's workshops)
02. Open lecture and discussion time for parents (Hope and Imagination Concert)
03. Class time that students can identify with (Identify Program)
8~12 session program with three themes of 'A Friend Like Me' 'Considerate You' 'Compassion Among Us' focuses on recognition, emotion and expressions.
04. Time for change with participations from students/parents/local community (atmosphere change / school festival)
05. A step closer to my dreams (Dream Mentoring)

"Chin Chin Wi-fi Zone" Activities and Performance

POSCO

01. Creative Education Using the POSCO TRIZ technique, we incorporated play in education and created bonds between friends
02. Atmosphere Change We discarded the dull atmosphere with the help of POSCO A&C's design.
03. Dream Mentoring We formed values in students through mentoring from POSCO employees.

Students(Comments)

It was fun, relieving and satisfying to say what I couldn't say to my friends before.

Role-playing helped me understand the pain and the suffering the bullied students go through.

It was a good time to get to know myself and others better through the activities. I was able to strengthen my friendship through the program.

My thoughts aren't usually that specific, so when I was making wagons during TRIZ, I was happy to see myself thinking in a specific way.

It was a memorable experience to role-play school violence; it helped me sympathize with the bullied students.

Our classmates argued a lot before but after the program, we don't fight as much and everyone gets along well.



Atmosphere change to prevent school violence

MULTICULTURAL FAMILY SUPPORT

Multicultural Families

Families which consist of people with different nationalities for example, marriage immigrants, labor immigrants, etc.

There are almost 300,000 multicultural families* now in Korea, and multicultural is a buzzword in the Korean society. With international marriages and the Korean Dream, the number of multicultural families is rising everyday, but due to lack of understanding and unfamiliarity, there are conflicts and problems.

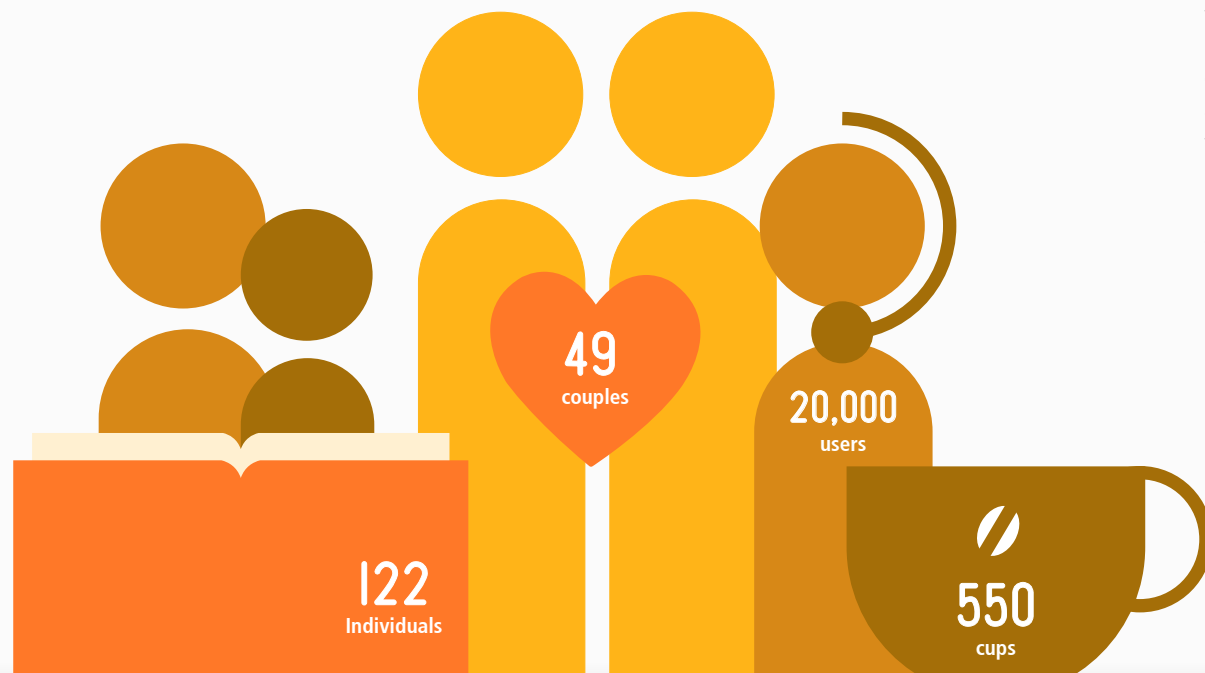
Statistics show that by 2020, there will be 1 million multicultural families in Korea. Multiculture family is one of the major changes that Korean Society is faced with. In particular, considering that most of the immigrants to Korea are from Southeast Asia, where POSCO has presence in, we are actively carrying out "multiculture supporting activities". POSCO eases misunderstandings and negative perspectives of minority and supports multicultural families with various programs according to phases in life from marriage to child education, so that they can become a member of the society.

Joint Weddings Total 49 Couples had joint weddings (accumulated)

For internationally married couples who live in Korea but could not hold a wedding due to economic difficulties, POSCO and Gangnam-gu Office have been supporting free joint weddings from 2010. This is to look back on the difficulties and confusions the couple may have gone through with different experiences and backgrounds and also have an opportunity to strengthen trust between the husband and wife. POSCO decorates the company hall to a wedding hall and helped with the overall wedding ceremony, and invites the parents who want to know how their child is doing and supports family trips.

Danuri Call Center More than 20,000 Danuri Call Center Users in 2012

When marriage immigrants face difficulties, they do not have anyone to ask for help. They cannot speak Korean well and do not have basic information on living in Korea. POSCO and the Ministry of Gender Equality and Family came up with 'Danuri Call Center' to help the marriage immigrants settle in Korea. The Center was launched in 2011 and supports phone calls or online consultations in 8 different languages including Chinese, Japanese, Russian and Vietnamese. In 2012 alone, more than 20,000 individuals called the Center and the Center is serving as a communication channel that provides living advice, interpreting and translation, and legal consultations. The Danuri Consultation hires immigrant wives who are fluent in both their mother tongue and Korean as counselors and supports nurturing of counselors and education for them as well as creating jobs.



MULTICULTURAL FAMILY SUPPORT

Multicultural Café, CaféOasia

Makes 550 cups of coffee a day

For marriage immigrants having a job is significant as it not only allows them to make a living, but also helps them in building network with new people. However, with poor Korean skill, unfamiliar Korean life style and social bias they have to face, a number of immigrant women resort to menial jobs. POSCO is at the forefront of creating new jobs as it learned the importance of how quality jobs can empower these migrant women to stand on their own feet and opens door for them to fit in to the society.

In 2013 the Ministry of Employment and Labor endorsed the Café Oasia as the first social cooperative and the café was launched by Social Enterprise Support Network (SESNet). Café Oasia is the first social franchise designed to hire migrant women as barista for fair treatment and decent working conditions. As of now, women from countries such as Vietnam, Thailand, and Cambodia are working for the Café Oasia, and with branches and affiliates springing up it is creating more new jobs. For migrant wives getting a decent job allows them to balance between work and family and improve their own lives and makes them stay optimistic and confident to their families and neighbors.



Baan Mali(left) and Antica(right), baristas at Oasia, the Multicultural Cafe that supports jobs for immigrant wives.

Bilingual language education/ Bilingual instructors training

A total of 122 instructors (accumulated)

Children from multicultural families often face problems with their parents due to troubles in communication. As these children lose the chance of learning from their parents how to speak and communicate, they often lag behind their peers. Their mothers also get stress from not being able share thoughts and feelings with their children.

Having said that, if Korean is well taught and native language of immigrant women is well used, this could open an opportunity to raise multicultural children with global competitiveness and sensitivity. As POSCO saw this potential in them, it runs multi-lingual language education programs in partnership with Hankuk University of Foreign Studies Center for Multicultural Education. While this program teaches children native languages of their mothers (fathers), encourages them to communicate with their parents, it also strengthens their bilingual ability. It also trains migrant wives as bilingual instructors which add even more new jobs to the society. As a result, as of 2012, it raised 78 Chinese instructors, 23 Japanese instructors, 15 Vietnamese instructors which sums up to a total of 122 instructors with 5,700 students.

Through these bilingual education courses and training programs multicultural children grows up to become a global talent and immigrant wives establishes themselves as teachers who could teach both culture and language. Officers of POSCO and its affiliates donated one percent of their salaries for this project.

POSCO VOLUNTEERS FOR CLEAN OCEAN

Korea is surrounded by three seas. This leaves us with abundant underground resources. However, so much trash and litter are hurting the marine ecosystem. Amur starfish, marine organism listed as one of the global harmful organisms by International Maritime Organization under the UN, is disturbing the marine ecosystem and threatening fisheries as fish as food staples.

For smooth logistics operation with effective raw material imports and product exports, POSCO built steelworks near the sea. With these steel mills, POSCO is at the forefront of marine protection. The Volunteers for Clean Ocean started with in-house scuba diving club with the intent of talent sharing for the local society.

In November 2009, Volunteers for Clean Ocean started with 90 members and through recruiting new members, conducting regular volunteering activities; it now has more than 702 members. Through regular and aligned volunteer activities, holding events purifying of the marine ecosystem as one of the major event for the Global Volunteer Week, the group has continuously worked for the purification of the ocean life. In 2011, the Volunteers for Clean Ocean program has become one of the POSCO Family's Social Contribution project according to the management policy.

In 2012 following Pohang, Gwangyang, Seoul Volunteers for Clean Ocean, Incheon Volunteers was launched starting full-scale operation of purification project of the West Sea. Changwon Volunteers was established as well.

In 2012, a total of 2,507 individuals participated in 70 or so volunteer opportunities, collecting 269 tons of marine waste and starfish. In 2013, we plan to expand the number of participants and provide safety and scuba training to promote the group as a professional volunteering group representing POSCO.



Volunteers working underwater in Han River

Current Status and Activities of the POSCO Volunteers for Clean Ocean (Accumulation as of end-Dec. '12)

Category		Number of Volunteers	Number of Activities	Number of Participants	Collection Performance(Ton)
Pohang		410	129	6,525	300
Gwang yang	POSCO etc.	104	41	2,521	262
Seoul		70	12	405	27
Gyeonggi		23	7	44	1
	Construction	35		59	
	Energy	10		24	
Incheon	Engin-eering	12	2	26	7
	AST	5		9	
Changwon	Special Steel	33	3	105	2
Total		702	194	9,718	599

SOCIAL CONTRIBUTION IN AFRICA

Africa, which is on the other side of earth, is well known for its rich underground resources nonetheless, is at the center of eight targets of the UN Millennium Development Goals*, this illustrates the stark reality of the country. Should it start with building sound regional economy based on efforts to end hunger, Africa in long term could build regional strength to address the problem on its own.

From its foundation, POSCO has set its management policy to develop regional economy independency in terms of development capability by fostering regional economy. Pohang and Gwangyang were undeveloped cities when the steelworks were first established. POSCO through regional cooperation and winwin growth has accelerated regional economy making Pohang and Gwangyang as one of the leading industrial cities of Korea.

To expand its successful model in Africa, POSCO decided to work on meeting the goals of the UN MDGs; eradicating extreme poverty and hunger, achieving universal primary education. In order to do this, the company tried to bring changes to the society by selecting regions which has both the need and potential for economic growth and nurturing farming leaders by establishing agriculture training center. These efforts include; reforming of public awareness, developing regional farmland and operating collective farm to help AIDS patients improve their self-reliance.

Agricultural training institute in Manisa, Mozambique, nurtured 100 agricultural experts as of 2012. They are now applying the skills they have learned from the center to their local farmlands. As of April, 2013, another 29 students from the class of 2013, the second incoming class, are staying at a training camp for a year to become future agricultural leaders.

Moreover, the institute provides meals to university students and localities of Manisa and runs classes to reduce illiteracy making 80% of students pass Portuguese exam which is well above 50%, average of the region.

Zimbabwe center is also teaching 40 students from all around the country. As there are many AIDS patients in this area, Zimbabwe built collective farm allowing the patients to earn a living.

Next to the agricultural training center is the POSCO kindergarten providing free primary education to 80 children between the age of three and five. This kindergarten is run on donation of 10,000 won to 30,000 won from each of 840 members from the POSCO family. Regular newsletters and warm messages are also sent to these children

POSCO is carrying out programs to fight poverty in Manisa. Agricultural technology of Eco-farm, regional expertise and interest of Korea International Cooperation Agency (KOICA), global experience in addressing famine and children development, all bring synergy to its social contribution in Africa. Along with these, the local government offered free farm lease, invited local experts, worked with youth department to support graduates which maximizes effectiveness of the project.

In addition to this, in Ethiopia POSCO partnered with Gyeongsangbuk-do for the five-year New Community Movement model village (2011-2015) and through this movement it is reforming the public awareness and developing self-reliance, nurturing agricultural leaders. At the same time, it is conducting research and development of the super corns contributing to farmers' income.



UN Millennium Development Goals

- ①Eradicating extreme poverty and hunger ② Achieving universal primary education ③Promoting gender equality and empowering women ④Reducing child mortality ⑤Improving maternal health ⑥ Combating HIV/AIDS, malaria, and other diseases ⑦ Ensuring environmental sustainability ⑧A global partnership for development

SOCIAL CONTRIBUTION IN AFRICA



Nelson Antonio Langa, a graduate of the Agricultural Training Institute



Daisy Chilha Isac Vunda, a graduate of the Agricultural Training Institute



Students Alberto Junior (right) and Esperança Jaime (left) visiting Korea

Interview of the graduate class of 2012 finishing the one year program at the Mozambique Agricultural Training Institute

01. What was your reason for enrolling this program?

There is no place to study in Mozambique, even if it has one it is too expensive that is why we all thirst for knowledge. I was happy to hear about the New Community Movement model village and enrolled the program because I wanted to learn about agriculture and farming.

02. What do you want to do after you graduate?

I want to get a job first to raise seed money for starting my own business and then I want to use and apply the skills I have learned from the center. Ultimately, I want to run my own company with the management skills I learned.

03. How have you changed after graduating agricultural training institute?

I knew nothing before I started this program. However, through this course I have learned agricultural skills along with management techniques which give me confidence at work.

04. Is there anything you would like to say to the new students of the institute?

With respect and affection, I would like to tell them to dedicate themselves to work. If they set a goal, get along well with others and stay patient I am sure they will be a successful student. Also I want to tell them to live today as if it were their last.

Interview of Students Visiting Korea

Visited Korea from 20-29 August 2012, Field Trip to Ecofarm and Pohang Iron & Steel Company

01. What was the most impressive experience in Korea?

I clearly remember the days I spent in Korea. I remember everything from visiting POSCO and Eco-farm learning about animal farms and rice paddies.

02. What was your impression about Korea and POSCO?

I was honored to have the opportunity to visit Korea which was my first overseas trip and deeply appreciate the chance POSCO has granted me. I visited many places related to Korean agriculture and was truly happy to have visited the biggest steel company in Korea.

03. How did your experience in Korea help your life in Mozambique?

I learned that we can do more than we think. It inspired our lives and made us think differently.

HOPEFUL JOB CREATION

Creating sustainable jobs to the socially underprivileged class in age of jobless growth is an important step towards achieving a balanced and sustainable growth in Korea. Thus POSCO has established social enterprises that help the underprivileged. From December 2008 until April 2012, starting with POSWITH, a company with exemplary corporate responsibility regarding disabled persons, POSCO established POSEcohousing, POSPlate and SongdoSE. With the support of POSCO's competitiveness and technology, the social enterprises established by POSCO are capable of developing into independent corporate entities. Furthermore, starting from 17 subsidiaries in 2011, now 25 subsidiaries have been engaging in a "one-to-one matching of social enterprises" under which POSCO Family will purchase goods and services from social enterprises on a preferential basis in order to foster the social basis for and sustain the development of social enterprises.

POSCO Family Social Enterprise



In January 2013, POSCO has merged POSWITH, well-known for fostering unique environment for employees with laundry, IT & communication services, and POSCOecohousing, known for building eco-friendly steel construction. These two social enterprises were merged to bring synergy to POSCOHumans. POSCO Humans puts human first and is at the forefront of expanding employment for the vulnerable, disabled. Also by making full use of POSCOHumans' steel house construction technology, it fixes and builds habitat for the elders who live alone, meeting the need of social enterprise.



POSPlate in Gwangyang steelworks, Plate plant specimen for processing and warehouse management, is a social enterprise which creates stable jobs for the vulnerable. POSPlate hires vulnerable people without any license recommended by Gwangyang job center, offers them free courses on overhead travelling crane permit qualification tests then train them as skilled workers. With stable working conditions and quality education, POSPlate employees have chances of getting licenses and learning how to operate cranes, milling machine and handle heavy equipment which gives them opportunity to find a better job. In 2012, POSPlate was able to donate 36% of its shares to Korea Food for the Hungry International, 20% to Love Sharing Welfare Foundation.



Providing stable employment for North Korean defectors and low income families living in Incheon was the main objective of establishing Songdo SE and as of 2013, employment rate of the enterprise has reached up to 90%. SongdoSE is growing to become social enterprise in charge of building maintenance for POSCO Engineering & Construction's new headquarters and POSCO Global R&D Center located in Songdo Free Economic Zone in the western port city of Incheon. This firm not only employs people from the needy classes but also runs free courses to the job seekers. As of end of 2012, SongdoSE donated 40% and 30% of its share to Korea YWCA and Social Enterprise Support Network respectively. The firm also donates profits to Jung-gu Welfare Center for Disabled creating virtuous cycle for the society.

POSCO Family one-to-one matching of social enterprises

There are a number of different social enterprises other than companies run by POSCO. POSCO creates business-friendly environment for the social enterprise to grow, participates in raising social enterprise fund and supports various programs. It also works on providing one-to-one mentoring service for the social enterprise with excellent quality and outstanding price but poor infrastructure and management skills.

One-to-one matching of social enterprises is a program that makes a company from POSCO Family to support at least one social enterprise. The program also contributes to profitability through encouraging ethical consumption. In 2012, a total of 25 companies participated in this, purchasing social enterprise products worth 750million won.

Social Enterprise | POSCOHumans | POSPlate | SongdoSE |

+ What is social enterprise?

A social enterprise is a business with primarily social objectives that provides services and creates jobs for the vulnerable population. Its surpluses are reinvested for social purposes

+ POSCO Family Job Creation

Creating New Jobs

1,174
new jobs

08 APPENDIX



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FINANCIAL STATEMENTS

As of December 31, 2011 and 2012

Financial Statements Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

POSCO:

We have audited the accompanying consolidated statements of financial position of POSCO and subsidiaries as of December 31, 2011 and 2012 and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2012. These consolidated financial statements are the responsibility of POSCO's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of POSCO and subsidiaries as of December 31, 2011 and 2012 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of POSCO's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated April 26, 2013 expressed an unqualified opinion on the effectiveness of POSCO's internal control over financial reporting.

/s/ KPMG Samjong Accounting Corp.
Seoul, Korea
April 26, 2013

FINANCIAL STATEMENTS

As of December 31, 2011 and 2012

Financial Statements Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

POSCO:

We have audited POSCO's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). POSCO's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on POSCO's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to

the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, POSCO maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of POSCO and subsidiaries as of December 31, 2012, and 2011, and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2012, and our report dated April 26, 2013 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea

April 26, 2013

FINANCIAL STATEMENTS

As of December 31, 2011 and 2012

Consolidated Statements of Financial Position

(in millions of Won)

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

(in millions of Won)

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

See accompanying notes to the consolidated financial statements.

FINANCIAL STATEMENTS

As of December 31, 2011 and 2012

Consolidated Statements of Comprehensive Income

(in millions of Won)

	2010	2011	2012
Revenue	47,887,255	68,938,725	63,604,151
Cost of sales	(39,722,461)	(59,823,850)	(56,142,892)
Gross profit	8,164,794	9,114,875	(56,142,892)
Selling and administrative expenses			
Administrative expenses	(1,491,942)	(2,035,053)	(2,129,463)
Selling expenses	(1,120,340)	(1,612,128)	(1,678,688)
	(2,612,282)	(3,647,181)	(3,808,151)
Other operating income	222,959	306,941	448,120
Other operating expenses	(341,951)	(366,533)	(809,465)
Operating profit			
Share of profit (loss) of equity-accounted investees	182,657	50,569	(22,702)
Finance income	1,738,804	3,190,419	2,897,063
Finance costs	(2,087,858)	(3,866,695)	(2,797,638)
Profit before income tax	5,267,123	4,782,395	3,368,486
Income tax expense	(1,081,472)	(1,068,109)	(982,879)
Profit for the period	4,185,651	3,714,286	2,385,607
Other comprehensive income (loss)			
Capital adjustment arising from investments in equity-method investees	(40,877)	(11,240)	(130,836)
Net changes in the unrealized fair value of available-for-sale investments	589,601	(1,231,758)	(81,471)
Foreign currency translation differences	183,190	1,666	(363,088)
Defined benefit plan actuarial losses	(152,125)	(30,577)	(62,527)
Other comprehensive income (loss), net of tax	579,789	(1,271,909)	(637,922)
Total comprehensive income for the period	4,765,440	2,442,377	1,747,685

	2010	2011	2012
Profit (loss) attributable to:			
Owners of the controlling company	4,105,623	3,648,136	2,462,081
Non-controlling interests	80,028	66,150	(76,474)
Profit for the period	4,185,651	3,714,286	2,385,607
Total comprehensive income (loss) attributable to:			
Owners of the controlling company	4,639,672	2,530,437	1,911,506
Non-controlling interests	125,768	(88,060)	(163,821)
Total comprehensive income for the period	4,765,440	2,442,377	1,747,685
Basic and diluted earnings per share	53,297	47,224	31,874

See accompanying notes to the consolidated financial statements.

FINANCIAL STATEMENTS

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

Consolidated Statements of Changes in Equity

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

See accompanying notes to the consolidated financial statements.



FINANCIAL STATEMENTS

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

Consolidated Statements of Changes in Equity

(in millions of Won)

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

See accompanying notes to the consolidated financial statements.



FINANCIAL STATEMENTS

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

Consolidated Statements of Cash Flows

(in millions of Won)

	2010	2011	2012
Cash flows from operating activities			
Profit for the period	4,185,651	3,714,286	2,385,607
Adjustments for:			
Depreciation	2,960,550	2,133,010	2,405,769
Amortization	75,344	133,289	157,991
Impairment loss of property, plant and equipment and others	128,083	99,072	72,259
Finance income	(879,110)	(1,734,280)	(1,553,200)
Finance costs	1,278,630	2,245,957	1,605,414
Income tax expense	1,081,472	1,068,109	982,879
Gain on disposal of property, plant, and equipment	(26,366)	(13,812)	(42,290)
Loss on disposal of property, plant, and equipment	83,494	60,550	65,486
Share of profit (loss) of equity-accounted investees	(182,657)	(50,569)	22,702
Costs for defined benefit plans	173,971	236,999	226,132
Bad debt expenses	60,266	45,477	123,373
Impairment loss of assets held for sale	-	-	258,451
Gain on disposal of assets held for sale	-	-	(193,333)
Others, net	(135,763)	40,564	37,469
	4,617,914	4,264,366	4,169,102
Changes in operating assets and liabilities	(4,453,470)	(4,850,747)	1,933,358
Interest received	322,659	218,682	238,231
Interest paid	(480,020)	(745,111)	(874,711)
Dividends received	141,017	308,692	178,317
Income taxes paid	(751,746)	(1,218,602)	(710,448)
Net cash provided by operating activities	3,582,005	1,691,566	7,319,456

See accompanying notes to the consolidated financial statements.



FINANCIAL STATEMENTS

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

Consolidated Statements of Cash Flows

(in millions of Won)

	2010	2011	2012
Cash flows from investing activities			
Proceeds from disposal of short-term financial instruments	17,576,747	5,794,770	3,847,682
Collection of loans	25,946	896,656	318,745
Proceeds from disposal of available-for-sale investments	258,945	411,061	700,686
Proceeds from disposal of other investment assets	27,257	-	19,566
Proceeds from disposal of property, plant and equipment	165,794	140,221	272,948
Proceeds from disposal of intangible assets	4,964	55,899	10,945
Proceeds from disposal of investments of equity-accounted investees	19,394	2,404	18,428
Proceeds from disposal of assets held for sale			1,268,545
Acquisition of short-term financial instruments	(14,546,301)	(4,556,340)	(3,616,118)
Issuance of loans	(82,079)	(962,099)	(434,156)
Acquisition of available-for-sale investments	(561,030)	(322,046)	(307,712)
Acquisition of other investment assets	(310,154)	(450)	(128)
Acquisition of investments of equity-accounted investees	(914,491)	(740,971)	(492,681)
Acquisition of property, plant and equipment	(5,791,764)	(5,330,968)	(7,054,543)
Acquisition of intangible assets	(246,466)	(574,753)	(448,214)
Payment for acquisition of business, net of cash acquired	(3,079,899)	(437,464)	(98,880)
Cash received from disposal of business	6,747		13,041
Other, net	531,569	107,214	(187,157)
Net cash used in investing activities	(6,914,821)	(5,516,866)	(6,169,003)

See accompanying notes to the consolidated financial statements.

ESG DATA SHEET (POSCO ONLY)

	Unit	2010	2011	2012
Charity fund by year	billion KRW	10	80	80
Volunteer service mileage 100 hours	persons	11,051	13,478	15,502
Volunteer service mileage 1,000 hours	persons	282	391	527
Average volunteer hours per capita	hours	33	35	36
Social Contribution Expenses	billion KRW	76	69.7	91.9
POSWITH-Underprivileged/Total	persons	171/310	173/330	283/466(1*)
POSCO eco-housing-Underprivileged/Total	persons	28/43	83/110	
POSPATE-Underprivileged/Total	persons	38/104	99/189	106/190
Songdo SE-Underprivileged/Total	persons	105/115	151/164	246/272
Sisterhood ties		250	249	240
National taxes	billion KRW	-138.2	-100.9	-478.8
Local taxes	billion KRW	94.6	123	88.6
Custom duties	billion KRW	122.7	72.6	67.2
Compliance Program		15(13)	20(18)	25(22)
Benefit Sharing	billion KRW	40.2	82.6	132.8
Joint R&D Fund		6	6	15
Techno Partnership Management		2,072	1,096	1,057
POSCO-certified suppliers		64	42	39
Order placement of SMEs	billion KRW	3,949.6	3,306.4	3,738.5
Raw materials cost	billion KRW	18,425	25,393	22,176
Other materials cost	billion KRW	1,777	1,944	1,914
Outsourcing cost	billion KRW	1,695	1,944	1,997
As % of revenue	%	67.2	74.8	76.7

(1*)

In 2012, POS WITH and POS ECOHOUSING was integrated into POSCO HUMANS.

(2*)

POSCO Only

	Unit	2010	2011	2012
Sales	billion KRW	32,582	39,172	35,665
Operating profit	billion KRW	5,047	4,330	2,790
Net profit	billion KRW	4,203	3,189	2,500
Net profit rate	%	15.5	11.1	7.8
ROE	%	8.9	8.78	6.5
EV/EVITDA		6.42	6.92	7.1
Equity	billion KRW	35,082	37,598	39,165
Debt ratio	%	36.3	40.2	33.6
Total cash dividends paid	billion KRW	770	772.4	618
Cash dividends per share	KRW	10,000	10,000	8,000
Earnings per share	KRW	48,204	41,279	32,359
Payout ratio	%	20.4	24.2	24.7
Customer satisfaction(domestic)	%	80	91	88
Customer satisfaction(overseas)	%	72	81	81
Number of eco-friendly products		24	19	37
hot-rolled steel	tons	16,012	18,661	18,757
cold-rolled steel	tons	13,759	14,041	14,479
stainless steel	tons	1,694	1,791	1,812

ESG DATA SHEET (POSCO ONLY)

	Unit	2010	2011	2012
Number of employees		16,898	17,553	17,623
Number of new hires		913	992	818
Number of retired employees		923	496	1,029
Retired employees who reach the age		566	1	654
Turnover rate	%	5.58	2.94	5.85
Female employees		570	625	702
Female employees over managers position		101	105	146
Employees with disabilities(POSCO)		234	253	254
Employees with disabilities(WITH+ division in POSCOHumans)		171	192	220
Employees on maternity leave		24	15	61
Employees on parental leave		19	22	56
Employee				
Number of trainees		499,652	539,735	432,793
Training hours per capita	hours	244	252	234
Trainee satisfaction	points	4.41	4.47	4.49
Number of accidents(POSCO)		13	12	3
Number of fatalities(POSCO)		1	0	1
Number of accidents(ourcourcing companies)		1	6	4
Number of fatalities(outsourcing companies)		1	0	1
Lost-time injury frequency rate(POSCO)		0.38	0.33	0.08
Lost-time injury frequency rate(ourcourcing companies)		0.03	0.15	0.10
Total lost-time injury frequency rate		0.19	0.23	0.09

	Unit	2010	2011	2012
Employee				
Payroll	billion KRW	1,247	1,277	1,367
Payment				
Provisions for retirement benefits	billion KRW	262	144	120
Legally required labor cost	billion KRW	76	100	104
Subsidies for pension				
Subsidies to personal pension	billion KRW	8.7	9.1	9.1
Number of employees to receive subsidies		13,300	13,970	14,317
Environment				
Byproduct recycling rate	%	98.4	98.4	98.4
Recycled byproduct	1000 ton	22,190	26,660	23,580
Water intake for operations	m³/t-s	3.85	3.63	3.56
Effluents	m³/t-s	1.65	1.60	1.69
CO ₂ emission intensity(direct)	t-CO ₂ /t-s	2.04	2.00	1.94
CO ₂ emission intensity(indirect)	t-CO ₂ /t-s	0.09	0.10	0.09
Environmental facility investment				
Air	billion KRW	298.1	394.5	479.7
Water	billion KRW	157.0	53.1	101.6
Recycling and others	billion KRW	181.2	35.2	52.7
Environmental cost				
Operation cost	billion KRW	268.3	285.1	361.3
Recycling cost	billion KRE	220.8	225.3	240.0
Depreciation	billion KRE	152.7	116.8	145.5
Administrative cost	billion KRW	40.7	31.3	35.0
Envitonmental R&D cost	billion KRE	17.0	11.9	13.3
Energy collection cost	billion KRE	51.0	31.4	34.3

INDEPENDENT ASSURANCE REPORT

To the Management of POSCO

At POSCO's request, we have reviewed the information presented in the 2012 sustainability report (the "Report"). The management of POSCO is responsible for preparing the report. Our responsibility is to carry out a limited assurance engagement on the report and to provide opinions on it based on our review.

Procedures performed

We conducted our engagement in accordance with ISAE 3000* and the requirements of a Type 2 assurance engagement as defined by AA1000AS(2008)*.

- Evaluated POSCO's processes for stakeholder engagement.
- Reviewed POSCO's processes for determining material issues of stakeholder groups.
- Searched the media coverage of POSCO's sustainability issues during the applicable reporting period.
- Reviewed recently reported sustainability issues of the POSCO's global competitors.
- Interviewed a selection of people in charge to understand the current status of sustainability performance and the reporting process during the reporting period.
- Reviewed selected data regarding POSCO's sustainability performance, supporting evidence for assertions, and information from corporate-wide systems.
- Interviewed several executives mainly in charge of sustainability issues.
- Reviewed POSCO's process for collecting and consolidating sustainability performance data
- Reviewed whether financial performance data has been extracted properly from

Level of assurance

We undertook a limited assurance engagement in accordance with ISAE 3000. A limited assurance is less in scope than a reasonable assurance engagement. Consequently, the nature, timing and the extent of procedures for gathering sufficient, appropriate evidence are deliberately limited relative to a reasonable assurance engagement.

The limitations of our review

We excluded GHG(Greenhouse Gas) emissions in our limited assurance engagement. And, we did not review environmental and social performance data prior to 2011. However, we reviewed financial performance data based on POSCO's 2012 audited financial statements.

Our conclusions

The result of our review is outlined below.

Inclusivity

Has POSCO been engaging with stakeholders across the business to develop and implement its approach to sustainability?

- We are not aware of any key stakeholder groups that have been excluded from the stakeholder engagement process outlined in the report.
- We are not aware of any matters that would lead us to conclude that POSCO has not applied the inclusivity principle in developing its approach to sustainability.

Materiality

Has POSCO provided a balanced representation of material issues concerning POSCO's sustainability performance?

- We are not aware of any material aspects concerning POSCO's sustainability performance which have been excluded from the report.
- Nothing has come to our attention that causes us to believe that POSCO management has not applied its processes for determining material issues to be included in the report.

Responsiveness

Has POSCO responded to stakeholder concerns?

- We are not aware of any matters that would lead us to conclude that POSCO has not applied the responsiveness principle in considering the matters to be reported.

Completeness and accuracy of performance information

How complete and accurate is the economic, social, and environmental performance data in the report?

- We are not aware of any that has been excluded from the economic, social, and environmental data.
- Nothing has come to our attention that causes us to believe that the data relating to the above topics has not been collated properly from POSCO's reporting process.

How plausible are the statements and claims within the report?

- We are not aware of any misstatements of information or explanation used to support statements and claims on POSCO's sustainability activities presented in the report.

INDEPENDENT ASSURANCE REPORT

Observations and areas for improvement

Without prejudice against our conclusions presented above, we believe the following matters require attention for the improved POSCO's sustainability report.

- One of the recent important sustainability reporting trends is the disclosure of non-financial performance as is the case with financial statements. Therefore, it has become necessary to actively expand the scope of the report to overseas operations as well as subsidiaries.
- More effort needs should be made to help stakeholders globally recognize and acknowledge social responsibility management not only at POSCO but also at its subsidiaries.

Independence

We comply with the Ethical Standard issued by IFAC(International Federation of Accountants)

Our assurance team

The assurance engagement was performed by the engagement team with a long history of experience and expertise in sustainability area.



Seung Wha Gweon
Country Managing Partner
Ernst & Young Hanyoung
May 2013

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

1. General Information

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

(a) The controlling company

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

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

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

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

(*1)

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(b) Consolidated subsidiaries

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

		Ownership (%)						
		2011			2012			
Principal operations		POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total	Region
[Domestic]								
POSCO E&C Co., Ltd.	Engineering and construction	89.53	-	89.53	89.53	-	89.53	Pohang
POSCO P&S Co., Ltd.	Steel sales and service	95.31	-	95.31	95.31	-	95.31	Seoul
POSCO Coated & Color Steel Co., Ltd.	Coated steel manufacturing	56.87	-	56.87	56.87	-	56.87	Pohang
POSCO Plant Engineering Co., Ltd.	Steel work maintenance and machinery installation	100.00	-	100.00	100.00	-	100.00	Pohang
POSCO ICT Co., Ltd.	Computer hardware and software distribution	72.54	-	72.54	72.54	-	72.54	Seongnam
POSCO Research Institute	Economic research and consulting	100.00	-	100.00	100.00	-	100.00	Seoul
Seoung Gwang Co., Ltd.	Athletic facilities operation	69.38	30.62	100.00	69.38	30.62	100.00	Suncheon
POSCO Architects & Consultants Co., Ltd.	Architecture and consulting	100.00	-	100.00	100.00	-	100.00	Seoul
POSCO Specialty Steel Co., Ltd.	Steel manufacturing and sales	100.00	-	100.00	94.74	-	94.74	Changwon
POSTECH Venture Capital Corp.	Investment in venture companies	95.00	-	95.00	95.00	-	95.00	Pohang
eNtoB Co., Ltd.	Electronic commerce	32.19	30.20	62.39	32.19	30.20	62.39	Seoul
POSCO Chemtec Company Ltd. (formerly, POSCO Refractories & Environment Co., Ltd.)	Manufacturing and sellings	60.00	-	60.00	60.00	-	60.00	Pohang
POSCO Terminal Co., Ltd.	Transporting and warehousing	51.00	-	51.00	51.00	-	51.00	Gwangyang
POSCO M-TECH Co., Ltd. (*1)	Packing materials manufacturing	48.85	-	48.85	48.85	-	48.85	Pohang
POSCO ENERGY Co., Ltd.	Generation of electricity	100.00	-	100.00	89.02	-	89.02	Seoul
Postech 2006 Energy Fund (*2)	Investment in new technologies	-	22.11	22.11	-	22.11	22.11	Seoul
PHP Co., Ltd.	Rental houses construction and management	-	100.00	100.00	-	-	-	Incheon
POSCO TMC Co., Ltd.	Component manufacturing	34.20	33.56	67.76	34.20	33.56	67.76	Cheonan
PNR Co., Ltd.	Steel manufacturing and sales	70.00	-	70.00	70.00	-	70.00	Pohang
Megaasset Co., Ltd	Real estate rental and sales	-	100.00	100.00	-	100.00	100.00	Cheonan
POSCO Engineering Company	Construction and engineering service	-	94.14	94.14	-	95.56	95.56	Seongnam
Pohang Fuel Cell Co. Ltd	Generation of electricity	-	100.00	100.00	-	-	-	Pohang
Pohang SPFC Co., Ltd.	Steel manufacturing	-	90.00	90.00	-	90.00	90.00	Pohang



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

		Ownership (%)						
		2011			2012			
	Principal operations	POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total	Region
POSWITH Co., Ltd.	Industrial clean service	100.00	-	100.00	100.00	-	100.00	Pohang
BASYS INDUSTRY Co., Ltd.	Panel board, electric and control panel manufacturing	-	65.00	65.00	-	-	-	Seongnam
POSTECH BD Newundertaking fund	Bio diesel industries	-	100.00	100.00	-	-	-	Pohang
POSBRO Co., Ltd.	Video game manufacturing	-	97.79	97.79	-	-	-	Seongnam
POSCO AST Co., Ltd.	Steel manufacturing and Sales	100.00	-	100.00	100.00	-	100.00	Ansan
DaiMyung TMS Co., Ltd	Cold- rolling of stainless steel and nickel alloy	-	100.00	100.00	-	-	-	Siheung
POS-HiMETAL Co., Ltd.	Steel manufacturing and Sales	65	-	65	65	-	65	Gwangyang
POSCO E&E Co., Ltd.	Handling & disposal of waste matter	-	100	100	-	100	100	Seoul
POMIC Co., Ltd.	Education services	-	100	100	-	-	-	Pohang
POSFINE Co., Ltd.	Non metallic minerals manufacturing	69.23	-	69.23	69.23	-	69.23	Gwangyang
POS ECO HOUSING Co., Ltd.	Construction	85.25	-	85.25	85.25	-	85.25	Pohang
Mapo high broad parking Co., Ltd.	Construction	-	71	71	-	71	71	Seoul
Dakos Co., Ltd.	Railway equipment manufacturing	-	81	81	-	81	81	Seongnam
Kwang Yang SPFC Co., Ltd.	Steel manufacturing	-	65.84	65.84	-	65.84	65.84	Gwangyang
POSCALCIUM Company, Ltd.	Non metallic minerals manufacturing	-	70	70	-	86.87	86.87	Pohang
Plant Engineering service Technology Co., Ltd.	Engineering service	-	100	100	-	100	100	Pohang
9Digit Co., Ltd.	Steel manufacturing	-	86.49	86.49	-	86.48	86.48	Incheon
Postech Early Stage Fund (*2)	Financial investment	-	10	10	-	10	10	Pohang
Busan E&E Co., Ltd.	Handling & disposal of waste matter							Busan
POSCO Family Strategy Funds	Financial investment	70	-	70	70	-	70	Pohang
POREKA Co., Ltd.	Advertising agency	69.93	30.07	100	60.79	39.21	100	Seoul
Songdo SE Co., Ltd.	Cleaning service	100	-	100	100	-	100	Incheon
Daewoo International Corporation	Trading, Energy & Resource development	100	-	100	-	-	-	Seoul
POSCOLED Co., Ltd.	LED lightning	66.56	-	66.56	60.31	-	60.31	Seongnam
Gunsan SPFC Co., Ltd.	Steel manufacturing	16.7	63.33	80.03	16.7	63.3	80	Gunsan

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

		Ownership (%)						
		2011			2012			
	Principal operations	POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total	Region
POSCO NST Co., Ltd.	Steel manufacturing	100	-	100	-	-	-	Busan
Pohang Scrap Recycling Center Co., Ltd.	Steel manufacturing	-	51	51	-	51	51	Pohang
PSC energy global Co., Ltd.	Business service	-	100	100	-	100	100	Pohang
Suncheon Ecotrans Co., Ltd.	Train manufacturing & management	100	-	100	100	-	100	Suncheon
Shinan Energy Co., Ltd.	Manufacturing & management	-	100	100	-	-	-	Mokpo
Reco Metal Co., Ltd.	Steel manufacturing	-	88.58	88.58	-	100	100	Hwasung
NewAltec Co., Ltd.	Aluminum products manufacturing and sales	-	60.1	60.1	-	60.1	60.1	Incheon
PONUtech Co., Ltd.	Nuclear power generation design and repair service	-	100	100	-	100	100	Ulsan
BLUE O&M Co., Ltd	Service	-	100	100	-	100	100	Ulsan
Tamra Offshore Wind Power Co., Ltd	Cogeneration plant operation	-	-	-	-	64	64	Jeju
POS-HIAL	Aluminum products manufacturing and sales	-	-	-	-	65.3	65.3	Youngam
MCM Korea	Iron ore sales & mine development	-	-	-	-	100	100	Seoul
Tancheon E&E	Sewage heat energy supply	-	-	-	5	95	100	Seoul
[Foreign]								
POSCO America Corporation	Steel trading	99.45	0.55	100	99.45	0.55	100	USA
POSCO Australia Pty. Ltd.	Iron ore sales & mine development	100	-	100	100	-	100	Australia
POSCO Canada Ltd.	Coal sales	-	100	100	-	100	100	Canada
POSCAN Elkveiw Coal Ltd.	Coal sales	-	100	100	-	100	100	Canada
POSCO Asia Co., Ltd.	Steel transit trading	100	-	100	100	-	100	Hong Kong
Dalian POSCO Steel Co., Ltd	Steel manufacturing	30	55	85	30	55	85	China
POSCO-CTPC Co., Ltd.	Steel manufacturing	56.6	43.4	100	56.6	43.4	100	China
POSCO-JKPC Co., Ltd.	Steel manufacturing	-	95	95	-	95	95	Japan
International Business Center Corporation	Leasing Service	-	60	60	-	60	60	Vietnam
POSCO E&C Vietnam Co., Ltd.	Steel manufacturing	-	100	100	-	100	100	Vietnam
Zhangjiagang Pohang Stainless Steel Co., Ltd.	Stainless steel manufacturing	58.6	23.88	82.48	58.6	23.88	82.48	China

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

		Ownership (%)						
		2011			2012			
	Principal operations	POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total	Region
Guangdong Pohang Coated Steel Co., Ltd.	Plating steel sheet manufacturing	84.52	10.01	94.53	87.04	10.04	97.08	China
POSCO (Thailand) Company Ltd.	Steel manufacturing	85.62	14.38	100	85.62	14.38	100	Thailand
Myanmar POSCO Steel Co., Ltd	Zinc relief manufacturing	70	-	70	70	-	70	Myanmar
POSCO-JOPC Co., Ltd.	Steel manufacturing	-	56.84	56.84	-	56.84	56.84	Japan
POSCO Investment Co., Ltd.	Financial Service	99.99	-	99.99	100	-	100	Hong Kong
POSCO-MKPC SDN BHD.	Steel manufacturing	44.69	25.31	70	44.69	25.31	70	Malaysia
Qingdao Pohang Stainless Steel Co., Ltd.	Stainless steel manufacturing	70	30	100	70	30	100	China
POSCO (Suzhou) Automotive Processing Center Co., Ltd.	Steel manufacturing	90	10	100	90	10	100	China
POSCO BioVentures L.P.	Bio tech Industry	-	100	100	-	100	100	USA
PT. POSNESIA	Steel manufacturing	70	-	70	70	-	70	Indonesia
POSCO E&C - Hawaii Inc.	Real estate Industry	-	100	100	-	100	100	USA
POS-Qingdao Coil Center Co., Ltd.	Steel manufacturing	-	100	100	-	100	100	China
POS-Ore Pty. Ltd.	Iron ore sales & mine development	-	100	100	-	100	100	Australia
POSCO-China Holding Corp.	A holding company	100	-	100	100	-	100	China
POSCO-Japan Co., Ltd.	Steel trading	100	-	100	100	-	100	Japan
POS-CD Pty. Ltd.	Coal sales	-	100	100	-	100	100	Australia
POS-GC Pty. Ltd.	Coal sales	-	100	100	-	100	100	Australia
POSCO-India Private Ltd.	Steel manufacturing	100	-	100	100	-	100	India
POSCO-India Pune Steel Processing Centre Pvt. Ltd.	Steel manufacturing	65	-	65	65	-	65	India
POSCO-JEPC Co., Ltd. (formerly, POSCO-JNPC Co., Ltd.)	Steel manufacturing	-	90	90	-	88.02	88.02	Japan
POSCO-Foshan Steel Processing Center Co., Ltd.	Steel manufacturing	39.6	60.4	100	39.6	60.4	100	China
POSCO E&C (China) Co., Ltd.	Construction and civil engineering	-	100	100	-	100	100	China
POSCO MPC S.A. de C.V.	Steel manufacturing	-	90	90	-	95	95	Mexico
Zhangjigang Pohang Port Co., Ltd.	Load and unload industry	-	100	100	-	100	100	China
Qingdao Pujin Steel Material Co., Ltd	Steel manufacturing	-	100	100	-	100	100	China



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

		Ownership (%)						
		2011			2012			
		POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total	
	Principal operations							Region
POSCO-Vietnam Co., Ltd.	Steel manufacturing	85	-	85	85	-	85	Vietnam
POSCO-Mexico Co., Ltd.	Mobile steel sheet manufacturing	80.68	19.32	100	84.84	15.16	100	Mexico
POSCO-India Delhi Steel Processing Centre Pvt. Ltd	Steel manufacturing	76.4	-	76.4	66.4	10	76.4	India
POSCO-Poland Wroclaw Steel Processing Center Co., Ltd	Steel manufacturing	60	-	60	60	-	60	Poland
POS-NP Pty. Ltd.	Coal sales	-	100	100	-	100	100	Australia
POSCO-Vietnam Processing Center Co., Ltd.	Steel manufacturing	89.58	-	89.58	91.63	-	91.63	Vietnam
POSCO (Chongqing) Automotive Processing Center Co, Ltd.	Steel manufacturing	90	10	100	90	10	100	China
Suzhou POS-CORE Technology Co., Ltd.	Component manufacturing	-	100	100	-	100	100	China
POSCO-JYPC Co., Ltd.	Steel manufacturing	-	82.37	82.37	-	-	-	Japan
POSCO-Malaysia SDN. BHD.	Steel manufacturing	80.07	13.34	93.41	80.07	13.34	93.41	Malaysia
POS-Minerals Corporation	Mine development & sales	-	100	100	-	100	100	USA
POSCO (Wuhu) Automotive Processing Center Co., Ltd.	Steel manufacturing	68.57	31.43	100	68.57	31.43	100	China
POSCO E&C India Private Ltd.	Construction and engineering	-	100	100	-	100	100	India
POSCO E&C SMART	Construction and engineering	-	100	100	-	100	100	Mexico
POSCO-Philippine Manila Processing Center Inc.	Steel manufacturing	-	100	100	-	100	100	Philippines
POS-GSFC LLC	Steel manufacturing	-	48.98	48.98	-	81.93	81.93	UAE
Dalian POSCON Dongbang Automatic Co., Ltd.	Electronical control equipment manufacturing	-	70	70	-	100	100	China
SANPU TRADING CO.,LTD.	Transit trade	-	70.04	70.04	-	70	70	China
Zhangjiagang BLZ Pohang International Trading Co., Ltd.	Steel transit trading	-	100	100	-	100	100	China
POSCO Mexico Human Tech.	Service	80	20	100	80	20	100	Mexico
POSCO Mexico East Steel Distribution Center Co., Ltd	Steel product sales	-	56.81	56.81	-	56.8	56.8	Mexico
POSCO ICT-China	IT service and DVR business	-	100	100	-	100	100	China
DWEMEX S.A.DE C.V.	Construction	-	99	99	-	99	99	Mexico
POS MPC Servicios de C.V.	Steel manufacturing	-	61	61	-	61	61	Mexico
POSCO-URUGUAY S.A.	Lumber manufacturing & sales	98	-	98	98	-	98	Urugua

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

		Ownership (%)						
		2011			2012			
		POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total	
	Principal operations							Region
POSCO South East Asia Pte. Ltd.	Steel transit trading	-	51	51	-	67.54	67.54	Singapore
Europe Steel Distribution Center	Steel product sales	50	20	70	50	20	70	Slovenia
VECTUS Ltd.	PRT test track construction	-	99.57	99.57	-	99.57	99.57	England
Zeus (Cayman)	Service	100	-	100	100	-	100	Cayman Islands
POSCO VST Co., Ltd.	Stainless steel manufacturing	95.65	-	95.65	95.65	-	95.65	Vietnam
POSCO Maharashtra Steel Pvt. Ltd.	Steel manufacturing	100	-	100	100	-	100	India
POSCO India Chennai Steel Processing Centre Pvt. Ltd.	Steel manufacturing	100	-	100	100	-	100	India
POSCO Turkey Nilufer Processing Center Co., Ltd.	Steel manufacturing	100	-	100	100	-	100	Turkey
POSCO Vietnam Ha Noi Processing Center Co., Ltd.	Steel manufacturing	70	-	70	70	-	70	Vietnam
POSCO (Liaoning) Automotive Processing Center Co., Ltd.	Steel manufacturing	90	10	100	90	10	100	China
POSCO-Indonesia Jakarta Processing Center	Steel manufacturing	65	20	85	65	20	85	Indonesia
POSCO E&C Venezuela C.A	Construction and engineering	-	100	100	-	100	100	Venezuela
PT. MRI	mine development	65	-	65	65	-	65	Indonesia
POSCORE-INDIA	Steel manufacturing	-	100	100	-	100	100	India
POSCO America Alabama Processing Center Co., Ltd.	Steel manufacturing	-	100	100	-	100	100	USA
PT DEC Indonesia	Construction	-	95	95	-	95	95	Indonesia
POSCO (Yantai) Automotive Processing Center Co.,Ltd.	Steel manufacturing	90	10	100	90	10	100	China
POSCO India Steel Distribution Center Private Ltd.	Steel Logistics	-	100	100	-	100	100	India
POSCO China Dalian Plate Processing Center Co., Ltd.	Steel manufacturing	80	10	90	80	10	90	China
POSCO-South Asia Co., Ltd.	Steel product sales	100	-	100	100	-	100	Thailand
POSCO SS-VINA Co., LTD	Steel manufacturing	-	100	100	-	100	100	Vietnam
POSCO-NCR Coal Ltd.	Coal sales	-	100	100	-	100	100	Canada
POSCO WA Pty. Ltd.	Iron ore sales & mine development	100	-	100	100	-	100	Australia
POSCO E&C - UZ	Construction	-	100	100	-	100	100	Uzbekistan
POSCO Australia GP Limited	Resource development	-	100	100	-	100	100	Australia

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

		Ownership (%)						
		2011			2012			
	Principal operations	POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total	Region
Daewoo International America Corp.	Trading business	-	100	100	-	100	100	USA
Daewoo International Deutschland GmbH	Trading business	-	100	100	-	100	100	Germany
Daewoo International Japan Corp.	Trading business	-	100	100	-	100	100	Japan
Daewoo International Singapore Pte. Ltd.	Trading business	-	100	100	-	100	100	Singapore
Daewoo Italia S.r.l.	Trading business	-	100	100	-	100	100	Italia
Daewoo Cement (Shandong) Co., Ltd.	Cement manufacturing	-	100	100	-	-	-	China
Daewoo (China) Co., Ltd.	Trading business	-	100	100	-	100	100	China
PT. RISMAR Daewoo Apparel	Clothing business	-	100	100	-	-	-	Indonesia
Daewoo Textile Fergana LLC	Textile manufacturing	-	100	100	-	100	100	Uzbekistan
Daewoo Textile Bukhara LLC	Textile manufacturing	-	100	100	-	100	100	Uzbekistan
Daewoo International Australia Holdings Pty. Ltd.	Resource development	-	100	100	-	100	100	Australia
Daewoo Paper Manufacturing Co., Ltd.	Paper industry	-	66.7	66.7	-	66.7	66.7	China
Tianjin Daewoo. Paper Co., Ltd	Paper industry	-	68	68	-	68.3	68.3	China
POSCO Mauritius Ltd.	Mine development & sales	-	100	100	-	100	100	Mauritius
PT. KRAKATAU POSCO	Steel manufacturing	70	-	70	70	-	70	Indonesia
MYANMAR Daewoo LTD.	Trading business	-	100	100	-	100	100	Myanmar
Daewoo International MEXICO S.A. de C.V.	Trading business	-	100	100	-	100	100	Mexico
Daewoo International Guangzhou Corp.	Trading business	-	100	100	-	100	100	China
Daewoo Energy Central Asia	Resource development	-	100	100	-	-	-	Uzbekistan
Daewoo STC (& Apparel) Vietnam Ltd.	Textile manufacturing	-	100	100	-	100	100	Vietnam
MYANMAR Daewoo International Ltd.	Textile manufacturing	-	55	55	-	-	-	Myanmar
DAYTEK ELECTRONICS CORP.	Trading business	-	100	100	-	-	-	Canada
Daewoo (M) SDN. BHD.	Trading business	-	100	100	-	100	100	Malaysia
Daewoo CANADA LTD.	Trading business	-	100	100	-	100	100	Canada
Daewoo EL SALVADOR S.A. DE C.V.	Trading business	-	88	88	-	88	88	El Salvador

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

		Ownership (%)						
		2011			2012			
	Principal operations	POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total	Region
GEZIRA TANNERY CO., LTD.	Leather manufacturing	-	60	60	-	60	60	Sudan
POSCO (Zhangjiagang) Stainless Steel Processing Center Co., Ltd.	Steel manufacturing	-	100	100	-	100	100	China
Daewoo International Corporation (M) SDN BHD	Trading business	-	100	100	-	100	100	Malaysia
Daewoo International SHANGHAI CO., LTD.	Trading business	-	100	100	-	100	100	China
PGSF, LLC	Bio tech industry	-	100	100	-	100	100	USA
Xenesys Inc.	Power generation equipment manufacturing	29.58	21.36	50.94	29.58	21.35	50.93	Japan
Daewoo International INDIA Private Ltd.	Trading business	-	100	100	-	100	100	India
TECHREN Solar, LLC	Electrical industry	-	99.97	99.97	-	99.92	99.92	USA
PT. POSCO E&C Indonesia	Construction	-	100	100	-	100	100	Indonesia
Hume Coal Pty. Ltd.	Raw material manufacturing	-	70	70	-	70	70	Australia
Daewoo HANDELS GmbH	Trading business	-	100	100	-	100	100	Germany
POSCO Foundation	Non-profit charitable organization	-	100	100	-	100	100	India
EPC EQUITIES LLP	Construction	-	70	70	-	70	70	England
SANTOS CMI Construction Trading LLP	Construction	-	99.9	99.9	-	99.9	99.9	England
SANTOS CMI INC. USA	Construction	-	100	100	-	100	100	USA
SANTOS CMI ENGENHARIA E CONSTRUÇOES LTDA	Construction	-	99.98	99.98	-	99.98	99.98	Brazil
SANTOS CMI PERU S.A.	Construction	-	99.99	99.99	-	99.99	99.99	Peru
SANTOS CMI COSTA RICA S.A.	Construction	-	100	100	-	100	100	Coasta Rica
SANTOS CMI CONSTRUCCIONES S.A. (URUGUAY)	Construction	-	100	100	-	100	100	Uruguay
GENTECH International INC.	Construction	-	90	90	-	90	90	Panama
EPC INVESTMENTS C.V.	Construction	-	99.99	99.99	-	99.99	99.99	Netherlands
INGENIERIA Y CONSTRUCCION HOLAND CO S.A.	Construction	-	99.9	99.9	-	99.9	99.9	Ecuador
ASESORIA Y SERVICIOS EPC S.A CHILE	Construction	-	99	99	-	99	99	Chile
SANTOS CMI S.A.	Construction	-	70	70	-	70	70	Ecuador
SANTOS CMI CONSTRUCCIONES DE CHILE S.A.	Construction	-	99	99	-	99	99	Chile

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

		Ownership (%)						
		2011			2012			
	Principal operations	POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total	Region
S&K -SANTOS CMI S.A. DE C.V. (MEXICO)	Construction	-	99	99	-	99	99	Mexico
COMPANIA DE AUTOMATIZACION & CONTROL, GENESYS S.A.	Construction	-	90	90	-	90	90	Ecuador
VAUTIDAMERICAS S.A.	Construction	-	51	51	-	51	51	Ecuador
SANTOS CMI Constructions Argentina S.A.	Construction	-	95	95	-	95	95	Argentina
POSCO E&C Brazil Ltd.	Construction	-	100	100	-	100	100	Brazil
POSCO Electrical Steel India Private Limited	Electrical steel manufacturing	100	-	100	100	-	100	India
Daewoo International Cameroon PLC	Resource development	-	100	100	-	100	100	Cameroon
POSCO ASSAN TST STEEL Industry	Resource development	60	10	70	60	10	70	Turkey
HONG KONG POSCO E&C (CHINA) Investment Co., Ltd.	Investment	-	100	100	-	100	100	Hong Kong
POSCO Klappan Coal Ltd.	Coal sales	-	100	100	-	100	100	Canada
DAESAN (Cambodia) Co., Ltd.	Investment	-	100	100	-	100	100	Cambodia
Brazil Sao Paulo Steel Processing Center Co., Ltd	Steel manufacturing	-	76	76	-	76	76	Brazil
POSCO(Dalian) IT Center Development Co., Ltd.	Investment	-	100	100	-	100	100	China
PT.POSCO Resources Indonesia	Mine development	100	-	100	100	-	100	Indonesia
PT. POSCO ICT Indonesia	IT service and electric control engineering	-	100	100	-	66.99	66.99	Indonesia
PT. POSCO M-Tech Indonesia	Steel manufacturing	-	100	100	-	60	60	Indonesia
PT. KRAKATAU POSCOPOWER	Manufacturing & management	-	70	70	-	90	90	Indonesia
POSCO RUS LLC.	Trading business	90	10	100	90	10	100	Russia
POSCO-Thainox Public Company Limited.	Steel manufacturing	94.93	-	94.93	84.93	-	84.93	Thailand
Daewoo International Shanghai Waigaoqiao Co., Ltd.	Merchandising trade	-	100	100	-	100	100	China
PT. Bio Inti Agrindo	Forest resources development	-	85	85	-	85	85	Indonesia
POSCO E&C Australia Pty Ltd.	Iron ore sales	-	100	100	-	100	100	Australia
POSCO-TISCO (Jilin) Processing Center Co., Ltd.	Steel manufacturing	73.53	14.71	88.24	50	10	60	China
Hunchun POSCO Logistics Co., Ltd.	Logistics	-	80	80	-	78.15	78.15	China
USA SRDC Corporation	Scrap sale	-	100	100	-	100	100	USA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(*1)

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

(*2)

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

		Ownership (%)						
		2011			2012			
	Principal operations	POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total	Region
Daewoo International Vietnam Co., Ltd.	Trading business	-	100	100	-	100	100	Vietnam
PT. Krakatau POSCO Chemtech Calcination	Manufacturing and selling	-	-	-	-	80	80	Indonesia
POSCO-Africa	Trading business	-	-	-	100	-	100	South Africa
E.P.C. INGENIERIA & SERVICIOS DE COSTA RICA S. A.	Construction and engineering service	-	-	-	-	100	100	Costa Rica
POSCO ICT BRASIL PARTICIPACOES	IT service and engineering	-	-	-	-	100	100	Brazil
LA-SCRAP RECYCLING DISTRIBUTION CENTER, LLC.	Scrap manufacturing	-	-	-	-	68.41	68.41	USA
EEC, GmbH	Construction and engineering service	-	-	-	-	-	-	Germany
Posco Center Beijing	Real estate development, rental and management	-	-	-	-	99	99	China
POSCO AMERICA COMERCIALIZADORA S DE RL DE C.V.	Steel sale	-	-	-	-	100	100	Mexico
POSCO AMERICA PRODUCTOS, OFERTAS, SISTEMAS Y COMERCIALIZADORA ORIENTAL S DE RL DE C.V.	Human-resource service	-	-	-	-	100	100	Mexico
Guangdong Pohang Car Steel Co., Ltd.	Steel manufacturing and selling	-	-	-	83.64	10	93.64	China
POSCO Mexico Aguascalientes Processing Center Co., Ltd.	Steel manufacturing and selling	-	-	-	80	20	100	Mexico

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

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

Company	Sales	Net income (loss)
[Domestic]		
POSCO E&C Co., Ltd.	6,248,379	174,483
POSCO P&S Co., Ltd.	2,062,495	4,311
POSCO Coated & Color Steel Co., Ltd.	1,001,774	6,409
POSCO Plant Engineering Co., Ltd.	439,529	11,986
POSCO ICT Co., Ltd.	839,802	17,929
POSCO Research Institute	23,207	319
Seoung Gwang Co., Ltd.	15,567	2,601
POSCO Architects & Consultants Co., Ltd.	128,118	4,431
POSCO Specialty Steel Co., Ltd.	1,543,122	101,901
POSTECH Venture Capital Corp.	-	274
eNtoB Co., Ltd.	603,684	2,516
POSCO Chemtec Company Ltd.	756,053	57,191
POSCO Terminal Co., Ltd.	78,478	14,475
POSCO ENERGY Co., Ltd.	827,534	(35,641)
Postech 2006 Energy Fund	-	(964)
PHP Co., Ltd.	2,091	(583)
POSCO TMC Co., Ltd.	189,686	6,138
PNR Co., Ltd.	27,281	(17,813)
Megaasset Co., Ltd.	100,865	4,559
POSCO Engineering Company	774,791	45,099
Pohang Fuel Cell Co. Ltd.	4,049	(276)
Pohang SPFC Co., Ltd.	28,933	(32)
POSWITH Co., Ltd.	12,317	442

Company	Sales	Net income (loss)
[Foreign]		
BASYS INDUSTRY Co., Ltd.	990	72
POSTECH BD Newundertaking fund	-	(1)
POSBRO Co., Ltd.	-	(78)
POSCO AST Co., Ltd.	330,425	7,285
DaiMyung TMS Co., Ltd.	15,985	(3,059)
POS-HIMETAL Co., Ltd.	-	(5,771)
POSCO E&E Co., Ltd.	-	405
POMIC Co., Ltd.	19,922	403
POSFINE Co., Ltd.	-	(883)
POS ECO HOUSING Co., Ltd.	2,231	(738)
Mapo high broad parking Co., Ltd.	-	(237)
Dakos Co., Ltd.	4,314	274
Kwang Yang SPFC Co., Ltd.	-	52
POSCALCIUM Company, Ltd.	-	(226)
Plant Engineering service Technology Co., Ltd.	3,063	472
Postech Early Stage Fund	-	-
Busan E&E Co., Ltd.	-	(140)
POSCO Family Strategy Funds	-	(62)
POREKA Co., Ltd.	6,274	100
Songdo SE Co., Ltd.	1,021	(7)
Posgreen Co., Ltd.	-	(22)
Daewoo International Corporation	4,094,039	94,359
POSCOED Co., Ltd.	138	(1,763)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

Company	Sales	Net income (loss)
Gunsan SPFC Co., Ltd.	89	(196)
POSCO NST Co., Ltd.	33,164	55
Pohang Scrap Recycling Center Co., Ltd.	-	(80)
[Foreign]		
POSCO America Corporation	288,907	9,039
POSCO Australia Pty. Ltd.	106,387	50,288
POSCO Canada Ltd.	170,421	65,299
POSCAN Elkveiw Coal Ltd.	-	-
POSCO Asia Co., Ltd.	2,335,842	1,376
Dalian POSCO Steel Co., Ltd.	68,149	(4,932)
POSCO-CTPC Co., Ltd.	149,810	2,398
POSCO-JKPC Co., Ltd.	75,831	2,391
International Business Center Corporation	28,354	13,884
POSCO E&C Vietnam Co., Ltd.	72,865	3,753
Zhangjiagang Pohang Stainless Steel Co., Ltd.	2,461,020	44,034
Guangdong Pohang Coated Steel Co., Ltd.	251,416	25,547
POSCO (Thailand) Company Ltd.	224,630	10,117
Myanmar POSCO Steel Co., Ltd.	24,321	3,481
POSCO-JOPC Co., Ltd.	76,947	766
POSCO Investment Co., Ltd.	-	4,451
POSCO-MKPC SDN BHD.	135,852	3,395
Qingdao Pohang Stainless Steel Co., Ltd.	542,446	5,047
POSCO (Suzhou) Automotive Processing Center Co., Ltd.	352,367	13,688
POSCO BioVentures L.P.	-	(10,536)

(in millions of Won)

Company	Sales	Net income (loss)
PT. POSNESIA	-	(14)
POSCO E&C - Hawaii Inc.	-	(793)
POS-Qingdao Coil Center Co., Ltd.	149,653	1,089
POS-Ore Pty. Ltd.	118,687	55,491
POSCO-China Holding Corp.	148,503	459
POSCO-Japan Co., Ltd.	1,490,633	9,850
POS-CD Pty. Ltd.	15,214	(1,771)
POS-GC Pty. Ltd.	12,475	664
POSCO-India Private Ltd.	-	(21,612)
POSCO-India Pune Steel Processing Centre Pvt. Ltd.	206,138	8,761
POSCO-JNPC Co., Ltd.	179,031	2,499
POSCO-Foshan Steel Processing Center Co., Ltd.	518,268	6,229
POSCO E&C (China) Co., Ltd.	117,558	889
POSCO MPC S.A. de C.V.	240,277	(2,161)
Zhangjiagang Pohang Port Co., Ltd.	5,200	(789)
Qingdao Pujin Steel Material Co., Ltd.	73,408	114
POSCO-Vietnam Co., Ltd.	813,637	(64,111)
POSCO-Mexico Co., Ltd.	302,595	(24,004)
POSCO-India Delhi Steel Processing Centre Pvt. Ltd.	113,056	8,919
POSCO-Poland Wroclaw Steel Processing Center Co., Ltd.	53,941	1,929
POS-NP Pty. Ltd.	44,773	5,282
POSCO-Vietnam Processing Center Co., Ltd.	85,698	4,419
POSCO (Chongqing) Automotive Processing Center Co., Ltd.	84,385	694



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

Company	Sales	Net income (loss)
Suzhou POS-CORE Technology Co., Ltd.	89,248	1,559
POSCO-JYPC Co., Ltd.	74,565	(1,017)
POSCO-Malaysia SDN. BHD.	125,209	(6,022)
POS-Minerals Corporation	-	(1,188)
POSCO (Wuhu) Automotive Processing Center Co., Ltd.	124,687	2,872
POSCO E&C India Private Ltd.	463	(1,508)
POSCO E&C SMART	-	(203)
POSCO-Philippine Manila Processing Center Inc.	37,558	1,462
Dalian POSCON Dongbang Automatic Co., Ltd.	4,013	393
SANPU TRADING CO., LTD.	89	(156)
Zhangjiagang BLZ Pohang International Trading Co., Ltd.	70,923	29
POSCO Mexico Human Tech.	4,206	166
POSCO Mexico East Steel Distribution Center Co., Ltd	5,547	696
POSCO Gulf Logistics LLC.	40	(86)
POSCO ICT-China	3,884	26
DWEMEX S.A.DE C.V.	2,084	45
POS MPC Servicios de C.V.	4,837	115
EUROTALY S.A.	32	(846)
POSCO South East Asia Pte. Ltd.	34,196	121
Europe Steel Distribution Center	11,789	513
VECTUS Ltd.	1,886	(2,352)

(in millions of Won)

Company	Sales	Net income (loss)
Zeus(Cayman)	-	-
POSCO VST Co., Ltd.	210,656	(8,333)
POSCO Maharashtra Steel Pvt. Ltd.	-	(895)
POSCO India Chennai Steel Processing Centre Pvt. Ltd.	52,221	73
POSCO Turkey Nilufer Processing Center Co., Ltd.	3,032	(2,220)
POSCO Vietnam Ha Noi Processing Center Co., Ltd.	39,675	(836)
POSCO (Liaoning) Automotive Processing Center Co., Ltd.	45,933	-
POSCO-Indonesia Jakarta Processing Center	42,882	1,023
POSCO E&C Venezuela C.A	-	-
PT. MRI	1,738	(931)
POSCORE-INDIA	2,936	(113)
POSCO America Alabama Processing Center Co., Ltd.	29,350	(1,443)
PT DEC Indonesia	-	(208)
POSCO (Yantai) Automotive Processing Center Co., Ltd.	-	(885)
POSCO India Steel Distribution Center Private Ltd.	7	(67)
POSCO China Dalian Plate Processing Center Co., Ltd.	-	(3,631)
POSCO-South Asia Co., Ltd.	2,954	(479)
POSCO SS-VINA Co., LTD	-	166
POSCO-NCR Coal Ltd.	-	-
POSCO WA Pty. Ltd.	-	(637)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(in millions of Won)

Company	Sales	Net income (loss)
POSCO E&C - UZ	-	1
POSCO Australia GP Limited	-	3
Daewoo International America Corp.	163,615	(769)
Daewoo International Deutschland GmbH	115,421	428
Daewoo International Japan Corp.	184,725	(638)
Daewoo International Singapore Pte. Ltd.	259,530	109
Daewoo Italia S.r.l.	96,203	139
Daewoo Cement (Shandong) Co., Ltd.	-	-
Daewoo (China) Co., Ltd.	1,417	(874)
PT. RISMAR Daewoo Apparel	12,843	(2,278)
Daewoo Textile Fergana LLC	38,614	3,486
Daewoo Textile Bukhara LLC	15,156	(887)
Daewoo International Australia Holdings Pty. Ltd.	293	139
Daewoo Paper Manufacturing Co., Ltd.	22,311	(18,788)
Tianjin Daewoo. Paper Co., Ltd	8,388	(368)
POSCO Mauritius Ltd.	-	-
PT. KRAKATAU STEEL POSCO	-	(198)
MYANMAR Daewoo LTD.	203	(17)
Daewoo International MEXICO S.A. de C.V.	50,566	(118)
Daewoo International Guangzhou Corp.	4,702	(30)

Company	Sales	Net income (loss)
Daewoo Energy Central Asia	-	-
Daewoo STC & Apparel Vietnam Ltd.	2,262	(27)
MYANMAR Daewoo International Ltd.	2,233	35
DAYTEK ELECTRONICS CORP.	-	-
Daewoo (M) SDN. BHD.	-	-
Daewoo CANADA LTD.	-	-
Daewoo EL SALVADOR S.A. DE C.V.	-	-
GEZIRA TANNERY CO., LTD.	-	-
POSCO (Zhangjiagang) Stainless Steel Processing Center Co., Ltd.	-	-
Daewoo International Corporation (M) SDN BHD	-	-
Daewoo International SHANGHAI CO., LTD.	-	-
PGSF, LLC	-	(619)
Xenesys Inc.	935	(3,624)
Daewoo International INDIA Private Ltd.	-	-
TECHREN Solar, LLC	-	-
PT. POSCO E&C Indonesia	-	(235)
Hume Coal Pty. Ltd.	-	-
Daewoo HANDELS GmbH	-	-
POSCO Foundation	-	(12)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

2) December 31, 2011

(in millions of Won)

Company	Assets	Liabilities	Equity (deficit)	Sales	Net income (loss)
[Domestic]					
POSCO E&C Co., Ltd.	6,819,542	4,260,627	2,558,915	6,142,026	109,921
POSCO P&S Co., Ltd.	1,017,070	472,175	544,895	3,141,999	19,234
POSCO Coated & Color Steel Co., Ltd.	521,471	297,947	223,524	956,179	(24,713)
POSCO Plant Engineering Co., Ltd.	208,084	117,629	90,455	597,508	6,758
POSCO ICT Co., Ltd.	687,657	446,640	241,017	983,649	30,578
POSCO Research Institute	29,320	6,304	23,016	30,844	216
Seoung Gwang Co., Ltd.	82,671	34,868	47,803	14,652	2,522
POSCO Architects & Consultants Co., Ltd.	93,268	40,458	52,810	196,794	7,236
POSCO Specialty Steel Co., Ltd.	1,582,832	691,581	891,251	1,662,896	127,573
POSTECH Venture Capital Corp.	34,222	1,094	33,128	-	1,041
eNtoB Co., Ltd.	99,382	69,607	29,775	634,830	1,249
POSCO Chemtec Company Ltd. (formerly, POSCO Refractories & Environment Co., Ltd.)	479,615	152,416	327,199	1,186,623	92,391
POSCO Terminal Co., Ltd.	96,806	15,145	81,661	100,710	22,955
POSCO M-TECH Co., Ltd.	316,953	153,876	163,077	602,155	12,447
POSCO ENERGY Co., Ltd.	2,891,382	2,327,398	563,984	1,863,670	25,152
Postech 2006 Energy Fund	21,662	1,042	20,620	-	(202)
PHP Co., Ltd.	66,461	58,521	7,940	4,456	483
POSCO TMC Co., Ltd.	204,738	113,595	91,143	219,580	5,746
PNR Co., Ltd.	159,076	129,198	29,878	74,013	13,366
Megaasset Co., Ltd.	23,757	9,354	14,403	63,667	5,794
POSCO Engineering Company (formerly Daewoo Engineering Company)	508,290	341,946	166,344	980,340	3,225
Pohang Fuel Cell Co. Ltd.	12,061	8,592	3,469	2,235	(286)
Pohang SPFC Co., Ltd.	10,021	4,221	5,800	38,117	1,170
POSWITH Co., Ltd.	5,129	2,460	2,669	13,745	151
BASYS INDUSTRY Co., Ltd.	967	266	701	2,500	369
POSTECH BD Newundertaking fund	90	-	90	-	(1)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(in millions of Won)

Company	Assets	Liabilities	Equity (deficit)	Sales	Net income (loss)
POSBRO Co., Ltd.	126	-	126	-	(54)
POSCO AST Co., Ltd.	316,695	163,548	153,147	365,682	4,972
DaiMyung TMS Co., Ltd.	28,350	52,497	(24,147)	6,265	(3,695)
POS-HIMETAL Co., Ltd.	309,369	268,788	40,581	34,682	(28,857)
POSCO E&E Co., Ltd.	22,435	127	22,308	-	508
POMIC Co., Ltd.	4,411	2,431	1,980	21,111	317
POSFINE Co., Ltd.	62,775	48,146	14,629	2,285	(3,847)
POS ECO HOUSING Co., Ltd.	8,190	1,846	6,344	13,629	265
Mapo high broad parking Co., Ltd.	1,676	110	1,566	-	(355)
Dakos Co., Ltd.	783	321	462	225	(58)
Kwang Yang SPFC Co., Ltd.	68,279	52,806	15,473	4,686	(2,156)
POSCALCIUM Company, Ltd.	8,403	7,004	1,399	106	(1,353)
Plant Engineering service Technology Co., Ltd.	2,327	500	1,827	6,259	354
9Digit Co., Ltd.	33,820	27,091	6,729	58,341	(308)
Postech Early Stage Fund	10,034	65	9,969	-	(31)
Busan E&E Co., Ltd.	44,731	1,687	43,044	-	127
POSCO Family Strategy Funds	57,678	250	57,428	-	290
POREKA Co., Ltd.	15,131	12,880	2,251	20,785	1,158
Songdo SE Co., Ltd.	1,652	282	1,370	2,761	77
Posgreen Co., Ltd.	8,225	4,280	3,945	2,944	(33)
Daewoo International Corporation	7,823,738	6,302,994	1,520,744	18,758,511	160,088
POSCOLED Co., Ltd.	28,717	5,917	22,800	14,063	(5,355)
Gunsan SPFC Co., Ltd.	51,483	30,673	20,810	53,797	(236)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(in millions of Won)

Company	Assets	Liabilities	Equity (deficit)	Sales	Net income (loss)
POSCO NST Co., Ltd.	158,470	121,493	36,977	202,334	(803)
Pohang Scrap Recycling Center Co., Ltd.	17,842	2,863	14,979	1,748	143
PSC energy global Co., Ltd.	38,780	-	38,780	-	(1,595)
Suncheon Ecotrans Co., Ltd.	25,526	2,878	22,648	-	48
Shinan Energy Co., Ltd.	8,494	-	8,494	-	(56)
Reco Metal Co., Ltd.	15,043	13,280	1,763	6,761	(2,658)
NewAltec Co., Ltd.	114,744	17,171	97,573	92,849	638
PONUTech Co., Ltd.	9,919	182	9,737	-	(263)
BLUE O&M Co., Ltd	988	-	988	-	(12)
[Foreign]					
POSCO America Corporation	416,078	223,968	192,110	419,258	8,866
POSCO Australia Pty. Ltd.	1,161,366	462,383	698,983	136,144	283,875
POSCO Canada Ltd.	565,424	82,867	482,557	304,274	133,660
POSCAN Elkveiw Coal Ltd.	-	-	-	-	-
POSCO Asia Co., Ltd.	540,685	504,059	36,626	2,968,097	6,523
Dalian POSCO Steel Co., Ltd	49,104	58,254	(9,150)	90,990	(8,711)
POSCO-CTPC Co., Ltd.	84,966	52,546	32,420	134,930	1,320
POSCO-JKPC Co., Ltd.	93,668	75,512	18,156	87,203	1,405
International Business Center Corporation	90,577	51,831	38,746	25,889	11,655
POSCO E&C Vietnam Co., Ltd.	77,583	77,679	(96)	114,350	6,670
Zhangjiagang Pohang Stainless	1,569,551	986,798	582,753	2,808,722	4,444
Steel Co., Ltd.					
Guangdong Pohang Coated	394,452	163,785	230,667	275,521	(7,849)
Steel Co., Ltd.					
POSCO (Thailand) Company Ltd.	140,260	98,044	42,216	231,144	1,227
Myanmar POSCO Steel Co., Ltd	27,519	9,580	17,939	30,967	5,885
POSCO-JOPC Co., Ltd.	80,896	76,118	4,778	92,296	768

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(in millions of Won)

Company	Assets	Liabilities	Equity (deficit)	Sales	Net income (loss)
POSCO Investment Co., Ltd.	787,069	688,482	98,587	10,792	10,509
POSCO-MKPC SDN BHD.	165,789	116,928	48,861	177,822	1,763
Qingdao Pohang Stainless Steel Co., Ltd.	268,411	155,877	112,534	615,532	(3,110)
POSCO (Suzhou) Automotive Processing Center Co., Ltd.	305,690	220,468	85,222	384,705	11,046
POSCO BioVentures L.P.	16,851	-	16,851	-	(4,226)
PT. POSNESIA	14,129	20	14,109	-	(28)
POSCO E&C - Hawaii Inc.	914	503	411	-	(304)
POS-Qingdao Coil Center Co., Ltd.	56,062	40,314	15,748	117,470	65
POS-Ore Pty. Ltd.	75,312	66,851	8,461	250,347	132,737
POSCO-China Holding Corp.	427,447	160,423	267,024	173,639	3,617
POSCO-Japan Co., Ltd.	1,157,755	1,017,990	139,765	1,686,385	13,518
POS-CD Pty. Ltd.	72,582	68,030	4,552	22,575	557
POS-GC Pty. Ltd.	79,517	32,397	47,120	10,263	(4,344)
POSCO-India Private Ltd.	147,359	421	146,938	-	(1,034)
POSCO-India Pune Steel Processing Centre Pvt. Ltd.	168,309	145,655	22,654	211,417	(16,626)
POSCO-JNPC Co., Ltd.	192,177	176,268	15,909	207,654	716
POSCO-Foshan Steel Processing Center Co., Ltd.	178,488	135,213	43,275	529,788	227
POSCO E&C (China) Co., Ltd.	120,135	82,361	37,774	104,055	1,898
POSCO MPC S.A. de C.V.	192,538	182,180	10,358	316,446	(6,587)
Zhangjiagang Pohang Port Co., Ltd.	26,801	11,327	15,474	6,244	222
Qingdao Pujin Steel Material Co., Ltd	14,209	11,997	2,212	79,732	13
POSCO-Vietnam Co., Ltd.	659,931	576,657	83,274	962,490	(46,976)
POSCO-Mexico Co., Ltd.	488,782	422,155	66,627	396,897	(43,298)
POSCO-India Delhi Steel Processing Centre Pvt. Ltd	85,349	75,582	9,767	129,434	(9,824)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(in millions of Won)

Company	Assets	Liabilities	Equity (deficit)	Sales	Net income (loss)
POSCO-Poland Wroclaw Steel Processing Center Co., Ltd	62,709	49,981	12,728	71,871	(1,483)
POS-NP Pty. Ltd.	57,890	15,003	42,887	48,404	9,480
POSCO-Vietnam Processing Center Co., Ltd.	71,203	50,417	20,786	159,369	26
POSCO (Chongqing) Automotive Processing Center Co, Ltd.	69,253	59,468	9,785	62,795	(1,622)
Suzhou POS-CORE Technology Co., Ltd.	60,082	33,980	26,102	96,008	781
POSCO-JYPC Co., Ltd.	67,587	64,165	3,422	102,700	781
POSCO-Malaysia SDN. BHD.	88,635	112,566	(23,931)	140,709	(4,114)
POS-Minerals Corporation	113,694	-	113,694	-	(808)
POSCO (Wuhu) Automotive Processing Center Co., Ltd.	69,613	45,766	23,847	92,554	618
POSCO E&C India Private Ltd.	35,982	31,304	4,678	4,966	1,135
POSCO E&C SMART	4,670	4,034	636	4,421	135
POSCO-Philippine Manila Processing Center Inc.	27,412	17,492	9,920	45,680	266
Dalian POSCON Dongbang Automatic Co., Ltd.	8,083	2,996	5,087	5,104	382
SANPU TRADING CO., LTD.	1,842	5	1,837	73	3
Zhangjiagang BLZ Pohang International Trading Co., Ltd.	15,720	10,881	4,839	100,833	116
POSCO Mexico Human Tech.	787	481	306	5,378	221
POSCO Mexico East Steel Distribution Center Co., Ltd	13,186	1,353	11,833	5,638	110
POSCO Gulf Logistics LLC.	-	-	-	-	-
POSCO ICT-China	1,737	1,294	443	4,920	114
DWEMEX S.A.DE C.V.	226	62	164	2	(29)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(in millions of Won)

Company	Assets	Liabilities	Equity (deficit)	Sales	Net income (loss)
EUROTALY S.A.	16,733	127	16,606	24	(898)
POSCO South East Asia Pte. Ltd.	5,232	2,633	2,599	62,235	256
Europe Steel Distribution Center	6,775	991	5,784	13,354	322
VECTUS Ltd.	3,066	5,126	(2,060)	3,560	(1,530)
Zeus(Cayman)	-	-	-	-	-
POSCO VST Co., Ltd.	356,484	268,005	88,479	264,616	(10,669)
POSCO Maharashtra Steel Pvt. Ltd.	372,434	149,442	222,992	44	2,036
POSCO India Chennai Steel Processing	89,782	80,514	9,268	134,409	(3,232)
Centre Pvt. Ltd.					
POSCO Turkey Nilufer Processing	49,588	40,578	9,010	38,729	(3,971)
Center Co., Ltd.					
POSCO Vietnam Ha Noi Processing	47,931	40,500	7,431	55,239	902
Center Co., Ltd.					
POSCO (Liaoning) Automotive Processing	84,315	61,131	23,184	117,395	3,267
Center Co., Ltd.					
POSCO-Indonesia Jakarta Processing Center	62,550	55,069	7,481	64,597	216
POSCO E&C Venezuela C.A	138	-	138	-	-
PT. MRI	12,251	17,626	(5,375)	458	(3,854)
POSCORE-INDIA	10,917	8,446	2,471	15,186	(48)
POSCO America Alabama Processing Center	63,014	50,007	13,007	85,381	(858)
Co., Ltd.					
PT DEC Indonesia	4,577	4,752	(175)	13,962	(267)
POSCO (Yantai) Automotive Processing	40,586	24,355	16,231	32,301	172
Center Co., Ltd.					
POSCO India Steel Distribution Center Private Ltd.	5,224	2,204	3,020	786	(427)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(in millions of Won)

Company	Assets	Liabilities	Equity (deficit)	Sales	Net income (loss)
POSCO China Dalian Plate Processing Center Co., Ltd.	106,525	65,888	40,637	66,113	(165)
POSCO-South Asia Co., Ltd.	13,703	199	13,504	8,015	1,039
POSCO SS-VINA Co., LTD	74,438	409	74,029	-	(1,122)
POSCO-NCR Coal Ltd.	-	-	-	-	-
POSCO WA Pty. Ltd.	212,984	9	212,975	-	(33,142)
POSCO E&C - UZ	2,279	1,789	490	2,046	104
POSCO Australia GP Limited	97,196	5	97,191	-	(8)
Daewoo International America Corp.	283,653	241,259	42,394	984,378	5,372
Daewoo International Deutschland GmbH	115,256	105,288	9,968	482,585	314
Daewoo International Japan Corp.	245,086	236,533	8,553	804,864	981
Daewoo International Singapore Pte. Ltd.	43,647	38,982	4,665	902,315	481
Daewoo Italia S.r.l.	63,859	60,247	3,612	361,821	145
Daewoo Cement (Shandong) Co., Ltd.	221,807	291,000	(69,193)	133,502	20,361
Daewoo (China) Co., Ltd.	150,079	101,449	48,630	54,521	726
PT. RISMAR Daewoo Apparel	17,767	18,417	(650)	58,182	1,246
Daewoo Textile Fergana LLC	64,437	65,968	(1,531)	132,866	(11,994)
Daewoo Textile Bukhara LLC	51,939	49,630	2,309	51,312	(11,500)
Daewoo International Australia Holdings Pty. Ltd.	151,462	12,964	138,498	1,935	199
Daewoo Paper Manufacturing Co., Ltd.	76,855	72,385	4,470	76,632	(5,210)
Tianjin Daewoo. Paper Co., Ltd	14,589	33,029	(18,440)	-	-
POSCO Mauritius Ltd.	24,648	2,839	21,809	-	(22)
PT. KRAKATAU STEEL POSCO	819,899	44,918	774,981	-	(2,385)
MYANMAR Daewoo LTD.	6,030	41	5,989	1,373	152
Daewoo International MEXICO S.A. de C.V.	68,030	64,189	3,841	240,448	299
Daewoo International Guangzhou Corp.	7,666	7,473	193	61,554	(1,265)
Daewoo Energy Central Asia	15,571	322	15,249	-	-



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(in millions of Won)

Company	Assets	Liabilities	Equity (deficit)	Sales	Net income (loss)
Daewoo STC & Apparel Vietnam Ltd.	3,848	1,313	2,535	9,435	94
MYANMAR Daewoo International Ltd.	7,651	2,240	5,411	11,947	759
DAYTEK ELECTRONICS CORP.	-	-	-	-	-
Daewoo (M) SDN. BHD.	-	-	-	-	-
Daewoo CANADA LTD.	-	-	-	-	-
Daewoo EL SALVADOR S.A. DE C.V.	-	-	-	-	-
GEZIRA TANNERY CO., LTD.	-	-	-	-	-
POSCO (Zhangjiagang) Stainless Steel Processing Center Co., Ltd.	63,505	51,088	12,417	67,175	15
Daewoo International Corporation (M) SDN BHD	8,831	6,469	2,362	21,190	157
Daewoo International SHANGHAI CO., LTD.	63,694	52,656	11,038	91,541	1,286
PGSF, LLC	3,138	1	3,137	-	280
Xenesys Inc.	11,804	240	11,564	2,494	(3,865)
Daewoo International INDIA Private Ltd.	3,285	1,277	2,008	3,343	69
TECHREN Solar, LLC	5,184	-	5,184	-	(506)
PT. POSCO E&C Indonesia	37,495	34,094	3,401	46,665	2,114
Hume Coal Pty. Ltd.	24,316	2,499	21,817	-	(9)
Daewoo HANDELS GmbH	-	-	-	-	-
POSCO Foundation	213	3	210	-	3
EPC EQUITIES LLP	11,391	11,283	108	438	(2,743)
SANTOS CMI Construction Trading LLP	13,851	13,742	109	2,750	(1,323)
SANTOS CMI INC. USA	23,418	22,260	1,158	11,604	(155)
SANTOS CMI ENGENHARIA E CONSTRUÇOES LTDA	18,771	9,381	9,390	14,823	7,484
SANTOS CMI PERU S.A.	26,074	20,500	5,574	59,091	4,779
SANTOS CMI COSTA RICA S.A.	11,856	11,480	376	1,228	(1,794)
SANTOS CMI CONSTRUCCIONES S.A. (URUGUAY)	122	73	49	-	(9)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(in millions of Won)

Company	Assets	Liabilities	Equity (deficit)	Sales	Net income (loss)
GENTECH International INC.	1,595	1,166	429	1,800	728
EPC INVESTMENTS C.V.	115	18	97	-	(6)
INGENIERIA Y CONSTRUCCION HOLAND CO S.A.	115	2	113	-	(2)
ASESORIA Y SERVICIOS EPC S.A CHILE	468	285	183	635	88
SANTOS CMI S.A.	42,766	30,495	12,271	34,879	(5,430)
SANTOS CMI CONSTRUCCIONES DE CHILE S.A.	8,430	2,669	5,761	13,009	1,703
S&K -SANTOS CMI S.A. DE C.V. (MEXICO)	125	14	111	203	(208)
COMPANIA DE AUTOMATIZACION & CONTROL, GENESYS S.A.	10,982	8,392	2,590	14,588	923
VAUTIDAMERICAS S.A.	2,374	1,620	754	1,765	141
SANTOS CMI Constructions Argentina S.A.	82	46	36	-	1
POSCO E&C Brazil Ltd.	87,817	87,284	533	6,200	(465)
POSCO Electrical Steel Inida Private Limited	26,448	138	26,310	-	346
Daewoo International Cameroon PLC	1,233	-	1,233	-	-
POSCO ASSAN TST STEEL Industry	59,415	1,897	57,518	-	1,724
HONG KONG POSCO E&C (CHINA) Investment Co., Ltd.	171,127	174,814	(3,687)	-	(3,466)
POSCO Klappan Coal Ltd.	-	-	-	-	-
DAESAN (Cambodia) Co., Ltd.	30,145	35,652	(5,507)	-	(946)
Brazil Sao Paulo Steel Processing Center	26,987	-	26,987	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(in millions of Won)

Company	Assets	Liabilities	Equity (deficit)	Sales	Net income (loss)
Co., Ltd					
POSCO(Dalian) IT Center Development	152,725	1,271	151,454	-	(1,464)
Co., Ltd.					
PT.POSCO Resources Indonesia	4,048	92	3,956	-	(415)
PT. POSCO ICT Indonesia	3,480	2,661	819	-	(80)
PT. POSCO M-Tech Indonesia	2,865	149	2,716	3,329	61
PT. KRAKATAU POSCOPOWER	45,041	42,874	2,167	-	(134)
POSCO RUS LLC.	3,639	5	3,634	-	(273)
POSCO Thainox Co., Ltd.	500,214	164,464	335,750	401,257	(22,466)
Daewoo International Shanghai Waigaoqiao Co., Ltd.	13,804	13,256	548	22,354	343
PT. Bio Inti Agrindo	18,900	9,714	9,186	-	(1,486)
POSCO E&C Australia Pty Ltd.	381	624	(243)	-	(237)
POSCO-TISCO (Jilin) Processing Center Co., Ltd.	12,587	12	12,575	-	(375)
Hunchun POSCO Logistics Co., Ltd.	23,725	7	23,718	-	(229)
USA SRDC Corporation	311	-	311	-	-
Daewoo International Vietnam Co., Ltd.	4,613	-	4,613	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

3) December 31, 2012

(in millions of Won)

Company	Assets	Liabilities	Equity (deficit)	Sales	Net income (loss)
[Domestic]					
POSCO E&C Co., Ltd.	7,893,306	5,007,149	2,886,157	7,041,300	346,107
POSCO P&S Co., Ltd.	1,084,473	456,338	628,135	2,770,764	8,087
POSCO Coated & Color Steel Co., Ltd.	468,910	294,718	174,192	853,499	(47,444)
POSCO Plant Engineering Co., Ltd.	255,831	162,662	93,169	523,227	2,121
POSCO ICT Co., Ltd.	802,675	527,641	275,034	1,017,662	40,089
POSCO Research Institute	34,138	9,239	24,899	46,340	535
Seoung Gwang Co., Ltd.	83,439	33,998	49,441	12,667	685
POSCO Architects & Consultants Co., Ltd.	87,019	40,382	46,637	160,667	(6,227)
POSCO Specialty Steel Co., Ltd.	1,496,939	484,585	1,012,354	1,405,667	69,091
POSTECH Venture Capital Corp.	107,796	501	107,295	6,475	1,438
eNtoB Co., Ltd.	103,000	71,712	31,288	607,230	1,839
POSCO Chemtec Company Ltd.	533,402	134,298	399,104	1,292,356	78,554
POSCO Terminal Co., Ltd.	120,483	14,806	105,677	111,275	25,796
POSCO M-TECH Co., Ltd.	340,877	169,150	171,727	618,316	14,737
POSCO ENERGY Co., Ltd.	3,315,742	2,374,622	941,120	2,805,208	177,796
Postech 2006 Energy Fund	26,000	950	25,050	6,141	385
POSCO TMC Co., Ltd.	253,987	163,175	90,812	268,574	152
PNR Co., Ltd.	149,117	104,272	44,845	72,607	13,380
Megaasset Co., Ltd.	112,729	64,252	48,477	14,274	1,402
POSCO Engineering Company	562,645	383,154	179,491	881,279	1,141
Pohang SPFC Co., Ltd.	29,514	22,941	6,573	75,513	816
POSWITH Co., Ltd.	5,140	2,366	2,774	14,873	105
POSCO AST Co., Ltd.	453,410	298,192	155,218	372,185	4,564
POS-HIMETAL Co., Ltd.	341,640	321,197	20,443	155,274	(19,369)
POSCO E&E Co., Ltd.	22,787	52	22,735	-	407
POSFINE Co., Ltd.	58,480	46,640	11,840	19,651	(2,304)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(in millions of Won)

Company	Assets	Liabilities	Equity (deficit)	Sales	Net income (loss)
POS ECO HOUSING Co., Ltd.	8,274	1,822	6,452	14,513	108
Mapo high broad parking Co., Ltd.	1,561	281	1,280	-	(285)
Dakos Co., Ltd.	670	191	479	245	16
Kwang Yang SPFC Co., Ltd.	85,814	76,909	8,905	39,472	(6,539)
POSCALCIUM Company, Ltd.	7,637	6,528	1,109	155	(1,790)
Plant Engineering service Technology Co., Ltd.	3,620	1,316	2,304	8,332	477
9Digit Co., Ltd.	27,458	22,798	4,660	289,912	(431)
Postech Early Stage Fund	9,869	-	9,869	163	(100)
Busan E&E Co., Ltd.	79,054	37,470	41,584	67,419	(745)
POSCO Family Strategy Funds	66,390	-	66,390	1,368	362
POREKA Co., Ltd.	16,785	12,967	3,818	40,560	1,389
Daewoo International Corporation	6,989,140	4,866,242	2,122,898	17,011,373	306,041
POSCOLED Co., Ltd.	37,735	23,523	14,212	41,278	(8,205)
Gunsan SPFC Co., Ltd.	61,683	41,606	20,077	70,443	(692)
Pohang Scrap Recycling Center Co., Ltd.	19,435	3,207	16,228	5,657	1,270
PSC energy global Co., Ltd.	61,168	-	61,168	-	(3,060)
Suncheon Ecotrans Co., Ltd.	49,496	27,118	22,378	-	(251)
Reco Metal Co., Ltd.	32,959	35,547	(2,588)	42,482	(4,736)
NewAltec Co., Ltd.	126,527	28,488	98,039	95,474	1,376
PONUTech Co., Ltd.	133,854	97,105	36,749	53,662	(5,825)
BLUE O&M Co., Ltd	900	21	879	232	(110)
Tamra Offshore Wind Power Co., Ltd.	20,074	2	20,072	-	(56)
POS-HIAL	47,314	32,852	14,462	-	(1,158)
MCM Korea	50	-	50	-	-



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(in millions of Won)

Company	Assets	Liabilities	Equity (deficit)	Sales	Net income (loss)
Tancheon E&E	5,606	17	5,589	-	(165)
[Foreign]					
POSCO America Corporation	510,392	333,246	177,146	803,368	(1,338)
POSCO Australia Pty. Ltd.	1,195,398	477,894	717,504	118,874	23,634
POSCO Canada Ltd.	555,972	47,925	508,047	205,885	62,584
POSCO Asia Co., Ltd.	586,971	550,913	36,058	2,616,390	2,148
Dalian POSCO Steel Co., Ltd.	29,078	47,280	(18,202)	18,615	(9,958)
POSCO-CTPC Co., Ltd.	82,206	50,391	31,815	132,510	1,481
POSCO-JKPC Co., Ltd.	79,788	61,793	17,995	115,531	3,108
International Business Center Corporation	81,465	46,210	35,255	25,340	10,987
POSCO E&C Vietnam Co., Ltd.	127,161	102,831	24,330	187,325	14,331
Zhangjiagang Pohang Stainless Steel Co., Ltd.	1,340,336	867,576	472,760	2,786,474	(79,016)
Guangdong Pohang Coated Steel Co., Ltd.	141,727	102,418	39,309	221,738	(20,980)
POSCO (Thailand) Company Ltd.	155,836	110,059	45,777	255,611	5,611
Myanmar POSCO Steel Co., Ltd.	23,699	7,810	15,889	19,484	2,569
POSCO-JOPC Co., Ltd.	78,402	73,817	4,585	114,432	647
POSCO Investment Co., Ltd.	718,078	621,268	96,810	13,461	6,000
POSCO-MKPC SDN BHD.	159,191	111,749	47,442	232,088	107
Qingdao Pohang Stainless Steel Co., Ltd.	206,941	117,753	89,188	514,354	(17,445)
POSCO (Suzhou) Automotive Processing Center Co., Ltd.	284,046	195,684	88,362	407,513	8,425
POSCO BioVentures L.P.	7,571	-	7,571	-	(1,301)
PT. POSNESIA	14,978	1,926	13,052	-	(55)
POSCO E&C - Hawaii Inc.	350	2	348	-	(35)
POS-Qingdao Coil Center Co., Ltd.	47,351	33,119	14,232	111,017	(623)
POS-Ore Pty. Ltd.	59,784	11,043	48,741	163,407	75,389
POSCO-China Holding Corp.	438,538	184,127	254,411	138,067	3,055
POSCO-Japan Co., Ltd.	852,406	735,583	116,823	1,659,045	16,218

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(in millions of Won)

Company	Assets	Liabilities	Equity (deficit)	Sales	Net income (loss)
POS-CD Pty. Ltd.	68,681	17,931	50,750	12,869	(9,603)
POS-GC Pty. Ltd.	83,998	49,598	34,400	20,160	(10,905)
POSCO-India Private Ltd.	131,409	306	131,103	-	(768)
POSCO-India Pune Steel Processing Centre Pvt. Ltd.	179,112	164,386	14,726	252,296	(6,061)
POSCO-JEPC Co., Ltd. (formerly, POSCO-JNPC Co., Ltd.)	221,086	200,769	20,317	351,377	4,769
POSCO-Foshan Steel Processing Center Co.,Ltd.	218,881	177,426	41,455	515,773	727
POSCO E&C (China) Co., Ltd.	145,448	101,733	43,715	169,956	8,459
POSCO MPC S.A. de C.V.	204,770	178,108	26,662	359,768	(7,137)
Zhangjiagang Pohang Port Co., Ltd.	23,889	9,070	14,819	6,542	255
Qingdao Pujin Steel Material Co., Ltd	10,429	9,628	801	59,165	(1,313)
POSCO-Vietnam Co., Ltd.	572,453	539,426	33,027	805,214	(46,619)
POSCO-Mexico Co., Ltd.	772,518	538,907	233,611	430,986	(12,354)
POSCO-India Delhi Steel Processing Centre Pvt. Ltd	100,153	81,218	18,935	142,038	977
POSCO-Poland Wroclaw Steel Processing Center Co., Ltd	56,394	37,399	18,995	97,381	5,875
POS-NP Pty. Ltd.	62,868	26,259	36,609	28,872	(4,363)
POSCO-Vietnam Processing Center Co., Ltd.	64,551	39,418	25,133	137,641	58
POSCO (Chongqing) Automotive Processing Center Co, Ltd.	63,038	54,523	8,515	93,615	(729)
Suzhou POS-CORE Technology Co., Ltd.	52,746	29,180	23,566	83,910	(1,055)
POSCO-Malaysia SDN. BHD.	74,431	96,028	(21,597)	153,122	1,529

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(in millions of Won)

Company	Assets	Liabilities	Equity (deficit)	Sales	Net income (loss)
POS-Minerals Corporation	213,365	108,246	105,119	-	(496)
POSCO (Wuhu) Automotive Processing Center Co., Ltd.	62,067	39,958	22,109	86,998	(363)
POSCO E&C India Private Ltd.	33,536	26,578	6,958	56,037	2,990
POSCO E&C SMART	12,607	10,693	1,914	41,717	1,326
POSCO-Philippine Manila Processing Center Inc.	23,737	14,091	9,646	35,897	673
POS-GSFC LLC	41,150	33,676	7,474	24,891	(3,297)
Dalian POSCON Dongbang Automatic Co., Ltd.	6,358	1,418	4,940	5,109	270
SANPU TRADING CO.,LTD.	1,753	2	1,751	86	21
Zhangjiagang BLZ Pohang International Trading Co., Ltd.	9,150	4,408	4,742	61,529	192
POSCO Mexico Human Tech.	693	708	(15)	6,777	(148)
POSCO Mexico East Steel Distribution Center Co., Ltd	12,860	717	12,143	5,654	287
POSCO ICT-China	1,922	1,286	636	6,528	227
DWEMEX S.A.DE C.V.	211	19	192	-	29
POS MPC Servicios de C.V.	925	697	228	6,077	62
POSCO-URUGUAY S.A.	24,835	226	24,609	3	(1,842)
POSCO South East Asia Pte. Ltd.	9,571	7,126	2,445	90,158	556
Europe Steel Distribution Center	7,270	1,460	5,810	13,054	399
VECTUS Ltd.	2,859	12,164	(9,305)	3,365	(7,325)
POSCO VST Co., Ltd.	405,882	353,058	52,824	348,339	(30,977)
POSCO Maharashtra Steel Pvt. Ltd.	942,982	754,791	188,191	97,948	(41,512)
POSCO India Chennai Steel Processing Centre Pvt. Ltd.	129,030	119,375	9,655	187,797	1,453
POSCO Turkey Nilufer Processing Center Co., Ltd.	51,139	40,429	10,710	53,246	1,841
POSCO Vietnam Ha Noi Processing Center Co., Ltd.	46,382	40,764	5,618	72,321	(1,232)
POSCO (Liaoning) Automotive Processing Center Co., Ltd.	71,502	48,643	22,859	114,046	1,143
POSCO-Indonesia Jakarta Processing Center	79,711	57,569	22,142	76,506	(1,402)
POSCO E&C Venezuela C.A	128	-	128	-	-
PT. MRI	8,148	15,508	(7,360)	1,109	(1,603)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(in millions of Won)

Company	Assets	Liabilities	Equity (deficit)	Sales	Net income (loss)
POSCORE-INDIA	9,004	6,823	2,181	17,192	(45)
POSCO America Alabama Processing Center Co., Ltd.	49,178	37,475	11,703	109,454	(397)
PT DEC Indonesia	6,960	6,936	24	15,296	(101)
POSCO (Yantai) Automotive Processing Center Co.,Ltd.	35,773	20,063	15,710	57,464	442
POSCO India Steel Distribution Center Private Ltd.	4,759	2,698	2,061	57	(72)
POSCO China Dalian Plate Processing Center Co., Ltd.	86,264	55,531	30,733	37,501	(7,020)
POSCO-South Asia Co., Ltd.	13,212	183	13,029	8,354	72
POSCO SS-VINA Co., LTD	156,811	4,050	152,761	-	(2,602)
POSCO WA Pty. Ltd.	235,224	51	235,173	-	(39,181)
POSCO E&C - UZ	8,589	7,968	621	1,076	334
POSCO Australia GP Limited	62,768	4	62,764	-	(67,392)
Daewoo International America Corp.	332,620	288,716	43,904	1,040,183	4,767
Daewoo International Deutschland GmbH	104,259	94,087	10,172	324,061	739
Daewoo International Japan Corp.	236,056	228,631	7,425	749,714	273
Daewoo International Singapore Pte. Ltd.	80,294	75,966	4,328	708,613	13

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(in millions of Won)

Company	Assets	Liabilities	Equity (deficit)	Sales	Net income (loss)
Daewoo Italia S.r.l.	103,710	99,911	3,799	262,784	383
Daewoo (China) Co., Ltd.	56,225	9,614	46,611	118,971	683
Daewoo Textile Fergana LLC	86,781	65,730	21,051	127,432	9,214
Daewoo Textile Bukhara LLC	54,780	40,581	14,199	44,382	2,615
Daewoo International Australia Holdings Pty. Ltd.	154,829	26,482	128,347	7,539	(3,464)
Daewoo Paper Manufacturing Co., Ltd.	70,572	70,339	233	69,880	(4,132)
Tianjin Daewoo. Paper Co., Ltd	13,739	31,105	(17,366)	-	-
POSCO Mauritius Ltd.	23,316	2	23,314	-	(15)
PT. KRAKATAU STEEL POSCO	1,912,134	969,415	942,719	-	(29,063)
MYANMAR Daewoo LTD.	5,671	3	5,668	1,305	473
Daewoo International MEXICO S.A. de C.V.	80,432	75,226	5,206	262,230	1,412
Daewoo International Guangzhou Corp.	18,292	14,120	4,172	66,808	(4,854)
Daewoo STC & Apparel Vietnam Ltd.	1,736	89	1,647	1,856	96
POSCO (Zhangjiagang) Stainless					
Steel Processing Center Co., Ltd.	114,433	102,240	12,193	265,850	519
Daewoo International Corporation (M) SDN BHD	9,145	6,689	2,456	37,244	213
Daewoo International SHANGHAI CO., LTD.	38,374	30,621	7,753	63,039	(2,746)
PGSF, LLC	5,669	2	5,667	-	731
Xenesys Inc.	10,162	1,404	8,758	4,302	(1,083)
Daewoo International INDIA Private Ltd.	2,279	272	2,007	2,382	223
TECHREN Solar, LLC	6,015	-	6,015	-	(2,486)
PT. POSCO E&C Indonesia	100,543	78,852	21,691	247,331	20,302
Hume Coal Pty. Ltd.	36,681	1,194	35,487	48	(210)
POSCO Foundation	187	2	185	-	(4)
EPC EQUITIES LLP	36,602	36,636	(34)	-	(141)
SANTOS CMI Construction Trading LLP	39,148	30,527	8,621	15,299	8,963
SANTOS CMI INC. USA	43,496	47,350	(3,854)	60,152	(5,013)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(in millions of Won)

Company	Assets	Liabilities	Equity (deficit)	Sales	Net income (loss)
SANTOS CMI ENGENHARIA E CONSTRUÇOES LTDA	9,338	17,629	(8,291)	20,029	(17,431)
SANTOS CMI PERU S.A.	19,937	39,932	(19,995)	69,415	(26,391)
SANTOS CMI COSTA RICA S.A.	10,720	10,469	251	-	(99)
SANTOS CMI CONSTRUCCIONES S.A. (URUGUAY)	18	7	11	-	(25)
GENTECH International INC.	1,972	1,568	404	1,008	227
EPC INVESTMENTS C.V.	107	24	83	-	(8)
INGENIERIA Y CONSTRUCCION HOLAND CO S.A.	103	4	99	-	(6)
ASESORIA Y SERVICIOS EPC S.A CHILE	891	468	423	1,691	250
SANTOS CMI S.A.	58,219	44,584	13,635	46,738	1,737
SANTOS CMI CONSTRUCCIONES DE CHILE S.A.	9,533	3,608	5,925	1,608	178
S&K -SANTOS CMI S.A. DE C.V. (MEXICO)	84	149	(65)	335	(158)
COMPANIA DE AUTOMATIZACION & CONTROL, GENESYS S.A.	8,648	6,018	2,630	16,926	465
VAUTIDAMERICAS S.A.	4,866	2,217	2,649	1,445	(451)
SANTOS CMI Constructions Argentina S.A.	58	24	34	-	4
POSCO E&C Brazil Ltd.	343,882	322,576	21,306	59,862	11,470
POSCO Electrical Steel India Private Limited	132,529	94,046	38,483	-	(1,343)
Daewoo International Cameroon PLC	2,064	25	2,039	-	-
POSCO ASSAN TST STEEL Industry	377,066	230,778	146,288	-	1,072
HONG KONG POSCO E&C (CHINA) Investment Co., Ltd.	147,685	172,085	(24,400)	-	(21,103)
DAESAN (Cambodia) Co., Ltd.	27,979	33,111	(5,132)	-	(18)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(in millions of Won)

Company	Assets	Liabilities	Equity (deficit)	Sales	Net income (loss)
Brazil Sao Paulo Steel Processing Center Co., Ltd	39,794	23,210	16,584	4,863	(1,634)
POSCO(Dalian) IT Center Development Co., Ltd.	176,026	37,908	138,118	-	(4,691)
PT.POSCO Resources Indonesia	2,448	48	2,400	-	(1,147)
PT. POSCO ICT Indonesia	3,624	3,185	439	4,335	(324)
PT. POSCO M-Tech Indonesia	11,577	6,620	4,957	9,631	(34)
PT. KRAKATAU POSCOPOWER	143,452	55,475	87,977	-	(949)
POSCO RUS LLC.	12,384	8,324	4,060	4,260	505
POSCO Thainox Co., Ltd.	473,048	153,836	319,212	502,041	(5,532)
Daewoo International Shanghai Waigaoqiao Co., Ltd.	11,003	10,241	762	161,675	255
PT. Bio Inti Agrindo	35,514	21,447	14,067	404	828
POSCO E&C Australia Pty Ltd.	35,552	34,986	566	52,143	836
POSCO-TISCO (Jilin) Processing Center Co., Ltd.	26,258	9,203	17,055	1,497	(514)
Hunchun POSCO Logistics Co., Ltd.	46,923	8	46,915	-	(829)
USA SRDC Corporation	311	21	290	-	-
Daewoo International Vietnam Co., Ltd.	4,453	149	4,304	2,096	14
PT. Krakatau POSCO Chemtech Calcination	23,217	1,279	21,938	-	(722)
Posco Africa	3,580	112	3,468	-	(1,509)
E.P.C INGENIERIA & SERVICIOS DE COSTA RICA S.A	1,497	1,553	(56)	1,973	(73)
POSCO ICT BRASIL PARTICIPACOES LTDA	1,983	1,471	512	-	(336)
LA-SCRAP RECYCLING DISTRIBUTION	1,274	758	516	5,128	62
Posco Center Beijing	267,838	97,208	170,630	-	(1,233)
POSCO AMERICA COMERCIALIZADORA S	177	175	2	168	2
POSCO AMERICA PRODUCTOS, OFERTAS, SISTEMAS Y COMERCIALIZADORA ORIENTAL S DE RL DE C.V.	309	649	(340)	339	(408)
Guangdong Pohang Car Steel Co., Ltd.	351,910	203,033	148,877	1,061	(9,197)
POSCO Mexico Aguascalientes Processing Center Co., Ltd.	6,427	-	6,427	-	-
SANTOS CMI Construction Trading LLP	39,148	30,527	8,621	15,299	8,963
SANTOS CMI INC. USA	43,496	47,350	(3,854)	60,152	(5,013)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

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

Company	Date of acquisition	Ownership (%)	Reason
Tamra Offshore Wind Power Co., Ltd.	January 2012	64	new acquisitions
PT. Krakatau POSCO Chemtech Calcination	Jan-12	80	new establishment
POS-HIAL Co., Ltd	Jan-12	65.3	new establishment
POSCO-Africa	February 2012	100	new establishment
E.P.C. INGENIERIA & SERVICIOS DE COSTA RICA S. A.	May-12	100	new establishment
POSCO ICT BRASIL PARTICIPACOES LTDA	May-12	100	new establishment
LA-SCRAP RECYCLING DISTRIBUTION CENTER, LLC.	May-12	68.41	new establishment
MCM Korea Co., Ltd.	Jul-12	100	new acquisitions
Tancheon E&E Co., Ltd.	Jul-12	100	new establishment
EEC, GmbH	Aug-12	100	new establishment
Posco Center Beijing	Aug-12	99	new establishment
POSCO AMERICA COMERCIALIZADORA S DE RL DE C.V.	Aug-12	100	new acquisitions
POSCO AMERICA PRODUCTOS, OFERTAS, SISTEMAS Y COMERCIALIZADORA ORIENTAL S DE RL DE C.V.	Aug-12	100	new acquisitions
Guangdong Pohang Car Steel Co., Ltd.	Oct-12	93.64	spin off from subsidiary
POSCO Mexico Aguascalientes Processing Center Co., Ltd.	December 2012	100	new establishment
POS-GSFC LLC	Dec-12	81.93	new acquisitions

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

(in millions of Won)

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

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

(in millions of Won)

Company	Date of disposal	Reason
POSCO-JYPC Co., Ltd.	January 2012	Statutory merger by POSCO-JEPC CO., Ltd.
DaiMyung TMS Co., Ltd.	Mar-12	Statutory merger by POSCO-AST CO., Ltd.
MYANMAR DAEWOO INT'L LTD.	Apr-12	Disposal
PT. RISMAR DAEWOO APPAREL	Apr-12	Disposal
Daewoo Cement (Shandong) Co., Ltd.	Jun-12	Disposal
POMIC Co., Ltd.	Jul-12	Statutory merger by POSCO Research Institute
DAEWOO ENERGY CENTRAL ASIA	Jul-12	Exclusion by corporate liquidation
BASYS INDUSTRY CO., LTD.	Aug-12	Disposal
DAYTEK ELECTRONICS CORP	Aug-12	Exclusion by corporate liquidation
PHP Co., Ltd.	Nov-12	Statutory merger by Mega-Asset
Pohang Fuel Cell Power Corp.	Nov-12	Statutory merger by POSCO ENERGY Co., Ltd.
POSGREEN Company, Ltd	Nov-12	Disposal
Shinan Energy Co., Ltd.	November 2012	Statutory merger by POSCO ENERGY Co., Ltd.
EEC, GmbH	Nov-12	Exclusion by corporate liquidation
POSTECH BD Newundertaking Fund	Dec-12	Exclusion by corporate liquidation
POSBRO COMPANY LTD.	Dec-12	Disposal
Songdose co., ltd	Dec-12	Disposal
POSCONST.CO.,LTD	Dec-12	Statutory merger by POSCO-AST CO., Ltd.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(g) Details of associates

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

		Ownership (%)		
Investee	Category of business	2011	2012	Region
[Domestic]				
MIDAS Information Technology Co., Ltd. (*8)	Engineering	25.46	-	Seoul
Metapolis Co., Ltd.	Multiplex development	40.05	40.05	Hwaseong
Songdo New City Development Inc.	Real estate	29.9	29.9	Seoul
POSMATE Co., Ltd.	Services	30	45.15	Seoul
Gail International Korea Ltd.	Real estate	29.9	29.9	Seoul
SNNC Co., Ltd.	Raw material manufacturing and sale	49	49	Gwangyang
CHUNGJU ENTERPRISE CITY _	Real estate	25.1	25.1	Chungju
Taegisan Wind Power Corporation	Wind power plant construction and management	50	50	Hoengseong
KOREASOLARPARK Co., Ltd. (*8)	Solar power plant construction and management	37.5	-	Youngam
Garolim Tidal Power Plant Co., Ltd.	Generation of electricity	32.13	32.13	Seosan
Cheongna IBT Co., Ltd. (*4)	Multiplex development	18.58	-	Incheon
PSIB Co., Ltd.	Non-resident building lease	49	49	Seoul
Universal Studios Resort Development Co., Ltd. (*3)	Construction	22.1	-	Hwaseong
Universal Studios Resort Asset Management Corp.	Real estate services	26.16	26.16	Seoul
Daewoo national car Gwangju selling Co., Ltd.	Real estate	50	50	Gwangju
Uitrans Co., Ltd.	Transporting	38.19	41.89	Seoul
Suwon Green Environment Co., Ltd.	Construction	27.5	27.5	Hwaseong
Pajoo & Viro Co., Ltd.	Construction	40	40	Paju
Green Gimpo Co., Ltd.	Construction	31.84	31.84	Gimpo
Busan-Gimhae Light Rail Transit Co., Ltd.	Transporting	25	25	Gimhae
Incheon-Gimpo Highway Co., Ltd.	Construction	25.82	29.94	Anyang
Green Jangryang Co., Ltd.	Sewerage treatment	25	25	Pohang
Green Tongyeong Enviro Co., Ltd.	Sewerage treatment	20.4	20.4	Tongyoung

(*3)

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

(*4)

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

(*8)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(*1)

These associates were newly established during the year ended December 31, 2012.

(*3)

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

(*5)

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

(*10)

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

Investee	Category of business	Ownership (%)		Region
		2011	2012	
Green Jangryang Co., Ltd.	Sewerage treatment	25	25	Pohang
Green Tongyeong Enviro Co., Ltd.	Sewerage treatment	20.4	20.4	Tongyoung
POSPLATE Co., Ltd. (*3)	Services	48.95	-	Gwangyang
Pure Gimpo Co., Ltd.	Construction	28.79	28.79	Seoul
Kyobo Life Insurance Co., Ltd. (*6)	Life insurance	24	-	Seoul
POSGREEN Company, Ltd. (*9)	Plastic manufacturing	60	19	Gwangyang
Dongbang Special Steel Co., Ltd. (*3)	Steel processing and sales	35.82	-	Pohang
Pure Iksan Co., Ltd.	Construction	23.5	23.5	Pohang
Gyeonggi CES Co., Ltd.	Facility construction	21.84	21.84	Yangju
Innovalee Co., Ltd.	Real estate development	28.77	28.77	Yongin
Applied Science Corp.	Machinery manufacturing	29.3	28.27	Paju
SENTECH KOREA Corp. (*3)	Manufacturing	20.25	-	Paju
AROMA POSTECH RENEWABLE ENERGY Co., Ltd.	Other science research	28.57	28.57	Seoul
Hyundai Investment Network Private Equity Fund	Mine investment	50	50	Seoul
Pohang Techno Valley PFV Corporation	Real estate development	28.65	29.9	Pohang
BLUE OCEAN Private Equity Fund	Private equity financial	27.52	27.52	Seoul
SUNAM Co., Ltd.	Power supply manufacturing	23.91	23.91	Seoul
Kones Corporation	Technical service	41.67	41.67	Gyeongju
DAEHO G.M (*5)	Investment advisory service	-	35.82	Pohang
Mokpo Deayang Industrial Corporation (*1)	Real estate development	-	29.9	Mokpo
POSCO ES MATERIALS CO., LTD. (*1)	Secondary battery manufacturing	-	50	Gumi
Gyeonggi Fuel Cell Power Plant Co., Ltd. (*1)	Electricity generation	-	25.5	Hwaseong
Pohang Special Welding Co., Ltd. (*1)	Welding material and tools manufacturing and sales	-	50	Pohang
Poscochemtech Mitsubishi Carbon Tech (*10)	Steel processing and sales	-	60	Gwangyang



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

		Ownership (%)		
Investee	Category of business	2011	2012	Region
[Foreign]				
VSC POSCO Steel Corporation	Steel manufacturing and Sale	50	50	Vietnam
KOBRASCO	Facility lease	50	50	Brazil
USS-POSCO Industries	Material manufacturing and sale	50	50	USA
Poschrome Pty. Ltd.	Raw material manufacturing and sale	50	50	Republic of South Africa
POS-Hyundai Steel Manufacturing India Private Ltd.	Steel processing and sale	29.5	29.5	India
POSVINA Co., Ltd.	Plating steel sheet manufacturing	50	50	Vietnam
PT. POSMI Steel Indonesia	Steel processing and sale	36.69	36.69	Indonesia
CAML Resources Pty. Ltd.	Raw material manufacturing and sale	33.34	33.34	Australia
Nickel Mining Company SAS	Raw material manufacturing and sale	49	49	New Caledonia
Liaoning Rongyuan Posco Refractories Co., Ltd.	Manufacturing and sale	35	35	China
POSK (PingHu)Processing Center Co.,Ltd	Steel processing and sale	20	20	China
AN KHANH NEW CITY DEVELOPMENT	Highway construction and new town development	50	50	Vietnam
Henan Tsingpu Ferro Alloy Co., Ltd.	Raw material manufacturing and sale	49	49	China
United Spiral Pipe, LLC	Material manufacturing and sale	35	35	USA
Zhongyue POSCO(Qinhuangdau) Tinplate Industrial Co., Ltd.	Plating sheet manufacturing	34	34	China
BX STEEL POSCO Cold RolledSheet Co., Ltd.	Steel processing and sale	25	25	China
POSCO-SAMSUNG-Slovakia Processing Center	Steel processing and sale	30	30	Slovakia
Eureka Moly LLC	Raw material manufacturing and sale	20	20	USA
POSCO SAMSUNG Suzhou Steel Processing Center Co., Ltd.	Steel processing and sale	30	30	China
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	Steel processing and sale	25	25	China
Yingkou Posrec Refractories Co., Ltd.	Refractory manufacturing	25	25	China
Zhangjiagang Pohang Refractories Co., Ltd.	Refractory manufacturing	50	50	China
Daewoo Engineering (THAILAND) Co., Ltd.	Development and contract	48.9	48.9	Thailand
Sebang Steel	Scrap sale	49	49	Japan
NCR LLC	Coal sale	20	29.4	Canada

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(*2)

The Company is able to exercise significant influence even though the Company's percentage of ownership is below 20%.

Investee	Category of business	Ownership (%)		Region
		2011	2012	
167.351px	Iron ore sale & mine development	49	49	Australia
POSCO YongXin Rare Earth Metal Co., Ltd.	Energy & resource development	31	31	China
Shanghai Lansheng Daewoo Coporation	Trading	49	49	China
Shanghai Waigaogiao Free Trade Zone Lansheng Daewoo Int'l Trading Co., Ltd.	Trading	49	49	China
Hanjung Power Pty. Ltd	Electric power manufacturing and sale	49	49	Papua New Guinea
Myanmar Korea Timber International Ltd.	Plating sheet manufacturing	45	45	Myanmar
General Medicines Company Ltd.	Medicine manufacturing and sale	33	33	Sudan
KOREA LNG Ltd.	Gas production and sale	20	20	England
DMSA, AMSA (*2)	Energy & resource development	4	4	Madagascar
KG Power(M) SDN. BHD	Energy & resource development	20	20	Malaysia
Daewoo (THAILAND) CO., LTD.	Trading	49	49	Thailand
N.I.CO., LTD.	Trading	50	50	North Korea
South-East Asia Gas Pipeline Company Ltd.	Pipeline construction	25.04	25.04	Myanmar
GLOBAL KOMSCO Daewoo LLC	Mintage	35	35	Uzbekistan
POSUK TITANIUM B.V	Steel manufacturing	50	-	Netherland
POSCO-NPS Niobium LLC	Mine development	50	50	USA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

Investee	Category of business	Ownership (%)		Region
		2011	2012	
POSCO-POGEN AMP	Steel manufacturing	26	26	India
Klappan Coal Joint Venture	Coal sale	20	20	Canada
AES-VCM Mong Duong Power Company Ltd.	Coal sale	30	30	Vietnam
CSP	Steel manufacturing and sale	20	20	Brazil
PT.INDONESIA POS CHOSUN Ref	Refractory manufacturing and sale	30	30	Indonesia
NS-Thainox Auto Co., Ltd.	Steel manufacturing and sale	49	49	Vietnam
Korea-Siberia Wood	Forest resources development	50	50	Russia
PT. Tanggamus Electric Power	Construction and engineering service	20	20	Indonesia
PT. Wampu Electric Power	Construction and engineering service	20	20	Indonesia
Boulder Solar Power, LLC (*1)	Electric power manufacturing	-	25	USA
POSUK Titanium (*1)	Titanium manufacturing and sale	-	50	Kazakhstan
Roy Hill Holdings Pty Ltd. (*2)	Energy & resource development	-	12.5	Australia
Li3 Energy Inc. (*7)	Energy & resource development	-	26.06	Peru
Fifth Combined Heat and Power Plant LLC (*1)	Thermal power generation	-	30	Mongolia
IMFA ALLOYS FINLEASE LTD (*7)	Raw material manufacturing and sale	-	24	India

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

2. Statement of Compliance

Statement of compliance

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

Basis of measurement

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

- (a) Derivatives instruments are measured at fair value
- (b) Financial instruments at fair value through profit or loss (FVTPL) are measured at fair value
- (c) Available-for-sale financial assets are measured at fair value
- (d) Defined benefit liabilities are measured at the present value of the defined benefit obligation less the fair value of the plan assets

Functional and presentation currency

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

Use of estimates and judgements

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

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

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

- Note 7 - Other financial assets
- Note 11 - Investment property, net
- Note 12 - Property, plant and equipment, net
- Note 13 - Goodwill and other intangible assets

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

Changes in accounting policies

- (a) Financial Instruments: Disclosures

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

Approval of financial statements

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

3. Summary of Significant Accounting Policies

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

Basis of consolidation

(a) Subsidiaries

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

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

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

(b) Non-controlling interests

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

(c) Changes in ownership interests in subsidiaries

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

Associates and jointly controlled entities

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

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

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

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

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

Business combinations

(a) Business combinations

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

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

- Leases and insurance contracts are required to be classified on the basis of their contractual terms and other factors.
- Only those contingent liabilities assumed in a business combination that are a present obligation and can be measured reliably are recognized.
- Deferred tax assets or liabilities are recognized and measured in accordance with IAS No. 12 "Income Taxes".
- Employee benefit arrangements are recognized and measured in accordance with IAS No. 19 "Employee Benefits".
- Indemnification assets are recognized and measured on the same basis as the indemnified liability or asset.
- Reacquired rights are measured on the basis of the remaining contractual terms of the related contract.
- Liabilities or equity instruments related to share-based payment transactions are measured in accordance with IFRS No. 2 "Share-based Payment".
- Assets held for sale are measured at fair value less costs to sell in accordance with IFRS No. 5 "Non-current Assets Held for Sale".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

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

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

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

(b) Goodwill

The Company measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

Foreign currency transactions and translation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

Foreign operations

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

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

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

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

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

Cash and cash equivalents

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

Non-derivative financial assets

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

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

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

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

(b) Held-to-maturity financial assets

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

(c) Loans and receivables

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(d) Available-for-sale financial assets

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

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

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

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

(f) Offsetting a financial asset and a financial liability

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

Inventories

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

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

Investment property

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

Property, plant and equipment

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

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

- (a) it is probable that future economic benefits associated with the item will flow to the Company; and
- (b) the cost can be measured reliably.

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

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

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

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

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

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

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

Borrowing costs

The Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

Intangible assets

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

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

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

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

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

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

Exploration for and evaluation of mineral resources

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

(a) Exploration and evaluation assets

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

(b) Development assets

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

Government grants

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

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

Leases

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

(a) Finance leases

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

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

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the Company adopts for similar depreciable assets that are owned. If there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

(b) Operating leases

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

(c) Determining whether an arrangement contains a lease

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

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

Impairment for financial assets

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

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

- (a) significant financial difficulty of the issuer or obligor;
- (b) a breach of contract, such as a default or delinquency in interest or principal payments;
- (c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- (d) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- (e) the disappearance of an active market for that financial asset because of financial difficulties; or
- (f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

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

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

(a) Financial assets carried at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Company can recognize impairment losses directly or establish a provision to cover impairment losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

(b) Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

(c) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be

objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

Impairments for non-financial assets

The carrying amounts of the Company's non-financial assets, other than assets arising from construction contracts, employee benefits, inventories, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

Management estimates the recoverable amount of an individual asset. If it is impossible to measure the individual recoverable amount of an asset, then management estimates the recoverable amount of a cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value-in-use and its fair value less costs to sell. The Company determined that individual operating entities are CGUs.

The recoverable amount of an asset or CGU is the greater of its value-in-use and its fair value less costs to sell. The value-in-use is estimated by applying a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Non-current assets held for sale

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

The Company recognizes an impairment loss for any initial or subsequent write-down of disposal group to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with IAS No. 36 "Impairment of Assets".

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

Derivative financial instruments and hedges

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss.

(a) Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria have been met: (a) the economic characteristics and risks of the host contract and the embedded derivatives are not clearly and closely related to a separate instrument with the same terms as the embedded derivative that would meet the definition of a derivative, and (b) the hybrid (combined) instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives from the host contract are recognized immediately in profit or loss. However, convertible rights of convertible bonds are not separated from the host contract and the compound financial instruments of bonds and convertible rights are designated and measured at fair value through profit and loss.

(b) Other derivatives

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

Non-derivative financial liabilities

The Company classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Company recognizes financial liabilities in the consolidated statement of financial position when the Company becomes a party to the contractual provisions of the financial liability.

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

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

(b) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Financial guarantee liabilities are initially measured at their fair values and, if not designated as financial liabilities at fair value through profit or loss, they are subsequently measured at the higher of:

- the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and
- the amount initially recognized less, cumulative amortization recognized on a straight-line basis over the guarantee period

At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Company derecognizes a financial liability from the consolidated statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

Convertible bonds

The convertible bonds issued by the Company can be converted into equity securities at the option of the bond holders. The number of shares to be issued is adjusted according to the fair value of the common shares. The convertible bonds, which are compound financial instruments of bonds and conversion rights, are designated and measured at fair value through profit or loss.

Construction work in progress

Construction work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognized to date less progress billings and recognized losses. Cost includes all expenditures related directly to specific projects and an allocation of fixed and variable overheads incurred in the Company's contract activities based on normal operating capacity.

Construction work in progress is presented as part of trade accounts and notes receivable in the consolidated statement of financial position for all contracts in which costs incurred plus recognized profits exceed progress billings. If progress billings exceed costs incurred plus recognized profits, then the difference is presented as amounts due to customers for contract work in the consolidated statement of financial position.

Employee benefits

(a) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within twelve months after the end of the period in which the employees render the related service. When an employee has rendered service to the Company during an accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as profit or loss. If the Company has a legal or constructive obligation which can be reliably measured, the Company recognizes the amount of expected payment for profit-sharing and bonuses payable as liabilities.

(b) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, less the fair value of any related assets. The present value is determined by discounting the expected future cash flows using the interest rate of corporate bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

(c) Retirement benefits: Defined contribution plans

For defined contribution plans, when an employee has rendered service to the Company during a period, the Company recognizes the contribution payable to a defined contribution plan in exchange for that service as an accrued expense, after deducting any contributions already paid. If the contributions already paid exceed the contribution due for service before the end of the reporting period, the Company recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(d) Retirement benefits: Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method.

The discount rate is the yield at the reporting date on corporate bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Company recognizes all actuarial gains and losses arising from actuarial assumption changes and experiential adjustments in other comprehensive income when incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Company recognizes an asset, to the extent of the total of cumulative unrecognized past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Past service costs, which are the change in the present value of the defined benefits obligation for employee service in prior periods, resulting in the current period from the introduction of, or change to post-employment benefits, are recognized as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the Company recognizes the past service cost immediately.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

A provision is used only for expenditures for which the provision was originally recognized. A provision for warranties is recognized when the underlying products are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Regarding provision for construction warranties, warranty period starts from the completion of construction in accordance with construction contracts. If the Company has an obligation for warranties, provision for warranties which are estimated based on historical warranty data are recorded as cost of construction and provision for warranties during the construction period.

Share capital

Common stock is classified as equity and the incremental costs arising directly attributable to the issuance of common stock less their tax effects are deducted from equity.

If the Company reacquires its own equity instruments, the amount of those instruments ("treasury shares") are presented as a contra equity account. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of its own equity instruments. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase to equity, and the resulting surplus or deficit on the transaction is recorded in capital surplus.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

Revenue

Revenue from the sale of goods, services provided and the use of assets is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates, which are not significant for all periods presented.

(a) Sale of goods

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

(b) Services rendered

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(c) Construction contracts

Construction contracts of the Company primarily consist of contracts for the construction of plants and commercial or residential buildings, and revenue recognition for different types of contracts is as follows:

When the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract. Contract revenue includes the initial amount agreed in the contract plus any variation in contract work, claims and

incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. The stage of completion of a contract is determined based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

When the outcome of a construction contract cannot be estimated reliably, the revenue is recognized only to the extent of contract costs incurred that it is probable will be recoverable. An expected loss on the construction contract shall be recognized as an expense immediately.

(d) Rental income

Rental income from investment property, net of lease incentives granted, is recognized in profit or loss on a straight-line basis over the term of the lease.

Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest rate method. Dividend income is recognized in profit or loss on the date that the Company's right to receive payment is established.

Finance costs comprise interest expense on borrowings and changes in the fair value of financial assets at fair value through profit or loss. Borrowing costs are recognized in profit or loss using the effective interest rate method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

Revenue

Revenue from the sale of goods, services provided and the use of assets is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates, which are not significant for all periods presented.

(a) Sale of goods

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

(b) Services rendered

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(c) Construction contracts

Construction contracts of the Company primarily consist of contracts for the construction of plants and commercial or residential buildings, and revenue recognition for different types of contracts is as follows:

When the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract. Contract revenue includes the initial amount agreed in the contract plus any variation in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. The stage of completion of a contract is determined based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

The Company recognizes a deferred income tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and joint ventures, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Company recognizes a deferred income tax asset for deductible temporary differences arising from investments in subsidiaries, associates and joint ventures, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred income tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred income tax liabilities and deferred income tax assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current income tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current income tax liabilities and assets on a net basis.

Earnings per share

Management calculates basic earnings per share ("EPS") data for the Company's ordinary shares, which is presented at the end of the statement of comprehensive income. Basic EPS is calculated by dividing profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

Operating segments

An operating segment is a component of the Company that: a) engages in business activities from which it may earn revenues and incur expenditures, including revenues and expenses that relate to transactions with any of the Company's other components, b) whose operating results are regularly reviewed by the Company's chief operating decision maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance, and c) for which discrete financial information is available. Management has determined that the CODM of the Company is the CEO.

Segment profit and loss is determined the same way that consolidated net after tax profit for the period is determined under IFRS without any adjustment for corporate allocations. The accounting policies used by each segment are consistent with the accounting policies used in the preparation of the consolidated financial statements. Segment assets and liabilities are measured based on total assets and liabilities in accordance with IFRS without any adjustment for corporate allocations. Also, segment assets and liabilities are based on the separate financial statements of the entities instead of on consolidated basis. In addition, there are varying levels of transactions amongst the reportable segments. These transactions include sales of property, plant and assets, and rendering of construction service and so on. Inter-segment transactions are accounted for on an arm's length basis.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Company for annual periods beginning after January 1, 2012, and the Company has not early adopted them.

(a) IFRS No. 10, "Consolidated Financial Statements"

The standard introduces a single control model to determine whether an investee should be consolidated. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not elected to early adopt this standard.

Adopting the standard from January 1, 2013, the Company may be required to change its consolidation conclusion in respect of its investees as below. The impact of the change is not expected to have a significant impact on the Company's consolidated financial statements.

Company	
Consolidating investees that were not previously consolidated	Daewoo Engineering (THAILAND) Co., Ltd.
Excluding investees that were previously consolidated from the consolidation scope	Postech 2006 Energy Fund, Postech Early Stage Fund

(b) IFRS No. 11, "Joint Arrangements"

The standard classifies joint arrangements into two types - joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. The standard requires a joint operator to recognize and measure the assets and liabilities (and recognize the related revenues and expenses) in relation to its interest in the arrangement in accordance with relevant IFRSs applicable to the particular assets, liabilities, revenues and expenses. The standard requires a joint venturer to recognize an investment and to account for that investment using the equity method. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not elected to early adopt this standard. Management believes the impact of the amendments on the Company's consolidated financial statements will not be significant.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(c) IFRS No. 12, "Disclosure of Interests in Other Entities"

The standard brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Company is currently assessing the disclosure requirements for interests in subsidiaries, interests in joint arrangements and associates and unconsolidated structured entities in comparison with the existing disclosures. The standard requires the disclosure of information about the nature, risks and financial effects of these interests. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not elected to early adopt this disclosure standard.

(d) Amendments to IAS No. 19 "Employee Benefits"

The standard requires recognition of actuarial gains and losses immediately in other comprehensive income and to calculate expected return on plan assets based on the rate used to discount the defined benefit obligation. The standard will be applied retrospectively for the Company's annual periods beginning on or after January 1, 2013. Management believes the impact of the amendments on the Company's consolidated financial statements will not be significant.

(e) IFRS No. 13 "Fair Value Measurement"

The standard defines fair value and a single framework for fair value, and requires disclosures about fair value measurements. The standard will be applied prospectively for the Company's annual periods beginning on or after January 1, 2013. Management believes the impact of the amendments on the Company's consolidated financial statements will not be significant.

(f) Amendments to IAS No. 1 "Presentation of Financial Statements"

The amendments require presenting in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment is mandatorily effective for annual periods beginning on or after July 1, 2012.

(g) Amendments to IAS No. 32 "Financial Instruments: Presentation" and IFRS No. 7 "Financial Instruments: Disclosures"

On December 16, 2011 the IASB published amendments to IAS No. 32 "Financial Instruments: Presentation" to clarify the application of the offsetting of financial assets and financial liabilities requirement. The IASB also published amendments to IFRS No. 7 "Financial Instruments: Disclosures" including new disclosures requirements regarding the offsetting of financial assets and financial liabilities. These amendments are effective for annual periods beginning on or after January 1, 2014, and January 1, 2013, respectively.

(h) IFRS No. 9, "Financial Instruments"

IFRS No. 9, "Financial Instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS No. 9 was issued in November 2009 and October 2010. It replaces the parts of IAS No. 39 that relate to the classification and measurement of financial instruments. IFRS No. 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS No. 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. Management is currently analyzing the effects and intends to adopt IFRS No. 9 for the first financial reporting period beginning in 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

4. Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- capital risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

(a) Risk management policy

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities. In addition, credit risk arises from finance guarantees.

The Company implements a credit risk management policy under which the Company only transacts business with counterparties that have a certain level of credit rate evaluated based on financial condition, historical experience, and other factors. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of a nation or

an industry in which a customer operates its business does not have a significant influence on credit risk. The Company has established a credit policy under which each new customer is analyzed individually for creditworthiness.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for companies of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. Debt securities are analyzed individually, and an expected loss shall be directly deducted from debt securities.

Credit risk also arises from transactions with financial institutions, and such transactions include transactions of cash and cash equivalents, various deposits, and financial instruments such as derivative contracts. The Company manages its exposure to this credit risk by only entering into transactions with banks that have high international credit ratings. The Company's Treasury Department authorizes, manages, and oversees new transactions with financial institutions with whom the Company has no previous relationship. Furthermore, the Company limits its exposure to credit risk of financial guarantee contracts by strictly evaluating their necessity based on internal decision making processes, such as the approval of the board of directors.

(c) Liquidity risk management

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company's cash flow from business, borrowing or financing is sufficient to meet the cash requirements for the Company's strategic investments. Management believes that the Company is capable of raising funds by borrowing or financing if the Company is not able to generate cash flow requirements from its operations. The Company has committed borrowing facilities with various banks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(d) Market risk management

Market risk means that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The goal of market risk management is optimization of profit and controlling the exposure to market risk within acceptable limits.

1) Currency risk

Each segment is influenced by a risk factor of changes in foreign currency exchange rates for the different directions due to the difference in structure of each industry regarding the cash inflows and cash outflows in foreign currency. The steel segment generally has a lack of foreign currency cash outflows, while the engineering and construction segments generally have excessive foreign currency inflows due to the nature of their respective business. Therefore, the result of the business is affected by the changes of foreign exchange rates. The trading segment is structured such that the cash inflows and outflows of foreign currencies are to be offset; however, the trading segment is exposed to a risk of changes in foreign currency exchange rates when there are differences in currencies on receiving and paying the foreign currency amount and time differences.

The Company's policy in respect of foreign currency risks is a natural hedge whereby foreign currency income is offset with foreign currency expenditures. The remaining net exposures after the natural hedge have been hedged using derivative contracts such as forward exchange contracts. In addition, the Company's derivative transactions are limited to hedging actual foreign currency transactions and speculative hedging is not permitted. Based on this policy, the Company entities have performed currency risk management specific to various characteristics of different segments. The entities in the steel industry, which has a lack of foreign currency cash flows, has foreign currency borrowings from banks and hedges foreign currency risks of the foreign currency borrowings by using foreign currency swaps. The entities in the engineering and construction segments, which have excessive foreign currency cash flows, have hedged foreign currency risks by using forward exchange contracts. Entities in the trading industry have hedged foreign currency risks by using forward exchange contracts when the foreign currencies received and paid are different.

2) Interest rate risk

The Company mostly borrows at fixed interest rates. The Company's management monitors interest rate risks regularly.

3) Other market price risk

Equity price risk arises from listed equity securities among available-for-sale equity securities. Management of the Company measures regularly the fair value of listed equity securities and the risk of variance in future cash flow caused by market price fluctuations. Significant investments are managed separately and all buy and sell decisions are approved by management of the Company.

e) Management of capital risk

The fundamental goal of capital management is the maximization of shareholders' value by means of the stable dividend policy and the retirement of treasury shares. The capital structure of the Company consists of equity and net debt, deducting cash and cash equivalents and current financial instruments from borrowings. The Company applied the same financial risk management strategy that was applied in the previous period.

The equity attributable to owners as of December 31, 2011 and 2012 are as follows:

(in millions of Won)

	2011	2012
Total borrowings	26,811,717	24,921,433
Less: Cash and cash equivalents	4,598,682	4,680,526
Net borrowings	22,213,035	20,240,907
Total equity	40,729,920	42,429,418
Net borrowings-to-equity ratio	54.54%	47.7%

5. Cash and Cash Equivalents

Cash and cash equivalents (which have original maturities of not more than 3 months) as of December 31, 2011 and 2012 are as follows

(in millions of Won)

	2011	2012
Cash	23,954	8,595
Demand deposits and checking accounts	1,855,929	1,609,934
Time deposits	2,664,335	2,945,537
Other financial cash equivalents	54,464	116,460
	4,598,682	4,680,526

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

6. Trade Accounts and Notes Receivable

(a) Trade accounts and notes receivable as of December 31, 2011 and 2012 are as follows: (in millions of Won)

	2011	2012
Current		
Trade accounts and notes receivable	10,265,421	9,865,436
Capital lease receivables	117,230	44,918
Unbilled due from customers for contract work	1,361,416	1,493,709
Less: Allowance for doubtful accounts	(293,552)	(366,090)
	11,450,515	11,037,973
Non-current		
Trade accounts and notes receivable	45,061	52,763
Capital lease receivables	147,634	102,887
Less: Allowance for doubtful accounts	(9,634)	(13,446)
	183,061	142,204
	11,633,576	11,180,177

Trade accounts and notes receivable sold to financial institution, for which the derecognition conditions were not met, amounted to ₩132,908 million, ₩80,258 million, as of December 31, 2011 and 2012, respectively, and are included in bank borrowings (note 15).

(b) Capital lease receivables are as follows: (in millions of Won)

Customer	Contents	2011	2012
Korea Electric Power Corporation	Combined thermal power cycle 1~4	199,141	147,634
Tenant of EXPO Apartment	Lease contract	65,723	171
		264,864	147,805

(c) The gross amount and present value of minimum lease payments as of December 31, 2011 and 2012 are as follows: (in millions of Won)

	2011	2012
Less than 1 year	141,670	62,048
1 year - 5 years	169,265	120,135
Greater than 5 year	24,519	11,772
Unrealized interest income	(70,590)	(46,150)
Present value of minimum lease payment	264,864	147,805

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(*1)

As of December 31, 2011 and 2012, short-term financial instruments of ₩1,670 million and ₩3,400 million are secured related to long-term borrowings of forestry association, respectively.

(*2)

As of December 31, 2011 and 2012, ₩17,175 million and ₩12,699 million, respectively, are restricted for use in a government project.

(*3)

As of December 31, 2011 and 2012, short-term financial instruments amounting to ₩7,650 million are provided as collateral for long-term borrowings

7. Other Receivables and Other Financial Assets

(a) Other receivables as of December 31, 2011 and 2012 are as follows:

(in millions of Won)

	2011	2012
Current		
Short-term loans	367,330	271,067
Other accounts receivable	1,067,163	1,298,878
Accrued income	59,028	71,076
Allowance for bad debt accounts	(60,013)	(49,582)
	1,433,508	1,591,439
Non-current		
Long-term loans	298,106	574,255
Long-term other accounts receivable	86,923	164,289
Accrued income	956	1,204
Allowance for bad debt accounts	(38,584)	(40,724)
	347,401	699,024
	1,780,909	2,290,463

(b) Other short-term financial assets as of December 31, 2011 and 2012 are as follows:

(in millions of Won)

	2011	2012
Financial assets at fair value through profit or loss		
Financial assets held for trading	50,861	-
Derivatives assets held for trading	92,055	62,720
Available-for-sale financial assets		
Short-term available-for-sale securities	31,651	133,656
Held-to-maturity investments		
Current portion of held-to-maturity securities (bonds)	876	31,237
Loans and other receivables		
Short-term financial instruments (*1,2,3)	1,757,744	1,621,668
Deposits	73,343	107,208
Other receivables	221,125	302,738
Allowance for bad debt accounts	(4,893)	(4,233)
	2,222,762	2,254,994

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(*1)

As of December 31, 2012, 2,294,961 shares equivalent to 20,654,653 American Depositary Receipts ("ADRs") of SK Telecom Co., Ltd. have been pledged as collateral for exchangeable bonds issued.

(*2)

The Company recorded impairment loss for securities of SK Telecom Co., Ltd. amounting to ₩503,058 million prior to January 1, 2010. During the year ended December 31, 2011, there was a further significant decline in the fair value of shares of SK Telecom Co., Ltd. for a prolonged period, which was considered as objective evidence of impairment. As a result, an impairment losses of ₩107,377 million was recognized in profit or loss in 2011.

(*3)

During the year ended December 31, 2012, there was a further significant decline in the fair value of shares of Jupiter mines Ltd., SK Telecom Co., Ltd. and others for a prolonged period, which was considered as objective evidence of impairment. As a result, an impairment losses of ₩224,171 million was recognized in profit or loss during the year ended December 31, 2012.

(c) Other long-term financial assets

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

(in millions of Won)

	2011	2012
Financial assets at fair value through profit or loss		
Derivatives asstes held for trading	16,696	8,634
Available-for-sale financial assets		
Long-term available-for-sale securities (equity instruments) (*1,2,3)	4,509,197	3,711,169
Long-term available-for-sale securities (bonds)	25,847	26,430
Long-term available-for-sale securities (others)	41,902	43,266
Held-to-maturity investments		
Held-to-maturity securities (bonds)	34,698	3,251
Loan and other receivables		
Long-term financial instruments		
Deposits	112,244	110,682
Allowance for bad debt accounts	(45)	(802)
	4,778,271	3,970,845

8. Inventories

(a) Inventories as of December 31, 2012 and 2011 are as follows:

(in millions of Won)

	2011	2012
Finished goods	1,556,573	1,475,832
Merchandise	1,185,496	703,923
Semi-finished goods	2,163,124	1,876,196
Raw materials	2,563,837	2,425,367
Fuel and materials	758,333	893,137
Construction inventories	1,245,546	1,324,873
Materials-in-transit	2,857,434	2,007,106
Others	168,895	93,007
	12,499,238	10,799,441
Less: allowance for inventories valuation	(215,594)	(214,795)
	12,283,644	10,584,646

The amounts of valuation losses of inventories recognized within cost of goods sold during the years ended December 31, 2010, 2011 and 2012 were ₩38,762 million, ₩140,391 million and ₩76,483 million, respectively. The amounts of write-off during years ended December 31, 2010, 2011 and 2012 were ₩15,723 million, ₩10,736 million and ₩71,456 million, respectively. There were no significant reversals of inventory write-downs recognized during the periods presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

9. Non-Current Assets Held for Sale

Details of non-current assets held for sale and related liabilities as of December 31, 2011 and 2012 are as follows:

(in millions of Won)

	2011			2012
	POSCO (*1)	Subsidiaries (*2)	Total	Subsidiaries (*3,4)
Assets				
Trade accounts and notes receivable and other financial assets	-	63,154	63,154	-
Inventories	-	23,186	23,186	-
Property, plant and equipment	16,887	172,538	189,425	1,190
Intangible assets	-	7,389	7,389	-
Other assets	-	45,883	45,883	-
	16,887	312,150	329,037	1,190
Liabilities				
Trade accounts and note payables and other financial liabilities	-	28,509	28,509	-
Borrowings	-	144,920	144,920	-
Other liabilities	-	53,178	53,178	-
	-	226,607	226,607	-
Net assets	16,887	85,543	102,430	1,190

(*1)

POSCO determined to dispose of equipment of existing steel manufacturing plants due to the completion and expected use of a new plant. The relevant equipment was reclassified as non-current assets held for sale at December 31, 2011. Some of those non-current assets held for sale were disposed of by sale, and others were reclassified as property, plant and equipment due to the cancelation of plans to sell during the year ended December 31, 2012. POSCO recognized a gain of ₩1,150 million and a loss of ₩9,391 million from the assets held for sale during the year ended December 31, 2012.

(*2)

The Company determined to dispose of Daewoo Cement (Shandong) Co., Ltd., a subsidiary of Daewoo International Corporation, one of POSCO's subsidiaries, in order to close down a non-core business and collect long-term receivables and securities, pursuant to the board of director's resolution on July 28, 2011. Daewoo International Corporation entered into a sales contract with China United Cement Group Co., Ltd. on August 9, 2011 and completed the disposal of relevant non-current assets held for sale on June 28, 2012. The Company recognized a gain on disposal of assets held for sale of ₩146,309 million.

(*3)

The Company determined to dispose of the shares of Kyobo Life Insurance Co., Ltd., an associate of Daewoo International Corporation, one of the Company's subsidiaries, in order to secure investment funds and improve the Company's financial structure. The investment was reclassified as a non-current asset held for sale at the beginning of the bidding process that started during the six-month period ended June 30, 2012. The amount measured at the lower of its carrying amount and fair value less costs to sell of Kyobo Life Insurance Co., Ltd. was ₩1,150,720 million as of June 30, 2012. The Company recorded an impairment loss for the non-current assets held for sale of ₩258,381 million as of June 30, 2012. The transaction was completed on September 5, 2012. The Company recognized a gain on disposal of assets held for sale of ₩45,874 million.

(*4)

POSCOAST CO., LTD. determined to dispose of its land and building and classified as non-current assets held for sale as of December 31, 2012. The amount measured at the lower of those carrying amount and fair value less costs to sell of certain land and building was ₩1,190 million, the Company recorded impairment loss for the non-current assets held for sale of ₩70 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(*1)

The Company determined to dispose of the shares of Kyobo Life Insurance Co., Ltd., an associate of Daewoo International Corporation, one of the Company's subsidiaries, in order to secure investment funds and improve its financial structure. The transaction was completed in September 2012.

(*2)

This entity was newly established during the year ended December 31, 2012.

(*3)

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

10. Investments in Associates

(a) Details of investments in associates as of December 31, 2011 and 2012 are as follows:

(in millions of Won)

Company	Dec. 31, 2010 Book value	Share of profits (losses)	Other increase (decrease) (*1)	Dec. 31, 2011 Book value
[Domestic]				
Kyobo Life Insurance Co., Ltd.	1,314,808	82,450	(20,144)	1,377,114
Sungjin Geotec Co., Ltd.	227,245	(33,650)	1,347	194,942
SNNC Co., Ltd.	145,466	49,605	(40,940)	154,131
Busan-Gimhae Light Rail Transit Co., Ltd.	42,151	(7,924)	-	34,227
Cheongna IBT Co., Ltd.	39,607	(4,043)	-	35,564
Blue ocean PEF	-	1,478	34,493	35,971
METAPOLIS Co., Ltd.	32,666	(16,992)	-	15,674
POSMATE Co., Ltd.	20,989	3,141	(1,721)	22,409
CHUNGJU ENTERPRISE CITY DEVELOPMENT CO., LTD.	21,317	(146)	(145)	21,026
MIDAS Information Technology Co., Ltd.	9,457	3,089	(70)	12,476
UI trans Co., Ltd.	3,920	(1,906)	1,596	3,610
Incheonggimpo Highway Co., Ltd.	3,049	(245)	696	3,500
Garolim Tidal Power Plant Co., Ltd.	10,881	(164)	1,278	11,995
Others	129,405	(5,064)	(61,415)	62,926
	2,000,961	69,629	(85,025)	1,985,565

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(a) Details of investments in associates as of December 31, 2011 and 2012 are as follows:

(in millions of Won)

Company	Dec. 31, 2010 Book value	Share of profits (losses)	Other increase (decrease) (*1)	Dec. 31, 2011 Book value
[Foreign]				
POSCO-NPS Niobium LLC	-	5,658	369,210	374,868
AMCI (WA) Pty Ltd.	213,446	(32,879)	(12,355)	168,212
CSP (Compania Siderurgica do Pecem)	-	(1,661)	125,892	124,231
Nickel Mining Company SAS	180,671	(7,073)	(5,306)	168,292
KOBRASCO	141,939	36,911	(49,966)	128,884
KOREA LNG Ltd.	133,793	8,026	(13,918)	127,901
Eureka Moly LLC	109,177	(754)	1,349	109,772
DMSA, AMSA	100,536	38	18,982	119,556
BX STEEL POSCO Cold RolledSheet Co., Ltd.	89,313	1,797	4,467	95,577
CAML Resources Pty. Ltd.	67,401	15,517	(27,453)	55,465
South-East Asia Gas Pipeline Company Ltd.	56,636	(250)	79,564	136,175
Poschrome Pty. Ltd.	29,201	1,422	(5,949)	24,674
USS-POSCO Industries	40,000	(31,585)	8,465	16,880
NCR LLC	23,931	(85)	261	24,107
Others	119,420	(14,367)	66,447	171,500
	1,305,464	(19,060)	559,690	1,846,094
	3,306,425	50,569	474,665	3,831,659

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(*1)
Other increase or decrease represents the changes in investment in associates due to acquisitions, disposals, dividends received, change in capital adjustments arising from translations of financial statements of foreign investees and others.

(b) The movements of investments in associates for the years ended December 31, 2011 and 2012 are as follows:

1) December 31, 2011

(in millions of Won)

Company	c.31, 2010 Book value	Share of profits (losses)	Other increase (decrease) (*1)	Dec. 31, 2011 Book value
[Domestic]				
Kyobo Life Insurance Co., Ltd.	1,314,808	82,450	(20,144)	1,377,114
Sungjin Geotec Co., Ltd.	227,245	(33,650)	1,347	194,942
SNNC Co., Ltd.	145,466	49,605	(40,940)	154,131
Busan-Gimhae Light Rail Transit Co., Ltd.	42,151	(7,924)	-	34,227
Cheongna IBT Co., Ltd.	39,607	(4,043)	-	35,564
Blue ocean PEF	-	1,478	34,493	35,971
METAPOLIS Co., Ltd.	32,666	(16,992)	-	15,674
POSMATE Co., Ltd.	20,989	3,141	(1,721)	22,409
CHUNGJU ENTERPRISE CITY DEVELOPMENT CO., LTD.	21,317	(146)	(145)	21,026
MIDAS Information Technology Co., Ltd.	9,457	3,089	(70)	12,476
UI trans Co., Ltd.	3,920	(1,906)	1,596	3,610
Incheongimpo Highway Co., Ltd.	3,049	(245)	696	3,500
Garolim Tidal Power Plant Co., Ltd.	10,881	(164)	1,278	11,995
Others	129,405	(5,064)	(61,415)	62,926
	2,000,961	69,629	(85,025)	1,985,565



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(b) The movements of investments in associates for the years ended December 31, 2011 and 2012 are as follows:

1) December 31, 2011

(in millions of Won)

Company	Dec. 31, 2010 Book value	Share of profits (losses)	Other increase (decrease) (*1)	Dec. 31, 2011 Book value
[Foreign]				
POSCO-NPS Niobium LLC	-	5,658	369,210	374,868
AMCI (WA) Pty Ltd.	213,446	(32,879)	(12,355)	168,212
CSP (Compania Siderurgica do Pecem)	-	(1,661)	125,892	124,231
Nickel Mining Company SAS	180,671	(7,073)	(5,306)	168,292
KOBRASCO	141,939	36,911	(49,966)	128,884
KOREA LNG Ltd.	133,793	8,026	(13,918)	127,901
Eureka Moly LLC	109,177	(754)	1,349	109,772
DMSA, AMSA	100,536	38	18,982	119,556
BX STEEL POSCO Cold RolledSheet Co., Ltd.	89,313	1,797	4,467	95,577
CAML Resources Pty. Ltd.	67,401	15,517	(27,453)	55,465
South-East Asia Gas Pipeline Company Ltd.	56,636	(25)	79,564	136,175
Poschrome Pty. Ltd.	29,201	1,422	(5,949)	24,674
USS-POSCO Industries	40,000	(31,585)	8,465	16,880
NCR LLC	23,931	(85)	261	24,107
	1,305,464	(19,060)	559,690	1,846,094
	3,306,425	50,569	474,665	3,831,659

(*1)

Other increase or decrease represents the changes in investment in associates due to acquisitions, disposals, dividends received, change in capital adjustments arising from translations of financial statements of foreign investees and others.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(*1)
Other increase or decrease represents the changes in investments in associates due to acquisitions, disposals, dividends received, change in capital adjustments arising from translations of financial statements of foreign investees and others.

(b) The movements of investments in associates for the years ended December 31, 2011 and 2012 are as follows:

2) December 31, 2012

(in millions of Won)

Company	Dec. 31, 2010 Book value	Share of profits (losses)	Other increase (decrease) (*1)	Dec. 31, 2011 Book value
[Domestic]				
Kyobo Life Insurance Co., Ltd.	1,377,114	37,038	(1,414,152)	-
Sungjin Geotec Co., Ltd.	194,942	(17,162)	3,581	181,361
SNNC Co., Ltd.	154,131	15,157	(21,749)	147,539
POSCO-ESM Co., Ltd.	-	(560)	42,948	42,388
Busan-Gimhae Light Rail Transit Co., Ltd.	34,227	(26,626)	-	7,601
Cheongna IBT Co., Ltd.	35,564	(729)	(34,835)	-
Blue ocean PEF	35,971	(4,542)	2,410	33,839
METAPOLIS Co., Ltd.	15,674	(15,674)	-	-
POSMATE Co., Ltd.	22,409	2,158	21,637	46,204
CHUNGJU ENTERPRISE CITY DEVELOPMENT Co., LTD.	21,026	8,534	(146)	29,414
MIDAS Information Technology Co., Ltd.	12,476	1,530	(14,006)	-
Poscochemtech Mitsubishi Carbon Tech	-	(860)	28,920	28,060
UI trans Co., Ltd.	3,610	1,268	11,566	16,444
Incheongjimpoo Highway Co., Ltd.	3,500	(377)	10,557	13,680
Others	62,926	(3,842)	(6,159)	52,925
	1,985,565	(5,138)	(1,369,428)	610,999

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(*)
Other increase or decrease represents the changes in investments in associates due to acquisitions, disposals, dividends received, change in capital adjustments arising from translations of financial statements of foreign investees and others.

(b) The movements of investments in associates for the years ended December 31, 2011 and 2012 are as follows:

2) December 31, 2012

(in millions of Won)

Company	Dec. 31, 2010 Book value	Share of profits (losses)	Other increase (decrease) (*1)	Dec. 31, 2011 Book value
[Foreign]				
Roy Hill Holdings Pty Ltd.	-	(16,537)	543,666	527,129
POSCO-NPS Niobium LLC	374,868	19,199	(45,421)	348,646
AMCI (WA) Pty Ltd.	168,212	(38,706)	(6,488)	123,018
CSP (Compania Siderurgica do Pecem)	124,231	(2,520)	93,050	214,761
Nickel Mining Company SAS	168,292	(12,795)	(8,798)	146,699
KOBRASCO	128,884	28,792	(43,829)	113,847
KOREA LNG Ltd.	127,901	12,697	(40,622)	99,976
Eureka Moly LLC	109,772	-	103,364	213,136
DMSA, AMSA	119,556	(1,176)	5,946	124,326
BX STEEL POSCO Cold RolledSheet Co., Ltd.	95,577	2,650	(5,339)	92,888
CAML Resources Pty. Ltd.	55,465	11,390	(4,628)	62,227
South-East Asia Gas Pipeline Company Ltd.	136,175	-	8,656	144,831
Poschrome Pty. Ltd.	24,674	(311)	(3,039)	21,324
USS-POSCO Industries	16,880	(5,933)	(10,947)	-
NCR LLC	24,107	(452)	15,648	39,303
	1,846,094	(17,564)	599,732	2,428,262
	3,831,659	(22,702)	(769,696)	3,039,261

(c) The fair value of investments in associates for which there are published price quotations as of December 31, 2012 are as follows:

(in millions of Won)

Company	Fair value
Sungjin Geotec Co., Ltd.	184,830



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(c) The fair value of investments in associates for which there are published price quotations as of December 31, 2012 are as follows:

Company	Assets	Liabilities	Equity (deficit)	Sales	Net income (loss)
[Domestic]					
Kyobo Life Insurance Co., Ltd.	60,828,181	55,786,580	5,041,601	11,610,607	487,785
Sungjin Geotec Co., Ltd.	717,665	611,548	106,117	663,879	(58,894)
SNNC Co., Ltd.	610,059	269,318	340,741	473,173	81,246
Busan-Gimhae Light Rail Transit Co., Ltd.	817,402	680,492	136,910	3,690	(31,696)
Cheongna IBT Co., Ltd.	433,306	263,377	169,929	305	(20,527)
Blue ocean PEF	385,060	254,353	130,707	79,583	5,371
METAPOLIS Co., Ltd.	579,241	534,775	44,466	21,333	(36,861)
POSMATE Co., Ltd.	90,403	15,317	75,086	116,021	8,592
CHUNGJU ENTERPRISE CITY DEVELOPMENT CO., LTD.	302,887	256,485	46,402	67,459	2,099
MIDAS Information Technology Co., Ltd.	73,939	24,178	49,761	50,501	9,411
UI trans Co., Ltd.	30,292	17,279	13,013	-	(831)
Incheongimpo Highway Co., Ltd.	14,690	1,518	13,172	-	(911)
Garolim Tidal Power Plant Co., Ltd.	37,626	293	37,333	-	(510)
POSCO M-TECH Co., Ltd.	316,953	153,876	163,077	602,155	12,447
POSCO ENERGY Co., Ltd.	2,891,382	2,327,398	563,984	1,863,670	25,152
Postech 2006 Energy Fund	21,662	1,042	20,620	-	(202)
PHP Co., Ltd.	66,461	58,521	7,940	4,456	483
POSCO TMC Co., Ltd.	204,738	113,595	91,143	219,580	5,746
PNR Co., Ltd.	159,076	129,198	29,878	74,013	13,366
Megaasset Co., Ltd.	23,757	9,354	14,403	63,667	5,794
POSCO Engineering Company (formerly Daewoo Engineering Company)	508,290	341,946	166,344	980,340	3,225
Pohang Fuel Cell Co. Ltd.	12,061	8,592	3,469	2,235	(286)
Pohang SPFC Co., Ltd.	10,021	4,221	5,800	38,117	1,170
POSWITH Co., Ltd.	5,129	2,460	2,669	13,745	151
BASYS INDUSTRY Co., Ltd.	967	266	701	2,500	369
POSTECH BD Newundertaking fund	90	-	90	-	(1)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(c) The fair value of investments in associates for which there are published price quotations as of December 31, 2012 are as follows:

Company	Assets	Liabilities	Equity (deficit)	Sales	Net income (loss)
[Foreign]					
POSCO-NPS Niobium LLC	749,737	-	749,737	11,433	11,317
CSP(Compania Siderurgica do Pecem)	622,810	1,657	621,153	-	(1,302)
Nickel Mining Company SAS	496,518	94,900	401,618	142,456	(12,983)
KOBRASCO	314,458	56,691	257,767	130,725	73,978
KOREA LNG Ltd.	24,169	10,492	13,677	95,385	92,600
DMSA, AMSA	5,807,261	3,979,755	1,827,506	939	939
BX STEEL POSCO Cold RolledSheet Co., Ltd.	1,099,540	745,318	354,222	1,421,784	7,188
CAML Resources Pty. Ltd.	217,677	105,456	112,221	278,778	46,567
South-East Asia Gas Pipeline Company Ltd.	596,972	53,140	543,832	-	(99)
Poschrome Pty. Ltd.	61,740	4,129	57,611	96,785	1,028
USS-POSCO Industries	470,963	434,722	36,241	1,062,110	(61,478)
POSCO M-TECH Co., Ltd.	316,953	153,876	163,077	602,155	12,447
POSCO ENERGY Co., Ltd.	2,891,382	2,327,398	563,984	1,863,670	25,152
Postech 2006 Energy Fund	21,662	1,042	20,620	-	(202)
PHP Co., Ltd.	66,461	58,521	7,940	4,456	483
POSCO TMC Co., Ltd.	204,738	113,595	91,143	219,580	5,746
PNR Co., Ltd.	159,076	129,198	29,878	74,013	13,366
Megaasset Co., Ltd.	23,757	9,354	14,403	63,667	5,794
POSCO Engineering Company (formerly Daewoo Engineering Company)	508,290	341,946	166,344	980,340	3,225
Pohang Fuel Cell Co. Ltd.	12,061	8,592	3,469	2,235	(286)
Pohang SPFC Co., Ltd.	10,021	4,221	5,800	38,117	1,170
POSWITH Co., Ltd.	5,129	2,460	2,669	13,745	151
BASYS INDUSTRY Co., Ltd.	967	266	701	2,500	369
POSTECH BD Newundertaking fund	90	-	90	-	(1)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(c) The fair value of investments in associates for which there are published price quotations as of December 31, 2012 are as follows:

	Operation	Ownership	Location
Mt. Thorley J/V	Mine development	20	Australia
POSMAC J/V	Mine development	20	Australia
CD J/V	Mine development	5	Australia
RUM J/V	Mine development	10	Australia

11. Investment Property, Net

(a) Investment property as of December 31, 2011 and 2012 are as follows:

(in millions of Won)

	2011			2012		
	Acquisition cost	Accumulated depreciation and impairment loss	Book value	Acquisition cost	Accumulated depreciation and impairment loss	Book value
Land	280,634	(61,157)	219,477	252,846	(41,464)	211,382
Buildings	475,971	(174,238)	301,733	490,657	(186,154)	304,503
Structures	10,300	(3,977)	6,323	9,448	(4,142)	5,306
Total	766,905	(239,372)	527,533	752,951	(231,760)	521,191

As of December 31, 2012, the fair value of investment property is ₩820,864 million, among which the Company evaluated investment property of 7 subsidiaries including International Business Center Corporation as its book value amounted to ₩64,653 million since it is believed that fair value is approximately same as book value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(b) Changes in the carrying value of investment property for the years ended December 31, 2011 and 2012 were as follows:

1) For the year ended December 31, 2011

	Beginning	Acquisitions	Business combination	Disposals	Depreciation (*1)	Others (*2)	Ending
Land	211,464	41,243	94	(57,905)	(14,010)	38,591	219,477
Buildings	278,361	109,757	-	(56,953)	(22,783)	(6,649)	301,733
Structures	3,540	6,072	-	-	(640)	(2,649)	6,323
Total	493,365	157,072	94	(114,858)	(37,433)	29,293	527,533

2) For the year ended December 31, 2012

	Beginning	Acquisitions	Business combination	Disposals	Depreciation (*1)	Others (*2)	Ending
Land	219,477	15,832	1,442	(38,575)	(475)	13,681	211,382
Buildings	301,733	13,857	1,560	(6,730)	(15,044)	9,127	304,503
Structures	6,323	-	-	-	(322)	(695)	5,306
Total	527,533	29,689	3,002	(45,305)	(15,841)	22,113	521,191

(*1)

Impairment losses of investment property amounted to ₩23,048 million are included.

(*2)

Includes reclassification resulting from changing purpose of use, adjustment of foreign currency translation difference and others.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

12. Property, Plant and Equipment, Net

(a) Property, plant and equipment as of December 31, 2011 and 2012 are as follows:

(in millions of Won)

	2011				2012			
	Acquisition cost	Accumulated depreciation and impairment loss	Government grants	Book value	Acquisition cost	Accumulated depreciation and impairment loss	Government grants	Book value
Land	2,549,178	-	-	2,549,178	2,658,401	(11,979)	-	2,646,422
Buildings	6,664,004	(2,644,172)	(3)	4,019,829	7,120,322	(2,951,420)	(100)	4,168,802
Structures	3,761,535	(1,500,808)	(290)	2,260,437	3,997,124	(1,676,669)	(274)	2,320,181
Machinery and equipment	34,392,737	(18,211,863)	(1,490)	16,179,384	36,217,492	(19,684,338)	(950)	16,532,204
Vehicles	272,249	(205,478)	(28)	66,743	279,650	(219,489)	(7)	60,154
Tools	323,511	(242,612)	(22)	80,877	331,870	(261,972)	(47)	69,851
Furniture and fixtures	466,225	(296,120)	(416)	169,689	526,396	(342,706)	(310)	183,380
Capital lease assets	72,426	(33,884)	-	38,542	105,241	(48,017)	-	57,224
Construction-in-progress	3,151,924	-	(63,419)	3,088,505	6,238,161	-	-	6,238,161
Total	51,653,789	(23,134,937)	(65,668)	28,453,184	57,474,657	(25,196,590)	(1,688)	32,276,379

As of December 31, 2012, the fair value of investment property is ₩820,864 million, among which the Company evaluated investment property of 7 subsidiaries including International Business Center Corporation as its book value amounted to ₩64,653 million since it is believed that fair value is approximately same as book value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(b) The changes in carrying value of property, plant and equipment as for the years ended December 31, 2011 and 2012 were as follows:

1) For the year ended December 31, 2011

(in millions of Won)

	Beginning	Acquisitions (*1)	Business combination	Disposals	Depreciation (*2)	Others (*3)	Ending
Land	2,011,851	450,151	92,806	(55,751)	-	50,121	2,549,178
Buildings	3,551,163	701,166	38,382	(38,755)	(278,097)	45,970	4,019,829
Structures	2,070,189	289,524	8,961	(10,775)	(163,072)	65,610	2,260,437
Machinery and equipment	13,777,382	2,892,960	204,871	(45,950)	(1,605,342)	955,463	16,179,384
Vehicles	64,173	21,041	1,981	(1,795)	(17,894)	(763)	66,743
Tools	75,437	38,477	2,259	(1,477)	(37,743)	3,924	80,877
Furniture and fixtures	124,677	66,297	1,995	(1,657)	(28,249)	6,626	169,689
Capital Lease Assets	43,106	8,029	20	(145)	(14,081)	1,613	38,542
Construction-in-progress	3,719,762	4,593,524	10,536	-	-	(5,235,317)	3,088,505
Total	25,437,740	9,061,169	361,811	(156,305)	(2,144,478)	(4,106,753)	28,453,184

2) For the year ended December 31, 2012

(in millions of Won)

	Beginning	Acquisitions (*1)	Business combination	Disposals	Depreciation (*2)	Others (*3)	Ending
Land	2,011,851	450,151	92,806	(55,751)	-	50,121	2,549,178
Buildings	3,551,163	701,166	38,382	(38,755)	(278,097)	45,970	4,019,829
Structures	2,070,189	289,524	8,961	(10,775)	(163,072)	65,610	2,260,437
Machinery and equipment	13,777,382	2,892,960	204,871	(45,950)	(1,605,342)	955,463	16,179,384
Vehicles	64,173	21,041	1,981	(1,795)	(17,894)	(763)	66,743
Tools	75,437	38,477	2,259	(1,477)	(37,743)	3,924	80,877
Furniture and fixtures	124,677	66,297	1,995	(1,657)	(28,249)	6,626	169,689
Capital Lease Assets	43,106	8,029	20	(145)	(14,081)	1,613	38,542
Construction-in-progress	3,719,762	4,593,524	10,536	-	-	(5,235,317)	3,088,505
Total	25,437,740	9,061,169	361,811	(156,305)	(2,144,478)	(4,106,753)	28,453,184

(*1)

Acquisition includes assets transferred from construction-in-progress.

(*2)

Impairment losses of property, plant and equipment amounted to ₩25,852 million are included.

(*3)

Includes reclassification for changing purpose of use, adjustment of foreign currency translation difference and others.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(c) Borrowing costs capitalized and the capitalized interest rate for the years ended December 31, 2011 and 2012 were as follows:

(in millions of Won)

	2011	2012
Weighted average expenditure	1,433,877	3,131,866
Borrowing costs capitalized	78,777	101,794
Capitalization rate	5.49 %	3.25%

(d) Pledged as collateral assets

(in millions of Won)

	Collateral right holder	2011	2012
Land (*1)	Korean Development Bank and others	381,096	545,654
Buildings and structures (*1)	Korean Development Bank and others	139,169	327,757
Machinery and equipment	Korean Development Bank and others	218,816	1,285,452
Construction-in-progress	The Export-Import Bank of Korea and others	-	1,486,745
		739,081	3,645,608

(e) Based on an asset life study performed in 2011, the Company changed the estimated useful life of certain machinery and equipments in its steel business from 8 years to 15 years. During the year ended December 31, 2011, the depreciation costs decreased by ₩ 1,227,169 million as a result of this change in the estimated useful life.

(*1)

Acquisition includes assets transferred from construction-in-progress.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

13. Goodwill and Other Intangible Assets

(a) Goodwill and other intangible assets as of December 31, 2011 and 2012 are as follows:

(in millions of Won)

	2011				2012			
	Acquisition cost	Accumulated depreciation and impairment loss	Government grants	Book value	Acquisition cost	Accumulated depreciation and impairment loss	Government grants	Book value
Goodwill	1,671,775	(14,958)	-	1,656,817	1,735,879	(22,188)	-	1,713,691
Intellectual property rights	285,166	(10,259)	-	274,907	317,748	(41,448)	(1,154)	275,146
Premium in rental	151,747	(12,603)	-	139,144	151,116	(13,383)	-	137,733
Development expense	90,109	(42,458)	(2,068)	45,583	127,856	(65,367)	(1,558)	60,931
Port facilities usage rights	410,077	(315,331)	-	94,746	410,023	(326,901)	-	83,122
Exploration and evaluation assets	501,374	(28,182)	-	473,192	509,581	(29,853)	-	479,728
Mining development assets	1,414,315	-	-	1,414,315	1,643,306	-	-	1,643,306
Customer relationships	865,036	(57,968)	-	807,068	862,217	(111,485)	-	750,732
Other intangible assets	710,257	(371,097)	(4)	339,156	921,277	(403,302)	(3)	517,972
Total	6,099,856	(852,856)	(2,072)	5,244,928	6,679,003	(1,013,927)	(2,715)	5,662,361

2) For the year ended December 31, 2012

(in millions of Won)

	2011				2012			
	Acquisition cost	Accumulated depreciation and impairment loss	Government grants	Book value	Acquisition cost	Accumulated depreciation and impairment loss	Government grants	Book value
Goodwill (*1)	1,656,817	-	-	77,298	-	-	(7,230)	(13,194)
Intellectual property rights	274,907	30,352	-	1	(1,375)	(24,829)	-	(3,910)
Premium in rental (*2)	139,144	13,498	-	622	(10,038)	(544)	(12,336)	7,387
Development expense	45,583	1,466	26,066	-	(148)	(23,011)	-	10,975
Port facilities usage rights	94,746	-	-	-	-	(11,624)	-	-
Exploration and evaluation assets	473,192	7,349	-	-	-	-	(1,671)	858
Mining development assets	1,414,315	228,991	-	-	-	-	-	-
Customer relationships	807,068	-	-	-	-	(53,517)	-	(2,819)
Other intangible assets	339,156	193,561	17	26,748	(652)	(44,466)	(9)	3,617
	5,244,928	475,217	26,083	104,669	(12,213)	(157,991)	(21,246)	2,914

(*1)

Acquisition amounts include goodwill amounting to ₩119,260 million related to the acquisition of POSCO Thainox Co., Ltd. in 2011. An impairment loss of ₩14,958 million is related to the negative capital of DAESAN (CAMBODIA) Co. Ltd.

(*2)

Premium in rental includes memberships with indefinite useful lives.

(*3)

Includes translation adjustment and reclassifications.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(c) For the purpose of impairment testing, goodwill is allocated to individual operating entities determined to be CGUs. The goodwill amount as of December 31, 2011 and 2012 are as follows:

(in millions of Won)

Reporting segments	Total number of CGUs		CGUs		
	2011	2012		2011	2012
Steel	11	11	POSCO-Thainox Public Company Limited. (*3)	119,260	109,779
			POSCO VST Co., Ltd.	36,955	36,955
			Others (*4)	21,322	14,096
Trading	3	3	Daewoo International Corporation (*1)	1,163,922	1,163,922
			Others	13,316	11,906
E&C	1	3	POSCO Engineering Company (*2)	194,637	194,637
			EPC EQUITIES LLP	49,931	47,913
			Others	11,796	11,291
Others	8	10	PONUTech Co., Ltd	-	77,298
			POSCO ENERGY Co., Ltd.	26,471	26,471
			Others	19,207	19,423
Total	25	27		1,656,817	1,713,691

(*1)

Recoverable amounts of Daewoo International Corporation were determined based on value-in-use. As of December 31, 2012, value-in-use is estimated by applying 7.60% discount rate and 2.8% terminal growth rate with 5 years, the period for the estimated future cash flows, based on management's business plan. No impairment loss of goodwill was recognized during the year ended December 31, 2012 as the recoverable amount exceeded the carrying value of the CGU.

The estimated recoverable amount of CGU exceeded the carrying value by ₩1,087,136 million. Value-in-use of the CGU was affected by the assumption such as discount rate and terminal growth used in discount cash flow model. When the discount rate increases by 0.25%, value-in-use will be decreased by 4.43% and when the terminal growth rate decreases by 0.25%, value-in-use will be decreased by 3.80%. There is no effect on the impairment loss of the goodwill.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

(*2)

Recoverable amounts of POSCO Engineering Company were determined based on value-in-use. As of December 31, 2012, value-in-use is estimated by applying 11.15% discount rate and 1% terminal growth rate with 5 years, the period for the estimated future cash flows based on management's business plan. No impairment loss of goodwill was recognized during the year ended December 31, 2012 as the recoverable amount exceeded the carrying value of the CGU.

The estimated recoverable amounts of CGU exceeded the carrying value by ₩171,253 million. Value-in-use of the CGU was affected by the assumption such as discount rate and terminal growth used in discount cash flow model. When the discount rate increases by 0.25%, value-in-use will be decreased by 2.91% and when the terminal growth rate decreases by 0.25%, value-in-use will be decreased by 1.88%. There is no effect on the impairment loss of the goodwill.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

(*3)

Recoverable amounts of POSCO-Thainox Public Company Limited were determined based on fair value, which was calculated with 30% control premium added to the current stock price as of December 31, 2012. No impairment loss of goodwill was recognized since on the recoverable amount is higher than carrying value of the CGU as of December 31, 2012.

(*4)

The Company recognized goodwill impairment loss of ₩7,230 million, which was occurred when POSCONST CO., LTD. merged into POSCOAST CO., LTD. for the year ended December 31, 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(*1)

The guarantee deposits of ₩257,878 million related to the Australia Roy Hill iron ore mine as of December 31, 2011 were transferred to investments in associates during the year ended December 31, 2012.

(*2)

Property, plant and equipment, short-term financial assets, available-for-sale financial assets and other assets amounting to ₩3,629,296 million, ₩11,050 million, ₩624,187 million and ₩65 million, respectively, are provided as collateral related to short-term borrowings, long-term borrowings and debentures.

14. Other Assets

Other current assets and other long-term assets as of December 31, 2011 and 2012 are as follows:

(in millions of Won)

	2011	2012
Other current assets		
Advance payment	1,035,846	1,205,969
Prepaid expenses	180,369	189,647
Others	3,927	2,564
	1,220,142	1,398,180
Other long-term assets		
Long-term advance payment	2,895	2,119
Long-term prepaid expenses	190,741	178,934
Others (*1)	436,651	212,733
	630,287	393,786

15. Borrowings

(a) Short-term borrowings and current portion of long-term borrowings as of December 31, 2011 and 2012 are as follows:

(in millions of Won)

	Bank	Interest rate (%)	2011	2012
Short-term borrowings				
Bank overdrafts	BOA, others	0.4~1.0	233,804	123,685
Short-term borrowings (*2)	Shinhan Bank, others	0.3~13.0	9,339,182	7,586,993
			9,572,986	7,710,678
Current portion of long-term liabilities				
Current portion of long-term borrowings (*2)	Korean Development Bank, others	0.5 ~6.0	428,409	898,564
Current portion of foreign loan	NATIXIS	2	951	901
Current portion of debentures (*2)	Korean Development Bank, others	1.9 ~7.0	790,050	1,899,430
Less : Current portion of discount on debentures issued			(886)	(2,644)
Add : Premium on debentures redemption			-	2,419
			1,218,524	2,798,670
			10,791,510	10,509,348

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(b) Long-term borrowings, excluding current portion
as of December 31, 2011 and 2012 are as follows:

(in millions of Won)

	Bank	Interest rate (%)	2011	2012
Long-term borrowings (*1)	Korean Development Bank and others	0.6~13.0	4,614,391	5,161,711
Less : Present value discount			(302,118)	(44,293)
Foreign loan (*2)	NATIXIS	2	3,071	2,009
Bonds (*1,3,4)	Korean Development Bank and others	1.5 ~9.0	11,776,893	9,339,966
Less : Discount on debentures issued			(94,356)	(62,943)
Add : Premium on debentures redemption			21,493	15,635
Add : Premium on debentures issued			833	-
			16,020,207	14,412,085
Less : Current portion of discount on debentures issued			(886)	(2,644)
Add : Premium on debentures redemption			-	2,419
			1,218,524	2,798,670
			10,791,510	10,509,348

(*1)

Property, plant and equipment, short-term financial assets, available-for-sale financial assets and other assets amounting to ₩ 3,629,296 million, ₩ 11,050 million, ₩ 624,187 million and ₩ 65 million, respectively, are provided as collateral related to short-term borrowings, long-term borrowings and debentures.

(*2)

Korea Development Bank has provided guarantees related to this foreign loan.

(*3)

In 2009, one of the controlling company's subsidiaries, Daewoo International Corporation, issued convertible bonds with a face value of USD 300 million and a 5 year maturity. All of these convertible bonds were converted to equity stocks of the subsidiary during the year ended December 31, 2012.

(*4)

POSCO issued exchangeable bonds with SK Telecom Co., Ltd. ADRs through Zeus (Cayman) Ltd. August 2011. The Company accounted for these exchangeable bonds as long-term borrowings. POSCO provides guarantees for Zeus (Cayman) Ltd.

(*5)

During the year ended December 31, 2012, a fine of ₩117,629 million was imposed on POSCO and POSCO Coated & Color Steel Co., Ltd. for price fixing galvanized steel sheets as a result of Korea Fair Trade Commission's investigation. The Company is expected to make a payment for the fine in the first half of 2013.

16. Other Payables and Other Financial Liabilities

(a) Other payables as of December 31, 2011 and 2012 are as follows:

(in millions of Won)

	2011	2012
Current		
Accounts payable	1,048,895	737,802
Accrued expenses (*5)	457,071	868,015
	1,505,966	1,605,817
Non-current		
Accounts payable	149,308	117,462
Accrued expenses	20,067	24,950
	169,375	142,412
	1,675,341	1,748,229

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(*1)

As of December 31, 2011 and 2012, the amount includes provision of ₩38,847 million and ₩23,784 million, respectively, for a potential claim in connection to the spin-off of the trading division of Daewoo International Corporation in 2000 (note 33). In addition, the amount as of December 31, 2012 includes provision of ₩7,136 million for obligation to payment guarantee related to borrowings incurred in the process of disposal of Daewoo Cement (Shandong) Co., Ltd. during the year ended December 31, 2012.

(*2)

Include adjustments of foreign currency translation difference and transfer to non-current liability held for sale (related to Daewoo Cement (Shandong) Co., Ltd.).

17. Provisions

(a) Provisions as of December 31, 2011 and 2012 were as follows:

	2011		2012	
	Current	Non-current	Current	Non-current
Provision for bonus payments	47,682	-	42,904	-
Provision for construction warranties	19,656	30,967	23,489	27,227
Provision for legal contingencies and claims (*1)	-	38,847	-	30,920
Others	2,094	39,529	11,438	41,951
	69,432	109,343	77,831	100,098

(b) The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period.

Key assumptions for the estimation	
Provision for bonus payments	Estimations based on financial performance
Provision for construction warranties	Estimations based on historical warranty data
Provision for legal contingencies and claims	Estimations based on the degree of probability of an unfavorable outcome and the ability to make a sufficiently reliable estimate of the amount of loss

(c) Changes in provisions for the year ended December 31, 2011 are as follows:

(in millions of Won)

	Beginning	Increase	Utilization	Reversal	Others (*2)	Ending
Provision for bonus payments	37,978	30,592	(20,888)	-	-	47,682
Provision for construction warranties	49,068	30,724	(11,624)	(1,334)	(16,211)	50,623
Provision for legal contingencies and claims	126,626	-	-	(35,629)	(52,150)	38,847
Others	2,286	371	1,062	(1,334)	39,238	41,623
	215,958	61,687	(31,450)	(38,297)	(29,123)	178,775

(d) Changes in provisions for the year ended December 31, 2012 are as follows:

(in millions of Won)

	Beginning	Increase	Utilization	Reversal	Others (*2)	Ending
Provision for bonus payments	37,978	30,592	(20,888)	-	-	47,682
Provision for construction warranties	49,068	30,724	(11,624)	(1,334)	(16,211)	50,623
Provision for legal contingencies and claims	126,626	-	-	(35,629)	(52,150)	38,847
Others	2,286	371	1,062	(1,334)	39,238	41,623
	215,958	61,687	(31,450)	(38,297)	(29,123)	178,775

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

18. Employee Benefits

(a) Defined contribution plans

The Company operates a defined contribution plan for participating employees. Though the Company pays fixed contributions into a separate fund, employee benefits relating to employee service in the future is based on the contributions to the funds and the investment earnings on it. Plan assets are managed by a trustee within a fund separate from the Company's assets.

The expenses related to post-employment benefit plans under defined contribution plans for the years ended December 31, 2010, 2011 and 2012 were as follows:

(in millions of Won)

	2010	2011	2012
Expense related to post-employment benefit plans under defined contribution plans	-	8,874	16,520

(b) Defined benefit plans

The Company also operates a defined benefit pension plan for employees. The employees who chose a defined benefit pension plan will receive a defined payment upon termination of their employment if they fulfill the condition to qualify as a recipient. Before the termination of employment, the Company recognizes the pension liability related to defined benefit plans at the end of the reporting period, and measures it at the present value of the defined benefit obligation less the fair value of the plan assets. The Company uses the projected unit credit method in the actuarial valuation of plan assets and the defined benefit obligation.

(c) The amounts recognized in relation to defined benefit obligations in the statements of financial position as of December 31, 2011 and 2012 are as follows:

(in millions of Won)

	2011	2012
Present value of funded obligations	1,158,329	1,394,675
Fair value of plan assets	(832,771)	(1,064,711)
Present value of non-funded obligations	14,909	15,724
Net defined benefit obligations	340,467	345,688

(d) The changes in present value of defined benefit obligations for the years ended December 31, 2011 and 2012 are as follows:

(in millions of Won)

	2011	2012
Defined benefit obligation at the beginning of period	1,467,853	1,173,238
Current service cost (*3)	207,871	212,450
Interest costs	67,372	51,351
Actuarial losses	43,166	83,050
Business combinations	221	1,684
Benefits paid	(593,369)	(116,846)
Others	(19,876)	5,472
Defined benefit obligation at the end of period	1,173,238	1,410,399

(*1)

As of December 31, 2011 and 2012, the amount includes provision of ₩38,847 million and ₩23,784 million, respectively, for a potential claim in connection to the spin-off of the trading division of Daewoo International Corporation in 2000 (note 33). In addition, the amount as of December 31, 2012 includes provision of ₩7,136 million for obligation to payment guarantee related to borrowings incurred in the process of disposal of Daewoo Cement (Shandong) Co., Ltd. during the year ended December 31, 2012.

(*2)

Include adjustments of foreign currency translation difference and transfer to non-current liability held for sale (related to Daewoo Cement (Shandong) Co., Ltd.).

(*3)

This amount includes loss from a plan settlement in the amount of ₩3,704 million for the year ended December 31, 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(*1)

Discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of our benefits obligations and that are denominated in the same currency in which the benefits are expected to be paid.

(*2)

The overall expected rate of return on plan assets is a weighted average of the expected returns of the various categories of plan assets held. The management's assessment of the expected returns is based on historical return trends and predictions of the market for the asset over the life of the related obligation.

(*3)

The expected future increases in salaries are based on the average salary increase rate for past three-years.

(*4)

Includes other current liabilities amounting to ₩204,653 million, ₩274,490 million and other long-term liabilities amounting to ₩14,857 million and ₩14,939 million as of December 31, 2011 and 2012, respectively, due to proportionate consolidation of joint ventures which are owned by POSCO's subsidiaries.

18. Employee Benefits

(h) Accumulated actuarial gains (losses), net of tax, recognized in other comprehensive income as of and for the years ended December 31, 2010, 2011 and 2012 were as follows:

(in millions of Won)

	2010	2011	2012
Beginning	-	(152,125)	(182,702)
Current actuarial losses	(152,125)	(30,577)	(62,527)
Ending	(152,125)	(182,702)	(245,229)

(i) The principal actuarial assumptions

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

(in millions of Won)

	2011	2012
Discount rate (*1)	3.86~5.42	3.29~4.46
Expected return on plan assets (*2)	2.00~5.29	3.29~5.10
Expected future increases in salaries (*3)	1.03~7.35	1.04~6.72

19. Other Liabilities

Other liabilities as of December 31, 2011 and 2012 are as follows:

	2011	2012
Other current liabilities		
Due to customers for contract work	449,470	529,104
Advances received	973,427	1,289,805
Unearned revenue	36,935	46,963
Withholdings	114,941	162,073
Deferred revenue	362	235
Others (*4)	224,496	283,474
	1,799,631	2,311,654
Other long-term liabilities		
Advances received	1,547	312,668
Unearned revenue	1,200	841
Others (*4)	81,756	64,305
	84,503	377,814
	1,884,134	2,689,468

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

20. Financial Instruments

(a) Classification of financial instruments

1) Financial assets as of December 31, 2011 and 2012 are as follows: (in millions of Won)

	2011	2012
Financial assets at fair value through profit or loss		
Financial assets held for trading	50,861	-
Derivatives assets held for trading	108,751	71,354
	159,612	71,354
Available-for-sale financial assets	4,608,597	3,914,521
Held-to-maturity investments	35,574	34,488
Loans and receivables	19,902,456	19,787,951
	24,706,239	23,808,314

2) Financial liabilities as of December 31, 2011 and 2012 are as follows: (in millions of Won)

	2011	2012
Financial liabilities at fair value through profit or loss		
Derivatives liabilities held for trading	195,837	185,142
Designated as financial liabilities at fair value through profit or loss	333,004	-
	528,841	185,142
Financial liabilities evaluated as amortized cost		
Trade accounts payable	4,397,662	4,391,787
Borrowings	26,478,713	24,921,433
Financial guarantee liabilities	32,242	25,312
Others	1,882,179	1,802,175
	32,790,796	31,140,707
	33,319,637	31,325,849

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

3) Finance income and costs by category of financial instrument for the years ended December 31, 2010, 2011 and 2012 were as follows:

- December 31, 2010

(in millions of Won)

	Financial income and costs						Total	Other comprehensive income
	Interest income (cost)	Dividend income	loss on foreign currency transactions	Gain and loss on foreign currency translations	Gain and loss on disposal	Others		
Financial assets at fair value through profit or loss	196	-	-	-	195,543	63,568	259,307	-
Available-for-sale financial assets	9,822	102,161	-	-	624	(57,133)	55,474	589,601
Held-to-maturity securities	64	-	-	-	465	-	529	-
Loans and receivables	282,846	-	(18,628)	20,483	(2,827)	(430)	281,444	-
Financial liabilities at fair value through profit or loss	-	-	-	-	(174,943)	7,319	(167,624)	-
Financial liabilities are evaluated as amortised cost	(586,883)	-	54,231	(239,375)	-	(6,157)	(778,184)	-
	(293,955)	102,161	35,603	(218,892)	18,862	7,167	(349,054)	589,601

- December 31, December 31, 2011

(in millions of Won)

	Financial income and costs						Total	Other comprehensive income
	Interest income (cost)	Dividend income	loss on foreign currency transactions	Gain and loss on foreign currency translations	Gain and loss on disposal	Others		
Financial assets at fair value through profit or loss	3	-	-	-	544,913	70,656	615,572	-
Available-for-sale financial assets	768	143,880	-	-	453,540	(152,804)	445,384	(1,231,758)
Held-to-maturity investments	1,749	-	-	-	-	(311)	1,438	-
Loans and receivables	213,714	-	(26,239)	46,971	(41,171)	(95)	193,180	-
Financial liabilities at fair value through profit or loss	-	-	-	-	(506,664)	(150,963)	(657,627)	-
Financial liabilities at amortized cost	(788,348)	-	(140,052)	(317,867)	-	(27,956)	(1,274,223)	-
	(572,114)	143,880	(166,291)	(270,896)	450,618	(261,473)	(676,276)	(1,231,758)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

- December 31, 2012

	Financial income and costs						Total	Other comprehensive income
	Interest income (cost)	Dividend income	loss on foreign currency transactions	Gain and loss on foreign currency translations	Gain and loss on disposal	Others		
Financial assets at fair value through profit or loss	130	-	-	-	407,505	77,907	485,542	-
Available-for-sale financial assets	1,046	124,475	-	-	75,809	(224,171)	(22,841)	(in millions of Won) (81,471)
Held-to-maturity investments	1,664	-	-	-	(224)	79	1,519	-
Loans and receivables	275,967	-	(252,265)	(162,156)	(33,786)	(406)	(172,646)	-
Financial liabilities at fair value through profit or loss	-	-	-	-	(308,350)	(143,754)	(452,104)	-
Financial liabilities at amortized cost	(871,457)	-	348,481	855,805	-	(72,874)	259,955	-
	(592,650)	124,475	96,216	693,649	140,954	(363,219)	99,425	(81,471)

(b) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the Company's maximum exposure to credit risk. The maximum exposures to credit risk as of December 31, 2011 and 2012 is as follows:

(in millions of Won)

	2011	2012
Cash and cash equivalents	4,598,682	4,680,526
Financial assets at fair value through profit or loss	159,612	71,354
Available-for-sale financial assets	99,400	203,352
Held-to-maturity investments	35,574	34,488
Loans and other receivables	3,670,198	3,927,248
Trade accounts and notes receivable	11,450,515	11,037,973
Long-term trade accounts and notes receivable	183,061	142,204
	20,197,042	20,097,145

The Company provided financial guarantees for the repayment of loans of associates and third parties. As of December 31, 2011 and 2012, the maximum exposure to credit risk amounted to 4,542,734 million and ₩4,607,773 million, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(*1)

Includes write-off of trade accounts and notes receivable amounting to ₩40,138 million and adjustments of foreign currency translation difference for the year ended December 31, 2012.

(*2)

For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

(*3)

Includes cash flows of embedded derivative instruments in relation to exchangeable bonds (exchange right).

(*4)

Includes estimated interest.

- December 31, 2012

(in millions of Won)

	2011		2012	
	Trade accounts and notes receivable	Impairment	Trade accounts and notes receivable	Impairment
Not due	6,154,045	8,137	9,106,925	52,063
Over due less than 1 month	4,868,928	233	1,313,554	4,387
1 month – 3 months	256,022	1,506	278,029	3,264
3 months – 12 months	301,875	37,032	413,251	41,291
Over 12 months	355,892	256,278	447,954	278,531
	11,936,762	303,186	11,559,713	379,536

- Changes in the allowance for doubtful accounts for the years ended December 31, 2011 and 2012 were as follows:

(in millions of Won)

	2011	2012
Beginning	357,063	406,721
Bad debt expenses	92,197	79,258
(Reversal of) other bad debt expenses	(46,720)	44,115
Other (*1)	4,181	(55,217)
Ending	406,721	474,877

(c) Liquidity risk

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

(in millions of Won)

	Book value	Contractual cash flow (*4)	Within 1 year	1 year - 5 years	Later than 5 years	Total
Non-derivative financial liabilities						
Trade accounts payable	4,391,787	4,391,787	4,389,194	2,593	-	4,391,787
Financial guarantee liabilities (*2)	25,312	4,607,773	4,607,773	-	-	4,607,773
Other financial liabilities	1,802,175	1,802,175	1,558,253	242,557	1,365	1,802,175
Borrowings (*3)	24,921,433	27,461,706	11,084,122	11,619,867	4,757,717	27,461,706
	31,140,707	38,263,441	21,639,342	11,865,017	4,759,082	38,263,441

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(*)

Discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of our benefits obligations and that are denominated in the same currency in which the benefits are expected to be paid.

2) The maturity analysis of derivative financial liabilities is as follows:

(in millions of Won)

	Within 1 year	1 year - 5 years	Later than 5 years	Total
Derivative financial liabilities				
Currency forward	58,129	5,247	-	63,376
Currency futures	67	-	-	67
Currency swaps	9,499	65,119	4,525	79,143
Others	17,227	25,329	-	42,556
	84,922	95,695	4,525	185,142

(d) Currency risk

1) The Company has exposure to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The exposure to currency risk as of December 31, 2011 and 2012 are as follows:

(in millions of Won)

	2011		2012	
	Assets	Liabilities	Assets	Liabilities
USD	3,852,909	10,912,882	3,933,448	9,120,893
EUR	275,012	610,454	317,381	330,481
JPY	236,046	2,353,794	239,569	2,017,179
Others	130,753	136,294	264,299	65,679

2) As of December 31, 2011 and 2012, provided that functional currency against foreign currencies other than functional currency hypothetically strengthens or weakens by 10%, the changes in gain or loss during the years ended December 31, 2011 and 2012 are as follows:

(in millions of Won)

	2011		2012	
	10% increase	10% decrease	10% increase	10% decrease
USD	(705,997)	705,997	(518,745)	518,745
EUR	(33,544)	33,544	(1,310)	1,310
JPY	(211,775)	211,775	(177,761)	177,761

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(*1)

The fair value of available-for-sale financial assets publicly traded is measured at the closing bid price quoted at the end of the reporting period. Meanwhile, the fair value of unquoted available-for-sale financial assets is calculated using the valuation results from an external pricing service in which weighted average borrowing rates of interest of evaluated companies are used as a discount rate.

(*2)

The fair value of derivatives is measured using valuation models such as Black-scholes model and others in which the market yields on government bonds are used as a discount rate.

(*3)

The fair value of financial assets and liabilities measured at amortized cost is determined at the present value of estimated future cash flows discounted at the current market interest rate. The fair value is calculated for the disclosures in the notes. On the other hand, the Company has not performed fair value measurement for the financial assets and liabilities measured at amortized cost except borrowings since the fair value is close to their carrying amounts.

(e) Interest rate risk

1) The carrying amount of interest-bearing financial instruments as of December 31, 2011 and 2012 are as follows:

(in millions of Won)

	2011	2012
Fixed rate		
Financial assets	7,086,835	7,325,825
Financial liabilities	(24,169,245)	(15,301,208)
	(17,082,410)	(7,975,383)
Variable rate		
Financial liabilities	(2,642,472)	(9,620,225)

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

As of December 31, 2011 and 2012, provided that other factors remain the same and the interest rate of borrowings with floating rates increases or decreases by 1%, the changes in gain or loss during the years ended December 31, 2011 and 2012 are as follows:

(in millions of Won)

	2011		2012	
	10% increase	10% decrease	10% increase	10% decrease
Variable rate financial instruments	(26,425)	26,425	(96,202)	96,202

(f) Fair value

1) Fair value and book value

The carrying amount and the fair value of financial instruments as of December 31, 2011 and 2012 are as follows

(in millions of Won)

	2011		2012	
	Book value	Fair value	Book value	Fair value
Assets measured at fair value				
Financial assets held for trading	50,861	50,861	-	-
Available-for-sale financial assets (*1)	4,359,202	4,359,202	3,349,606	3,349,606
Derivatives assets held for trading (*2)	108,751	108,751	71,354	71,354
	4,518,814	4,518,814	3,420,960	3,420,960
Assets measured amortized cost (*3)				
Cash and cash equivalents	4,598,682	4,598,682	4,680,526	4,680,526
Trade accounts and notes receivable	11,633,576	11,633,576	11,180,177	11,180,177
Loans and other receivables	3,670,198	3,670,198	3,927,248	3,927,248
Held-to-maturity investments	35,574	35,574	34,488	34,488
	19,938,030	19,938,030	19,822,439	19,822,439
Liabilities measured fair value				
Derivatives liabilities held for trading (*2)	195,837	195,837	185,142	185,142
Convertible bonds	333,004	333,004	-	-
	528,841	528,841	185,142	185,142
Liabilities measured amortized cost (*3)				
Trade accounts and notes payable	4,397,662	4,397,662	4,391,787	4,391,787
Borrowings	26,478,713	26,793,230	24,921,433	25,382,344
Financial guarantee liabilities	32,242	32,242	25,312	25,312
Others	1,882,179	1,882,179	1,802,175	1,802,175
	32,790,796	33,105,313	31,140,707	31,601,618

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

2) Interest rates used for determining fair value

Interest rates used to discount estimated cash flows as of December 31, 2011 and 2012 are as follows: (in millions of Won)

	2011	2012
Interest rate of borrowings (%)	1.80 ~ 4.62	1.47 ~ 7.22

3) The fair value hierarchy

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in measurements.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs, other than quoted prices, that are observable for the asset or liability, either directly or indirectly.

Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The fair values of financial instruments, by valuation method as of December 31, 2011 and 2012 are as follows:

a. December 31, 2011 (in millions of Won)

	Level 1	Level 2	Level 3	Level 4
Financial assets				
Financial assets held for trading	-	50,861	-	50,861
Available-for-sale financial assets	3,419,961	-	939,241	4,359,202
Derivatives assets held for trading	-	108,751	-	108,751
	3,419,961	159,612	939,241	4,518,814
Financial liabilities				
Derivatives liabilities held for trading	-	195,837	-	195,837
Convertible bonds	333,004	-	-	333,004
	333,004	195,837	-	528,841

b. December 31, 2012

	Level 1	Level 2	Level 3	Level 4
Financial assets				
Available-for-sale financial assets	2,590,933	-	758,673	3,349,606
Derivatives assets held for trading	-	71,354	-	71,354
	2,590,933	71,354	758,673	3,420,960
Financial liabilities				
Derivatives liabilities held for trading	-	185,142	-	185,142
	-	185,142	-	185,142

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(e) The changes in fair value of plan assets for the years ended December 31, 2011 and 2012 are as follows:

(in millions of Won)

	2011	2012
Fair value of plan assets at the beginning of period	964,727	832,771
Expected return on plan assets	38,244	37,669
Actuarial gains and losses	3,073	2,157
Contribution to plan assets (*1)	190,909	267,420
Business combinations	354	906
Others	14,059	(489)
Benefits paid	(378,595)	(75,723)
Fair value of plan assets at the end of period	832,771	1,064,711

(f) The fair value of plan assets as of December 31, 2011 and 2012 are as follows:

(in millions of Won)

	2011	2012
Equity instruments	7,703	12,002
Debt instruments	103,074	107,303
Deposits	538,260	743,884
Others	183,734	201,522
	832,771	1,064,711

(g) The amounts recognized in profit or loss for the years ended December 31, 2010, 2011 and 2012 were as follows:

(in millions of Won)

	2010	2011	2012
Current service costs	156,308	207,871	212,450
Interest costs	57,473	67,372	51,351
Expected return on plan assets (*1)	(39,810)	(38,245)	(37,669)
	173,971	236,998	226,132

(*1)

The actual return on plan assets amounted to ₩62,200 million, ₩41,318 million and ₩39,826 million for the years ended December 31, 2010, 2011 and 2012, respectively.

(*2)

Included change in amounts due to change of fair value level.

The above expenses by function were as follows:

(in millions of Won)

	2010	2011	2012
Cost of sales	137,263	177,020	165,675
Selling and administrative expenses	36,708	59,978	60,457
	173,971	236,998	226,132

(h) Accumulated actuarial gains (losses), net of tax, recognized in other comprehensive income as of and for the years ended December 31, 2010, 2011 and 2012 were as follows:

(in millions of Won)

	2010	2011	2012
Beginning	-	(152,125)	(182,702)
Current actuarial losses	(152,125)	(30,577)	(62,527)
Ending	(152,125)	(182,702)	(245,229)

Changes in fair value of financial instruments measured by Level 3 for the years ended December 31, 2011 and 2012 are as follows:

(in millions of Won)

	2011	2012
Beginning	805,160	939,241
Valuation	157,329	(182,927)
Acquisition and others (*2)	98,242	30,729
Disposal and others (*2)	(121,490)	(28,370)
Ending	939,241	758,673

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

21. Share Capital and Contributed Surplus

(a) Share capital as of December 31, 2011 and 2012 are as follows:

(share, Won)

	2011	2012
Authorized shares	200,000,000	200,000,000
Par value	5,000	5,000
Issued shares (*1)	87,186,835	87,186,835
Shared capital (*2)	482,403,125,000	482,403,125,000

(b) The changes in issued common stock for the years ended December 31, 2011 and 2012 are as follows:

(share)

	2011			2012		
	Issued shares	Treasury shares	Number of outstanding shares	Issued shares	Treasury shares	Number of outstanding shares
Beginning	87,186,835	(10,153,957)	77,032,878	87,186,835	(9,942,391)	77,244,444
Acquisition of treasury shares	-	(131,389)	(131,389)	-	-	-
Disposal of treasury shares	-	342,955	342,955	-	-	-
Ending	87,186,835	(9,942,391)	77,244,444	87,186,835	(9,942,391)	77,244,444

(c) Capital surplus as of December 31, 2011 and 2012 are as follows:

(in millions of Won)

	2011	2012
Share premium	463,825	463,825
Gains on disposal of treasury shares	763,867	763,867
Other capital surplus	(77,240)	(122,878)
	1,150,452	1,104,814

22. Reserves

(a) Reserves as of December 31, 2011 and 2012 are as follows:

(in millions of Won)

	2011	2012
Accumulated comprehensive loss of investments in associates	(16,186)	(129,159)
Changes in the unrealized fair value of available-for-sale investments	154,617	67,956
Currency translation differences	283,516	(8,591)
Others	(16,521)	(18,356)
	405,426	(88,150)

(b) Changes in fair value of available-for-sale securities as of December 31, 2011 and 2012 were as follows:

(in millions of Won)

	2011	2012
Beginning balance	1,381,667	154,617
Changes in the unrealized fair value of available-for-sale investments	(1,095,009)	(189,664)
Reclassification to profit or loss upon disposal	(252,102)	(54,089)
Impairment of available-for-sale securities	120,978	150,869
Others	(917)	6,223
Ending balance	154,617	67,956

(*1)

As of December 31, 2012, total shares of ADRs of 55,294,944 are equivalent to 13,823,736 of common stock.

(*2)

As of December 31, 2012, the difference between the ending balance of common stock and the par value of issued common stock is ₩46,469 million due to retirement of 9,293,790 treasury stocks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

23. Treasury Shares

Based on the Board of Director's resolution, the Company holds treasury shares for business purposes including price stabilization. The changes in treasury shares for the years ended December 31, 2011 and 2012 are as follows:

(share, Won)

	2011		2012	
	Number of shares	Amount	Number of shares	Amount
Beginning	10,153,957	2,403,263	9,942,391	2,391,406
Acquisition of treasury shares	131,389	61,296	-	-
Disposal of treasury shares	(342,955)	(73,153)	-	-
Ending	9,942,391	2,391,406	9,942,391	2,391,406

24. Revenue

Details of revenue for the years ended December 31, 2010, 2011 and 2012 were as follows:

(in millions of Won)

	2010	2011	2012
Goods sales	41,848,201	61,001,789	55,123,774
Services sales	1,604,524	2,440,639	3,488,562
Construction sales	4,130,984	5,297,892	4,660,811
Rental income	42,898	39,862	32,056
Others	260,648	158,543	298,948
	47,887,255	68,938,725	63,604,151

25. Construction Contracts

(a) Construction contracts in progress as of December 31, 2011 and 2012 were as follows:

(in millions of Won)

	2011	2012
Aggregate amount of costs incurred	14,711,524	8,343,117
Add: Recognized profits	1,369,479	659,555
Less: Recognized losses	(310,647)	(213,055)
Cumulative construction revenue	15,770,356	8,789,617

(in millions of Won)

	2011	2012
Less: Progress billing	(14,638,181)	(7,691,482)
Foreign currency gains and losses	(1,966)	(2,589)
Others	(218,263)	(130,941)
	911,946	964,605

(b) Unbilled amount due from customers and due to customers for contract work as of December 31, 2011 and 2012 were as follows:

(in millions of Won)

	2011	2012
Unbilled due from customers for contract work	1,361,416	1,493,709
Due to customers for contract work	(449,470)	(529,104)
	911,946	964,605

(c) When the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract.

The Company estimates the stage of completion of the contract based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

The estimated total contract costs are based on the nature and characteristics of an individual contract, historical costs of similar projects, and current circumstances. Only those contract costs that reflect work performed are included in costs incurred to date.

The following are the key assumptions for the estimated total contract cost.

Key assumptions for the estimation	
Material	Estimations based on recent purchasing contracts, market price and quoted price
Labor cost	Estimations based on standard monthly and daily labor cost
Outsourcing cost	Estimations based on the historical costs of similar projects, market price and quoted price

The management continually reviews all estimates involved in such construction contracts and adjusts them as necessary.

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26. Selling and Administrative Expenses

(a) Administrative expenses

Administrative expenses for the years ended December 31, 2010, 2011 and 2012 were as follows:

(in millions of Won)

	2010	2011	2012
Wages and salaries	446,023	606,819	694,682
Expenses related to defined benefit plan	36,708	60,271	61,261
Other employee benefits	116,293	164,508	170,734
Travel	43,592	56,635	52,817
Depreciation	110,093	172,807	218,747
Communication	9,195	13,061	15,088
Electric power	5,269	7,529	11,305
Taxes and public dues	34,869	50,617	59,664
Rental	54,739	65,559	93,268
Repairs	9,660	14,919	11,769
Entertainment	17,050	17,905	18,239
Advertising	96,305	70,939	55,777
Research & development	141,314	212,472	192,321
Service fees	192,979	286,635	264,439
Supplies	17,012	14,357	10,166
Vehicles maintenance	15,851	21,491	22,442
Industry association Fee	10,403	10,200	11,487
Training	24,762	24,375	17,772
Conference	17,659	21,739	17,745
Warranty expense	14,984	12,606	13,148
Bad debt allowance	47,506	92,197	79,258
Others	29,676	37,412	37,334
	1,491,942	2,035,053	2,129,463

(b) Selling expenses

Selling expenses for the years ended December 31, 2010, 2011 and 2012 were as follows:

(in millions of Won)

	2010	2011	2012
Freight	948,891	1,406,268	1,472,817
Operating expenses for distribution center	8,694	8,115	9,327
Sales commissions	69,823	85,410	74,308
Sales advertising	1,483	1,204	4,575
Sales promotion	12,096	16,179	17,525
Samples	3,478	7,321	7,489
Sales insurance premium	14,579	19,915	32,065
Contract cost	58,340	62,986	52,176
Others	2,956	4,730	8,406
	1,120,340	1,612,128	1,678,688



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

27. Other Operating Income and Expenses

Details of other operating income and expenses for the years ended December 31, 2010, 2011 and 2012 were as follows:

(in millions of Won)

	2010	2011	2012
Other operating income			
Gain on disposals of property, plant and equipment	26,366	13,812	42,290
Rental revenues	1,061	6,510	1,898
Gain on disposals of intangible assets	494	953	906
Gain on disposals of investment in associates	2,942	2,247	39,441
Gain on disposals of assets held for sale	-	-	193,333
Grant income	1,872	1,228	3,198
Reversal of other bad debt allowance	117	57,875	-
Reversal of other provisions	-	35,629	16,037
Outsourcing income	49,304	42,136	29,136
Gain on disposals of wastes	21,267	11,348	38,597
Gain from claim compensation	58,200	68,853	31,613
Penalty income from early termination of contracts	43,264	38,570	15,054
Others	18,072	27,780	36,617
	222,959	306,941	448,120

(in millions of Won)

	2010	2011	2012
Other operating expense			
Loss on disposals of property, plant and equipment	(83,494)	(60,550)	(65,486)
Loss on disposals of investment property	(11,896)	(8,826)	(3,197)
Loss on disposals of assets held for sale	(61)	-	(9,510)
Loss on disposals of investment in associates	(3,811)	-	(15,119)
Idle tangible assets expenses	(795)	(16,881)	(31,297)
Impairment loss of assets held for sale	-	-	(258,451)
Other bad debt expenses	(12,877)	(11,155)	(44,115)
Donations	(74,343)	(66,558)	(73,963)
Loss on disposals of wastes	(15,245)	(30,585)	(45,480)
Penalty and default losses	(1,142)	(39,551)	(149,437)
Impairment loss of property, plant and equipment and others	(128,083)	(99,071)	(72,259)
Others	(10,204)	(33,356)	(41,151)
	(341,951)	(366,533)	(809,465)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

28. Finance Income and Costs

Details of finance income and costs for the years ended December 31, 2010, 2011 and 2012 were as follows:

(in millions of Won)

	2010	2011	2012
Finance income			
Interest income	292,928	216,234	278,807
Dividend income	102,161	143,880	124,475
Gain on foreign currency transactions	844,321	1,454,103	935,457
Gain on foreign currency translations	204,568	259,014	936,740
Gain on transactions of derivatives	180,933	549,439	407,791
Gain on valuations of derivatives	86,823	111,637	94,492
Gain on disposals of available-for-sale investments	2,590	454,543	112,095
Others	24,480	1,569	7,206
	1,738,804	3,190,419	2,897,063
Finance costs			
Interest expenses	(586,883)	(788,348)	(871,457)
Loss on foreign currency transactions	(808,718)	(1,620,394)	(839,241)
Loss on foreign currency translations	(423,460)	(529,910)	(243,091)
Loss on transactions of derivatives	(175,196)	(512,882)	(309,067)
Loss on valuations of derivatives	(17,784)	(188,742)	(159,604)
Impairment loss on available-for-sale investments	(57,172)	(152,804)	(224,171)
Loss on disposals of available-for-sale investments	(1,966)	(1,003)	(36,286)
Loss on Financial guarantee	(1,662)	(1,000)	(38,442)
Others	(15,017)	(71,612)	(76,279)
	(2,087,858)	(3,866,695)	(2,797,638)

(*1)

Includes depreciation expense of investment properties.

(*2)

The details of employee benefits expenses for the years ended December 31, 2010, 2011 and 2012 were as follows:

29. Expenses by Nature

Details of finance income and costs for the years ended December 31, 2010, 2011 and 2012 were as follows:

(in millions of Won)

	2010	2011	2012
Changes in inventories	13,879,604	17,546,701	14,161,271
Cost of merchandises sold	11,304,171	26,650,240	25,997,220
Employee benefits expenses (*2)	2,363,727	2,639,966	2,889,829
Outsourced processing cost	7,270,872	8,331,110	8,896,642
Depreciation expenses (*1)	2,960,550	2,133,010	2,405,769
Amortization expenses	75,344	133,289	157,991
Electricity and water expenses	504,308	715,265	837,507
Service fees	587,038	630,223	670,919
Research & development expenses	537,025	592,649	577,449
Freight and custody expenses	948,891	1,406,268	1,472,817
Commission paid	69,823	85,410	74,308
Loss on disposal of property, plant, and equipment	83,494	60,550	65,486
Donations	74,344	66,558	73,963
Other expenses	2,017,503	2,846,325	2,479,337
	42,676,694	63,837,564	60,760,508
Wages and salaries	2,189,756	2,394,094	2,647,177
Severance benefit	173,971	245,872	242,652
	2,363,727	2,639,966	2,889,829

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

30. Income Taxes

(a) Income tax expense for the years ended December 31, 2010, 2011 and 2012 was as follows:

(in millions of Won)

	2010	2011	2012
Current income taxes	1,111,427	1,069,240	795,601
Deferred income tax due to temporary differences	103,054	(318,722)	154,324
Less: Items recorded directly in equity	(133,009)	317,591	32,954
Income tax expense	1,081,472	1,068,109	982,879

(b) The following table reconciles the expected amount of income tax expense based on POSCO's statutory rate(24.2%) to the actual amount of taxes recorded by the Company for the years ended December 31, 2010, 2011 and 2012 were as follows:

(in millions of Won)

	2010	2011	2012
Net income before income tax expense	5,267,123	4,782,395	3,368,486
Income tax expense computed at statutory rate	1,274,644	1,157,340	815,174
Adjustments:	(193,172)	(89,231)	167,705
Tax effects due to permanent differences	(28,973)	(13,798)	48,220
Tax credit	(268,873)	(193,633)	(188,713)
Tax rate change effect	-	17,661	-
Over (under) provision from prior years	40,315	(15,739)	1,776
Investments in subsidiaries and associates	61,136	97,246	281,437
Others	3,223	19,032	24,985
Income tax expense	1,081,472	1,068,109	982,879
Effective tax rate	20.53	22.33	29.18

(c) The income taxes charged (credited) directly to other comprehensive income during the period ended December 31, 2011 and 2012 were as follows:

(in millions of Won)

	2011	2012
Net changes in the unrealized fair value of available-for-sale securities	306,827	22,585
Gains on sale of treasury stock	(22,078)	-
Others	31,628	10,369
	316,377	32,954

(d) The movements in deferred income tax assets (liabilities) for the years ended December 31, 2011 and 2012 are as follows:



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(d) The movements in deferred income tax assets (liabilities) for the years ended December 31, 2011 and 2012 are as follows:

(in millions of Won)

	2011			2012		
	Beginning	Inc (Dec)	Inc (Dec)	Beginning	Inc (Dec)	Inc (Dec)
Deferred income tax due to temporary differences						
Reserve for special repairs	(27,776)	(1,883)	(29,659)	(29,659)	646	(29,013)
Allowance for doubtful accounts	80,349	24,272	104,621	104,621	7,807	112,428
Reserve for technology developments	(269,892)	(96,340)	(366,232)	(366,232)	(9,698)	(375,930)
Depreciation	(61,129)	2,841	(58,288)	(58,288)	11,714	(46,574)
Share of profit or loss of equity-accounted investees	(170,016)	(54,120)	(224,136)	(224,136)	127,762	(96,374)
Reserve for inventory valuation	1,484	(2,998)	(1,514)	(1,514)	(2,568)	(4,082)
Revaluation of assets	(362,949)	(207,454)	(570,403)	(570,403)	(229,529)	(799,932)
Prepaid expenses	18,733	2,704	21,437	21,437	9,803	31,240
Impairment loss on property, plant and equipment	24,858	634	25,492	25,492	3,263	28,755
Loss on foreign currency translation	90,656	5,131	95,787	95,787	(159,132)	(63,345)
Defined benefit obligations	40,710	14,343	55,053	55,053	15,571	70,624
Plan assets	(36,232)	(6,859)	(43,091)	(43,091)	(3,330)	(46,421)
Provision for construction losses	1,697	1,155	2,852	2,852	(625)	2,227
Provision for construction warranty	13,056	2,846	15,902	15,902	(1,061)	14,841
Appropriated retained earnings for technological development	(246)	81	(165)	(165)	(286)	(451)
Accrued income	(1,061)	(888)	(1,949)	(1,949)	(1,248)	(3,197)
Others	317,877	58,230	376,107	376,107	(66,085)	310,022
	(339,881)	(258,305)	(598,186)	(598,186)	(296,996)	(895,182)
Deferred income taxes recognized directly to equity						
Loss (gain) on valuation of available-for-sale investments	(305,406)	306,827	1,421	1,421	22,585	24,006
Others	4,141	31,628	35,769	35,769	10,369	46,138
	(301,265)	338,455	37,190	37,190	32,954	70,144
Deferred tax from tax credit						
Tax credit carryforward and others	280,295	(23,418)	256,877	256,877	82,231	339,108
Deferred tax effect due to unrealized gains (losses) and others	(129,000)	120,625	(8,375)	(8,375)	27,470	19,095
	(489,851)	177,357	(312,494)	(312,494)	(154,341)	(466,835)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(e) Deferred income tax assets and liabilities for the years ended December 31, 2011 and 2012 are as follows:

(in millions of Won)

	2011			2012		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Deferred income tax due to temporary differences						
Reserve for special repairs	-	(29,659)	(29,659)	-	(29,013)	(29,013)
Allowance for doubtful accounts	104,672	(51)	104,621	112,480	(52)	112,428
Reserve for technology developments	-	(366,232)	(366,232)	-	(375,930)	(375,930)
Depreciation	12,319	(70,607)	(58,288)	15,192	(61,766)	(46,574)
Share of profit or loss of equity-accounted investees	-	(224,136)	(224,136)	-	(96,374)	(96,374)
Reserve for inventory valuation	4,319	(5,833)	(1,514)	1,751	(5,833)	(4,082)
Revaluation of assets	-	(570,403)	(570,403)	-	(799,932)	(799,932)
Prepaid expenses	23,045	(1,608)	21,437	31,240	-	31,240
Impairment loss on property, plant and equipment	25,492	-	25,492	28,755	-	28,755
Loss on foreign currency translation	176,621	(80,834)	95,787	202,973	(266,318)	(63,345)
Defined benefit obligations	75,912	(20,859)	55,053	86,200	(15,576)	70,624
Plan assets	-	(43,091)	(43,091)	-	(46,421)	(46,421)
Provision for construction losses	2,852	-	2,852	2,227	-	2,227
Provision for construction warranty	15,902	-	15,902	14,841	-	14,841
Appropriated retained earnings for technological development	-	(165)	(165)	-	(451)	(451)
Accrued income	-	(1,949)	(1,949)	25	(3,222)	(3,197)
Others	382,735	(6,628)	376,107	421,595	(111,573)	310,022
	823,869	(1,422,055)	(598,186)	917,279	(1,812,461)	(895,182)
Deferred income taxes recognized directly to equity						
Loss (gain) on valuation of available-for-sale investments	199,317	(197,896)	1,421	281,599	(257,593)	24,006
Others	49,898	(14,129)	35,769	66,975	(20,837)	46,138
	249,215	(212,025)	37,190	348,574	(278,430)	70,144
Deferred tax from tax credit						
Tax credit carryforward and others	292,255	(35,378)	256,877	378,926	(39,818)	339,108
Deferred tax effect due to unrealized gains (losses) and others	494,450	(502,825)	(8,375)	522,871	(503,776)	19,095
	1,859,789	(2,172,283)	(312,494)	2,167,650	(2,634,485)	(466,835)

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Continued As of December 31, 2012

(f) As of December 31, 2012, the Company did not recognize income tax effects associated with taxable temporary differences of ₩ 3,095,821 million (deferred tax liability ₩ 749,189 million) mainly relating to increase in retained earnings of subsidiaries since it is probable that the temporary difference will not reverse in the foreseeable future. As of December 31, 2012, the Company did not recognize income tax effect associated with deductible temporary differences of ₩ 1,952,989 million (deferred tax assets ₩ 472,623 million) mainly relating to loss of subsidiaries and affiliates because realization is not considered probable.

31. Earnings per Share

(a) Basic and diluted earnings per share for the year ended December 31, 2010, 2011 and 2012 were as follows:

(Won, except per share information)

	2010	2011	2012
Profit attribute to controlling interest	4,105,622,633,447	3,648,136,025,973	2,462,080,504,484
Weighted-average number of common shares outstanding (*1)	77,032,878	77,251,818	77,244,444
Basic and diluted earnings per share	53,297	47,224	31,874

(share)

	2010	2011	2012
Total number of common shares issued	87,186,835	87,186,835	87,186,835
Weighted-average number of treasury shares	(10,153,957)	(9,935,017)	(9,942,391)
Weighted-average number of common shares outstanding	77,032,878	77,251,818	77,244,444

(*1)

The weighted-average number of common shares used to calculate basic earnings per share are as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

32. Related Party Transactions

(a) Significant transactions with related companies for the years ended December 31, 2010, 2011 and 2012 were as follows:

(in millions of Won)

	Sales and others (*1)			Purchase and others (*2)		
	2010	2011	2012	2010	2011	2012
Subsidiaries (*3)						
POSCO E&C Co., Ltd.	7,441	26,536	28,110	2,292,524	1,687,665	1,451,086
POSCO P&S Co., Ltd.	1,082,903	1,181,088	897,051	478,030	1,406,245	1,395,891
POSCO Coated & Color Steel Co., Ltd.	685,698	593,656	489,545	3,178	1,890	6,496
POSCO ICT Co., Ltd.	1,212	1,537	1,547	485,525	507,883	468,915
POSCO Chemtech Co., Ltd.	142,677	423,643	511,917	573,973	755,515	798,150
POSCO M-TECH CO., LTD.	-	19,355	27,906	-	211,832	318,548
POSCO TMC Co., Ltd.	151,323	168,314	230,235	91	884	1,032
POSCO AST Co., Ltd.	267,323	319,258	278,463	57,180	58,475	58,647
Daewoo International Corp.	867,916	3,896,857	4,271,450	3,799	5,599	15,731
POSCO NST CO., LTD.	9,256	186,809	212,536	-	4,734	3,618
POSCO America Corporation	233,594	353,904	726,450	-	1	733
POSCO Canada Co., Ltd.	-	-	-	170,842	289,047	205,129
POSCO Asia Co., Ltd.	1,377,802	2,029,781	1,929,508	148,706	178,395	107,313
POSCO-Japan Co., Ltd.	1,161,919	1,628,069	1,439,580	272,282	34,860	28,710
POSCO-India Delhi Steel Processing Centre Pvt. Ltd.	164,628	148,343	164,483	-	-	15
POSCO-Mexico Co., Ltd.	273,241	347,915	338,645	-	176	492
Daewoo International Singapore Pte. Ltd.	-	-	-	12,447	149,029	73,471
POSCO Maharashtra Steel Pvt. Ltd.	-	2,340	155,642	-	-	-
POSCO (Suzhou) Automotive Processing Center Co., Ltd.	113,416	99,778	128,974	-	-	-
POSCO-Thailand Bangkok Processing Center Co., Ltd	123,913	96,288	119,278	58	63	182
Others	1,194,967	709,834	749,758	750,468	986,196	954,105
	7,859,229	12,233,305	12,701,078	5,249,103	6,278,489	5,888,264

(*1)

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

(*2)

Purchases and others include purchases and overhead costs. Purchases and others are mainly related to purchases of construction services and purchases of raw materials to manufacture steel products. These are priced on an arm's length basis.

(*3)

As of December 31, 2012, the Company provided guarantees to related parties (Note 33).

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Continued As of December 31, 2012

(in millions of Won)

	Sales and others (*1)			Purchase and others (*2)		
	2010	2011	2012	2010	2011	2012
Associates						
Posmate Co., Ltd.	1,141	1,038	22,044	47,152	53,357	46,058
SNNC Co., Ltd.	1,763	4,787	2,511	519,871	447,130	379,050
SUNG JIN GEOTEC Co., Ltd.	18,497	44,451	27,697	-	-	-
DONG BANG METAL IND.CO.,LTD.	-	84,748	89,094	-	-	-
POSCO SAMSUNG Suzhou Steel Processing Center Co., Ltd.	-	23,974	26,280	-	-	-
USS-POSCO Industries (UPI)	308,998	342,594	85	264	29	101
Poschrome(Proprietary) Ltd.	-	-	58	80,282	72,502	68,079
Others	11,890	59,021	37,700	256,294	6,087	14,311
	342,289	560,613	205,469	903,863	579,105	507,599
	8,201,518	12,793,918	12,906,547	6,152,966	6,857,594	6,395,863

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(b) The related account balances of significant transactions with related companies as of December 31, 2011 and 2012 are as follows:

(in millions of Won)

	Receivables (*1)		Payables (*1)	
	2011	2012	2011	2012
Subsidiaries				
POSCO E&C Co., Ltd.	647	7,977	241,918	403,630
POSCO Processing & Service	88,838	64,564	1,512	32,672
POSCO Plant Engineering Co., Ltd.	65	267	42,534	32,297
POSCO ICT Co., Ltd.	30	287	62,583	91,297
POSCO Coated & Color Steel Co., Ltd.	116,252	108,505	335	2,618
POSCO Chemtech Company Ltd.	37,808	47,074	82,048	84,538
POSCO TMC CO., LTD.	21,601	64,862	134	145
POSCO AST Co., Ltd.	33,266	65,575	7,090	7,800
Daewoo International Corp.	284,125	358,824	1,589	730
POSCO NST.CO.,LTD	64,012	-	676	-
POSCO America Corporation	32,346	63,545	-	-
POSCO Asia Co., Ltd.	227,476	102,849	1,407	2,244
POSCO-TBPC Co., Ltd.	27,381	17,986	-	-
Qingdao Pohang Stainless Steel Co., Ltd.	6,713	8,710	-	-
POSCO-Vietnam Co., Ltd.	422	291	-	-
POSCO-Japan Co., Ltd.	52,362	35,400	1,546	673
POSCO-India Delhi Steel Processing Centre Pvt. Ltd.	3,484	-	-	-
POSCO-Mexico Co., Ltd.	171,908	131,669	-	-
Others	81,255	127,626	83,201	115,817
	1,249,991	1,206,011	526,573	774,461

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

(in millions of Won)

	Receivables (*1)		Payables (*1)	
	2011	2012	2011	2012
Associate				
Posmate Co., Ltd.	-	78	7,198	6,315
SNNC Co., Ltd.	223	229	23,187	37,145
DONG BANG METAL IND.CO., LTD.	17,038	-	-	-
SUNG JIN GEOTEC Co., Ltd.	4,122	4,849	-	-
Poschrome Pty. Ltd.	-	-	-	2,273
Others	-	453	809	804
	21,383	5,609	31,194	46,537
	1,271,374	1,211,620	557,767	820,998

(c) For the years ended December 31, 2011 and 2012, details of compensation to key management officers were as follows:

(in millions of Won)

	2011	2012
Short-term benefits	93,231	109,614
Retirement benefits	23,407	25,049
Long-term benefits	26,971	22,462
	143,609	157,125

Key management officers include directors (including non-standing directors), executive officials and fellow officials who have significant influence and responsibilities in the Company's business and operations. In addition to the compensation described above, the Company provided stock appreciation rights to its executive officers and recorded reversal of stock compensation expenses amounted to ₩4,223 million and stock compensation expenses amounted to ₩436 million for the years ended December 31, 2011 and 2012, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

33. Commitments and Contingencies

(a) Contingent liabilities

Contingent liabilities may develop in a way not initially expected. Therefore, management continuously assesses contingent liabilities to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognized in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made).

Management makes estimates and assumptions that affect disclosures of commitments and contingencies. All estimates and assumptions are based on the evaluation of current circumstances and appraisals with the supports of internal specialists or external consultants.

Management regularly analyzes current information about these matters and provides provisions for probable contingent losses including the estimate of legal expense to resolve the matters. Internal and external lawyers are used for these assessments. In making the decision regarding the need for provisions, management considers the degree of probability of an unfavorable outcome and the ability to make a sufficiently reliable estimate of the amount of loss.

(b) Details of guarantees

(in millions of Won)

Guarantors	Guarantee beneficiary	Financial institution	Foreign currency		Won equivalent
[The Company]					
POSCO	Guangdong Pohang Car Steel Co., Ltd.	SMBC and others	USD	122,600,000	131,317
	POSCO Investment Co., Ltd.	BOC and others	CNY	350,000,000	60,158
		HSBC	MYR	240,000,000	83,952
		HSBC and others	USD	350,000,000	374,885
	POSCO Maharashtra Steel Pvt. Ltd.	Export-Import Bank of Korea and others	USD	566,000,000	606,243
	POSCO VST Co., Ltd.	ANZ(Tapei) and others	USD	65,000,000	69,622
	POSCO-Mexico Co., Ltd.	HSBC and others	USD	244,725,000	262,125
	POSCO-Vietnam Co., Ltd.	Export-Import Bank of Korea and others	USD	200,000,000	214,220
	Zeus (Cayman) Ltd.	Creditor	JPY	38,798,173,522	484,007
	Zhangjiagang Pohang Stainless Steel Co., Ltd	MIZUHO and others	USD	160,000,000	171,376
	POSCO ASSAN TST Steel Industry	SMBC and others	USD	188,392,500	201,787
	POSCO Electrical Steel India Private Limited	ING and others	USD	84,000,000	89,972
	PT. KRAKATAU POSCO	Export-Import Bank of Korea and others	USD	1,210,300,000	1,296,352

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

Guarantors	Guarantee beneficiary	Financial institution	Foreign currency	Won equivalent	
[The Company]					
Daewoo International Corporation	PT. Bio Inti Agrindo	Export-Import Bank of Korea	USD	19,000,000	20,351
	Daewoo International America Corp.	Shinhan Bank	USD	500,000	536
	Daewoo International Australia Holdings Pty. Ltd.	Korea Exchange Bank	USD	12,000,000	12,853
	Daewoo Paper Manufacturing Co., Ltd.	HSBC	USD	12,500,000	13,389
	Daewoo Textile Bukhara LLC	Export-Import Bank of Korea	USD	24,950,000	26,724
	Daewoo International MEXICO S.A. de C.V.	SMBC	USD	25,000,000	26,778
	POSCO ASSAN TST STEEL Industry	ING and others	USD	20,932,500	22,421
	Brazil Sao Paulo Steel Processing Center Co., Ltd.	SMBC	USD	20,000,000	21,422
	Daewoo International Deutschland GmbH	Shinhan Bank	EUR	15,000,000	21,244
POSCO E&C Co., Ltd.	HONG KONG POSCO E&C (CHINA) Investment Co., Ltd.	Woori Bank	USD	30,000,000	32,133
	International Business Center Corporation	Export-Import Bank of Korea and others	USD	20,000,000	21,422
	POSCO E&C Vietnam Co., Ltd.	ANZ	USD	10,000,000	10,711
		Kookmin Bank (Hong Kong)	USD	5,000,000	5,356
		Export-Import Bank of Korea and others	USD	16,500,000	17,673
	SANTOS CMI S.A	CITI Ecuador	USD	3,000,000	3,213
		KEB Panama	USD	25,000,000	26,778

(in millions of Won)

Guarantors	Guarantee beneficiary	Financial institution	Foreign currency	Won equivalent	
POSCO P&S Co., Ltd.	POSCO Canada Pty., Ltd.	Hana Bank	USD	12,484,500	13,372
POSCO ICT Co., Ltd.	POSCO ICT Indonesia	POSCO Investment Co., Ltd.	USD	1,500,000	1,607
	VECTUS Ltd.	POSCO Investment Co., Ltd.	USD	4,000,000	4,284
	POSCO ICT BRASIL PARTICI-PACOES LTDA	Korea Exchange Bank	BRL	8,875,000	4,652
POSCO Energy Co., Ltd.	TECHREN Solar, LLC	Woori Bank	USD	30,000,000	32,133
POSCO Engineering Co., Ltd.	PT DEC INDONESIA	Korea Exchange Bank	USD	6,818,876	7,304
		Korea Exchange Bank	IDR	41,707,614,097	4,634
		Woori Bank	IDR	32,128,484,002	3,569
POSCO JAPAN Co., Ltd.	POSCO-JEPC Co., Ltd.	Mizuho Bank and others	JPY	3,008,564,339	37,532
	POSCO-JKPC Co., Ltd.	Higo bank and others	JPY	1,436,800,000	17,924
	POSCO-JOPC Co., Ltd.	Kiyo bank and others	JPY	1,187,500,000	14,814
	Xenesys Inc.	Aozora Bank	JPY	85,000,000	1,060
Daewoo Textile Fergana LLC	Daewoo Textile Bukhara LLC	NBU	USD	3,286,250	3,520
POSCO E&C (CHINA) Co., Ltd.	HONG KONG POSCO E&C (China) Investment Co., Ltd.	Woori Bank (Beijing)	USD	33,000,000	35,346
International Business Center Corporation	POSCO E&C Co., Ltd.	Export-Import Bank of Korea and others	USD	20,000,000	21,422



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

Guarantors	Guarantee beneficiary	Financial institution	Foreign currency		Won equivalent
[Associates]					
POSCO	BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	BOC and others	CNY	119,600,000	20,557
	United Spiral Pipe, LLC	Shinhan Bank	USD	21,980,000	23,543
	POSUK Titanium	Shinhan Bank	USD	24,500,000	26,242
			USD	18,000,000	19,280
Daewoo International Corporation	DMSA, AMSA	Export-Import Bank of Korea and others	USD	165,133,333	176,874
	GLOBAL KOMSCO Daewoo LLC	Export-Import Bank of Korea and others	USD	5,950,000	6,373
POSCO E&C Co., Ltd.	Taegisan Wind Power Corporation	NH Bank and others	KRW	7,500	7,500
	PSIB Co., Ltd.	Hana Bank	KRW	356,600	356,600
	THE GALE INVESTMENTS COMPANY, L.L.C. and others	Woori Bank	USD	50,000,000	53,555
	Pohang Techno Valley PFV Corporation	Shinhan Bank and others	KRW	135,660	135,660
POSCO P&S Co., Ltd.	Sebang Steel Co., Ltd.	Fukuoka Bank	JPY	245,000,000	3,056
POSCO ICT Co., Ltd.	Uitrans LRT Co., Ltd.	Construction Guarantee Cooperative	KRW	64,638	64,638
	CHUNGJU ENTERPRISE CITY DEVELOPMENT Co., Ltd.	NH Bank	KRW	2,530	2,530
POSCO Engineering Co., Ltd.	Daewoo Engineering (THAILAND) Co., Ltd. and others	Citibank Korea Inc.	USD	19,300,000	20,672
	PT Wampu Electric Power	PT Bank Woori Indonesia	USD	344,848	369
		Export-Import Bank of Korea and SMBC	USD	59,357,000	63,577
Daewoo (China) Co., Ltd.	Shanghai Lansheng Daewoo Corporation	China Construction Bank	CNY	100,000,000	17,188
POSCO CHEMTECH Co., Ltd.	PT.INDONESIA POS CHEMTECH CHOSUN REF	Korea Exchange Bank	USD	6,000,000	6,427

(in millions of Won)

Guarantors	Guarantee beneficiary	Financial institution	Foreign currency		Won equivalent
[Others]					
Daewoo International Corporation	Ambatovy Project Investments Limited	Export-Import Bank of Korea and others	USD	50,408,289	53,992
	Sherritt International Corporation	Export-Import Bank of Korea and others	USD	6,207,696	6,649
POSCO E&C Co., Ltd.	ALD PFV and others	Korea Exchange Bank and others	KRW	1,105,589	1,105,589
POSCO Plant Engineering Co., Ltd.	Gyeongpo wind power generation and others	KB Bank and others	KRW	229,213	229,213
	GS CALTEX HOU and others	Korea Exchange Bank and others	USD	9,787,628	10,484
POSCO ICT Co., Ltd.	BTL business and others	Kyobo Life Insurance Co., Ltd. and others	KRW	1,781,581	1,781,581
	SMS Energy and others	Hana Bank	KRW	207,110	207,110
POSCO M-TECH Co., Ltd.	PYUNGSA SI Co., Ltd.	Seoul Guarantee Insurance Co., Ltd.	KRW	326	326
Posco Engineering Co., Ltd	Kwanma Solar Co., Ltd. and others	Hana Bank and others	KRW	60,476	60,476
	Hyundai ENG Co., Ltd.	Engineering Financial Cooperative	KRW	147,663	147,663
POSCALCIUM Company, Ltd	Pohang city	Seoul Guarantee Insurance Co., Ltd.	KRW	49	49
			CNY	569,600,000	97,903
			EUR	15,000,000	21,244
			BRL	8,875,000	4,652
			IDR	73,836,098,099	8,203
			JPY	44,761,037,861	558,393
			KRW	4,098,935	4,098,935
			MYR	240,000,000	83,952
			USD	3,983,458,420	4,266,684

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(c) POSCO E&C Co., Ltd. has provided the completion guarantees for Samsung C&T Corporation amounting to ₩2,024,503 million while Samsung C&T Corporation and SK E&C have provided the construction guarantees or payment guarantees on customers' borrowings on behalf of POSCO E&C Co., Ltd. amounting to ₩1,276,581 million as of December 31, 2012. POSCO E&C Co., Ltd. provides payment guarantees on borrowings of customers such as Asset Backed Commercial Paper amounted to ₩518,178 million and Project Financing loan amounted to ₩280,536 million as of December 31, 2012.

(d) Commitments

POSCO

POSCO entered into long-term contracts to purchase iron ore, coal, nickel and others. These contracts generally have terms of more than three years and provide for periodic price adjustments to the market price. As of December 31, 2012, 217 million tons of iron ore and 27 million tons of coal remained to be purchased under such long-term contracts.

POSCO entered into an agreement with Tangguh Liquefied Natural Gas (LNG) Consortium in Indonesia to purchase 550 thousand tons of LNG annually for 20 years commencing in August 2005. Purchase price is subject to change, following the change of the monthly standard oil price (JCC) and also price ceiling is applicable.

As of December 31, 2012, POSCO entered into commitments with Korea National Oil Corporation for long-term foreign currency borrowings, which are limited up to the amount of USD 6.86 million, USD 3.54 million and USD 4.12 million, respectively. The borrowings are related to the exploration of gas hydrates in Aral Sea, Uzbekistan, the exploration of gas hydrates in Namangan-Chust and the exploration of gas hydrates in Western Fergana- Chenavard, respectively. The repayment of the borrowings depends on the success of the projects. POSCO is not liable for the repayment of full or part of the money borrowed if the respective project fails. POSCO has agreed to pay a certain portion of its profits under certain conditions, as defined by the borrowing agreements.

POSCO E&C Co., Ltd

POSCO E&C Co., Ltd. has bank overdraft agreements of up to ₩20,000 million with Woori Bank which is included in the limit of comprehensive loan agreements and ₩3,000 million with Korea Exchange Bank. Also POSCO E&C Co., Ltd. has comprehensive loan agreements of up to ₩360,000 million and USD 308 million with Woori Bank and ₩83,000 million with Korea Exchange Bank.

POSCO ICT Co., Ltd.

As of December 31, 2012, in relation to contract enforcement, POSCO ICT Co., Ltd. was provided with ₩123,999 million and 48,651 million guaranties from Seoul Guarantee Insurance and Korea Software Financial Cooperative, respectively.

As of December 31, 2012, in relation to transfer of military camp based on Changwon city & land development projects, POSCO ICT Co., Ltd. provided Kyongnam Bank and other banks with ₩620,000 million fund support under fund support agreements between POSCO ICT Co., Ltd. and Unicity 7th LLC.

As of December 31, 2012, in relation to Incheongimpo Highway investment projects, POSCO ICT Co., Ltd. provided Korea Development Bank and other banks with ₩175,000 million fund support under fund support agreements between POSCO ICT Co., Ltd. and Incheongimpo Highway INC.

As of December 31, 2012, in relation to Busan sansung tunnel projects, POSCO ICT Co., Ltd. provided Korea Development Bank and other banks with ₩17,000 million fund support under fund support agreements between POSCO ICT Co., Ltd. and Busan Sansung Tunnel Co., Ltd.

POSCO Specialty Steel Co., Ltd.

POSCO Specialty Steel Co., Ltd. has a loan agreement, secured by trade accounts receivable, of up to ₩1,081,447 million with Woori Bank and others. POSCO Specialty Steel Co., Ltd. has used ₩133,489 million of this loan agreement.

POSCO Specialty Steel Co., Ltd. has agreements with Woori Bank and nine other banks for opening letters of credit of up to USD 313 million, and for a loan of up to ₩120,975 million. POSCO Specialty Steel Co., Ltd. has used USD 202 million, EUR 666 thousand for opening letters of credit and ₩7,043 million for Korean Won loans.

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(*1)

Civil lawsuits with Nippon Steel & Sumitomo Metal Corporation

(*2)

In May 2002, Industrial Development Bank of India Limited, the creditor of Daewoo Motors India Ltd. for which Daewoo Co., Ltd. provided guarantee, filed lawsuits against Daewoo Motors India Ltd., Daewoo Co., Ltd., Daewoo Engineering & Construction Co., Ltd. and Daewoo International Corporation (a subsidiary of POSCO) seeking for the disposition of assets and judgment of debt of Daewoo Motors India Ltd. in India Delhi Mumbai Court. Management of the Company has assessed the likelihood of the outcome of this matter and estimated the amount of possible loss and has made the appropriate provision for these lawsuits as of December 31, 2011 and 2012.

(e) Litigation in progress

As of December 2012, the Company and certain subsidiaries are defendants in legal actions arising from the normal course of business. Details of amount claimed are as follows:

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

Company	Legal actions	Claim amount	Korean Won equivalent	Description
POSCO	2 JPY	98,600,000	1,230,035	Lawsuit on claim for damages (*1)
	14 KRW	55,182	55,182	Lawsuit on claim for damages
POSCO E&C Co., Ltd.	78 KRW	71,983	71,983	Lawsuit on claim for payment
POSCO Plant Engineering Co., Ltd.	9 KRW	2,374	2,374	Lawsuit on claim for payment
POSCO ICT Co., Ltd.	12 KRW	6,918	6,918	Lawsuit on claim for payment
POSCO A&C Co., Ltd.	1 KRW	572	572	Imposed high tax rate
POSCO M-TECH Co., Ltd.	1 KRW	76	76	
POSCO America Corporation	3 USD	-	-	
POSCO E&C China Co., Ltd.	1 CNY	37,000	6,360	Lawsuit on claim for payment of work complied related with the sub-contractor and second subcontractor
POSCO-Malaysia SDN. BHD.	1 MYR	5,782	2,023	
POSCO Engineering Co., Ltd.	3 KRW	1,662	1,662	Lawsuit on claim for damages
Kwang Yang SPFC Co., Ltd.	1 KRW	5,693	5,693	Lawsuit on claim for payment
Daewoo International Corporationa	2 EUR	5,164	7,314	Lawsuit on claim for damages
	1 INR (*2)	4,458,849	87,037	
	1 USD	42,825	45,870	The portion (22.54%) of Daewoo International Corporation of total claim for damages

During the year ended December 31, 2012, Nippon Steel & Sumitomo Metal Corporation filed civil lawsuits in the Tokyo District Court of Japan against POSCO and POSCO Japan Co., Ltd., a subsidiary of POSCO, to prohibit production and sales of grain oriented electrical steel sheets using improperly acquired trade secrets and seeking compensation from the Company of ₩1,230 billion. Through the first and second trials held in October and December 2012, respectively, the Company submitted its responses that the Japan court did not have jurisdiction on this lawsuit as it should be judged by Korean law and the Company developed grain oriented electrical steel sheets using the Company's own technologies. As of December 31, 2012, the Japan court has not made any judgments on this matter. The Company has not recorded any provision for this lawsuit in Japan as of December 31, 2012.

In addition, Nippon Steel & Sumitomo Metal Corporation filed civil lawsuits in the New Jersey federal court, United States, against POSCO and POSCO America Co., Ltd., a subsidiary of POSCO, claiming infringement of intellectual property rights related to the production of grain oriented electrical steel sheets. As of December 31, 2012, no claim amount has been made and the Company is under discovery proceedings related to this matter. Due to the early stage of the litigations and the inherent uncertainties, the Company is not able to reliably estimate the amount of compensation and timing, if any, that might be awarded to Nippon Steel & Sumitomo Metal Corporation. Consequently, it is not possible for the Company to make an estimate of the expected financial effect that will result from the ultimate resolution of the civil lawsuits. Therefore, the Company has not recorded any provision for this lawsuit in the US as of December 31, 2012.

For all other lawsuits and claims, the Company believes that although the outcome of these matters is uncertain, the impacts of these matters are not expected to be material to the Company.

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Continued As of December 31, 2012

(e) Other contingencies

Company	Description
POSCO	POSCO has provided two blank promissory notes and one blank check to Korea Resources Corporation and six blank promissory notes and three blank checks to Korea National Oil Corporation as collateral for outstanding loans.
POSCO E&C Co., Ltd.	As of December 31, 2012, POSCO E&C Co., Ltd. has provided ten blank promissory notes, sixteen blank checks and six other notes, approximately amounting to ₩61,704 million, to Korea Housing Guarantee Co., Ltd. and other financial institutions as collateral for agreements and outstanding loans.
Daewoo International Corporation	As of December 31, 2012, Daewoo International Corporation has provided forty-five blank promissory notes and thirteen blank checks to Korea National Oil Corporation as collateral for the guarantee on performance for contracts and others.
POSCO ICT Co., Ltd.	As of December 31, 2012, POSCO ICT Co., Ltd. has provided eight blank promissory notes and ten blank checks to financial institutions as collateral for the guarantee on performance for contracts and others.
POSCO Engineering Co., Ltd.	As of December 31, 2012, POSCO Engineering Co., Ltd. has provided one note to Hana Tank Terminal Co., Ltd. as collateral for the guarantee on performance for contracts and others.
POSCO-JKPC Co., Ltd.	As of December 31, 2012, POSCO-JKPC Co., Ltd. has provided two hundred-three notes as collateral for borrowings. (JPY 747,817,793, 45% of borrowings from the Kinakyushu Bank, Ltd., 30% of borrowings from Higo bank, Ltd.)
Daewoo International Japan Corp	As of December 31, 2012, Daewoo International Japan Corp. has provided one hundred-fifteen notes receivable (JPY 563,771,819) to Resona bank Ltd. as collateral for loans from banks.

34. Cash Flows from Operating Activities

Adjustments for operating cash flows for the years ended December 31, 2010, 2011 and 2012 are as follows:

(in millions of Won)

	2010	2011	2012
Trade accounts and notes receivable	(538,949)	(2,402,346)	87,830
Other financial assets	226,211	(187,607)	(392,090)
Inventories	(3,518,927)	(2,538,178)	1,450,431
Other current assets	(137,246)	(310,397)	(198,157)
Other long-term assets	(77,912)	47,929	(141,037)
Trade accounts payable	(342,177)	265,993	225,086
Other financial liabilities	35,008	260,306	357,502
Other current liabilities	185,226	384,943	583,159
Provisions	9,157	(36,511)	17,108
Payment severance benefits	(90,951)	(574,759)	(116,846)
Plan assets	(140,173)	252,671	(191,696)
Other long-term liabilities	(62,737)	(12,791)	252,068
	(4,453,470)	(4,850,747)	1,933,358

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35. Business Combinations

(a) Daewoo International Corporation

POSCO acquired a 68.15% controlling financial interest in Daewoo International Corporation, a Korean Company listed on the Korean Securities Exchange ("Daewoo International"), for ₩3,371,481 million in cash in 2010. There is no contingent consideration. The acquisition was consummated on September 20, 2010. Daewoo International is engaged in various business activities, such as providing export services, export agent services, intermediary trading, manufacturing, distribution and natural resource development. Goodwill arising from the acquisition primarily results from synergies the Company and its subsidiaries expect to realized. The results of operations of Daewoo International Corporation have been consolidated from the date of acquisition. Therefore, comparability with POSCO's consolidated financial statements for prior years is impacted accordingly. The amounts of revenues and net profit of Daewoo International Corporation since the acquisition date to December 31, 2010 included in consolidated revenues and net profit amounted to ₩3,951,609 million and ₩870,295 million, respectively.

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

(in millions of Won)

	Amount
I. Consideration transferred	3,371,481
II. Non-controlling interests (*1)	1,042,678
Total	4,414,159
III. Acquired identifiable assets and liabilities	
[Assets]	
Cash and cash equivalents	403,971
Trade accounts and notes receivable and other financial assets	2,881,084
Inventories	722,807
Property, plant and equipment and intangible assets	3,182,679
Other assets	1,642,274
Total	8,832,815

(*1)

The non-controlling interests at the acquisition date were measured using their proportionate share in the recognized amounts of Daewoo International Corporation's identifiable net assets.

	Amount
[Liabilities]	
Trade accounts and notes payable and other financial liabilities	1,058,922
Borrowings	3,733,623
Other liabilities	790,033
Total	5,582,578
Total acquired net assets	3,250,237
IV. Goodwill recognized	1,163,922

Pro-forma Information

The following summarized pro forma consolidated statement of comprehensive income information assumes that the Daewoo International Corporation acquisition occurred as of January 1, 2010. The pro forma results reflect certain adjustments related to the acquisition, such as increased depreciation and amortization expense on assets acquired from Daewoo International resulting from the fair valuation of assets acquired in place on acquisition date, i.e. September 30, 2010. The pro forma results do not include any anticipated cost synergies or other effects of the planned integration of Daewoo International Corporation.

If the Company had acquired Daewoo International Corporation as of January 1, 2010, pro-forma consolidated revenues and proforma net profit for the year ended December 31, 2010 would have been ₩57,967,590 million and ₩4,129,693 million, respectively.

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(b) POSCO-Thainox Public Company Limited.

The Company has acquired additional shares in POSCO-Thainox Public Company Limited from its previous largest shareholder on September 23, 2011 in order to expand its footprint in the cold-rolled stainless steel sheets and coils market in Southeast Asia and to achieve its synergy effects with its existing operations in the region. The Company obtained control of POSCO-Thainox Public Company Limited. since its voting interest increased from 15.39% to 75.32%. There is no contingent consideration. The results of operations of POSCO-Thainox Public Company Limited have been consolidated from the date of acquisition. Therefore, comparability with POSCO's consolidated financial statements for prior years is impacted accordingly The amounts of revenues and net profit of POSCO-Thainox Public Company Limited since the acquisition date included in consolidated revenues and net profit amounted to 92,798 million and 11,658 million, respectively. Goodwill recognised in this business combination is as follows:

(in millions of Won)

Amount	
I. Consideration transferred	
Fair value of investment held before acquisition (*1)	99,382
Cash	390,474
Total	489,856
II. Non-controlling interests (*2)	
Total	489,856
III. Acquired identifiable assets and liabilities	
[Assets]	
Cash and cash equivalents	62,080
Trade accounts and notes receivable and other financial assets	102,464
Inventories	149,901
Property, plant and equipment and intangible assets	340,487
Other assets	20,129
Total	489,856

(*1)

Upon acquisition of the business, a 57,080 million re-measurement gain on the Company's existing investment in the acquiree prior to acquisition date (acquisition cost: ₩42,302 million) was recognized as finance income. The fair value of this existing investment was determined using quoted market price of the shares on acquisition date.

(*2)

The non-controlling interests at the acquisition date were measured using their proportionate share in the recognized amounts of POSCO-Thainox Public Company Limited's identifiable net assets

Amount	
[Liabilities]	
Trade accounts and notes payable and other financial liabilities	147,382
Borrowings	11,803
Other liabilities	23,867
Total	183,052
Total acquired net assets	492,009
IV. Goodwill recognized	119,260

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

Pro-forma Information

The following summarized pro forma consolidated statement of comprehensive income information assumes that the POSCO-Thainox Public Company Limited acquisition occurred as of January 1, 2011. The pro forma results reflect certain adjustments related to the acquisition, such as increased depreciation and amortization expense on assets acquired from POSCO-Thainox Public Company Limited resulting from the fair valuation of assets acquired in place on acquisition date, September 23, 2011. The pro forma results do not include any anticipated cost synergies or other effects of the planned integration of POSCO-Thainox Public Company Limited.

If the Company had acquired POSCO-Thainox Public Company Limited as of January 1, 2011, pro-forma consolidated revenues and pro-forma consolidated net profit for the year ended December 31, 2011 would have been ₩69,243,204 million and ₩3,726,225 million, respectively.



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Continued As of December 31, 2012

36. Operating Segments

(a) Our operating businesses are organized based on the nature of markets and customers. We have four reportable operating segments - steel, construction, trading and others. The steel segment includes production of steel products and revenue of such products. The engineering and construction segment includes planning, designing and construction of industrial plants, civil engineering projects and commercial and residential buildings, both in Korea and overseas. The trading segment consists of exporting and importing a wide range of steel products and raw materials that are both obtained from and supplied to POSCO, as well as between other suppliers and purchasers in Korea and overseas. Other segments include power generation, liquefied natural gas production, network and system integration and logistics.

(b) Information about reportable segments as of and for the years ended December 31, 2010, 2011 and 2012 are as follows:

1) For the year ended December 31, 2010

(in millions of Won)

Guarantors	Steel	Trading	Construction	Others	Total
External revenues	35,527,373	6,236,030	4,348,796	1,775,056	47,887,255
Internal revenues	10,725,583	3,174,342	3,574,669	1,104,332	18,578,926
Total revenues	46,252,956	9,410,372	7,923,465	2,879,388	66,466,181
Interest income	243,306	5,829	25,312	23,986	298,433
Interest expenses	425,024	27,859	60,292	91,799	604,974
Depreciation and amortization	2,949,227	16,613	30,545	74,079	3,070,464
Impairment loss of property, plant and equipment and others	730	-	127,516	2,636	130,882
Impairment loss of available-for-sale financial assets	11,627	-	1,754	43,791	57,172
Share of profit or loss of investment in associates	(1,324)	(852)	-	(9,516)	(11,692)
Income tax expense	1,025,156	(47,967)	69,780	5,080	1,052,049
Segments profit	4,088,737	94,014	256,183	12,913	4,451,847
Segments assets	60,773,736	9,605,706	6,477,360	4,978,137	81,834,939
Investment in associate	11,694,102	1,664,760	601,559	39,845	14,000,266
Acquisition of non-current assets	10,500,517	669,485	169,591	1,480,715	12,820,308
Segments liabilities	19,570,113	7,519,031	3,632,366	3,407,866	34,129,376

2) For the year ended December 31, 2011

(in millions of Won)

Guarantors	Steel	Trading	Construction	Others	Total
External revenues	39,151,930	21,097,356	5,476,209	3,213,230	68,938,725
Internal revenues	17,138,610	7,525,555	2,996,933	2,446,417	30,107,515
Total revenues	56,290,540	28,622,911	8,473,142	5,659,647	99,046,240
Interest income	154,671	43,842	22,744	22,025	243,282
Interest expenses	(551,478)	(93,532)	(69,050)	(110,615)	(824,675)
Depreciation and amortization	(2,128,182)	(37,320)	(31,238)	(178,429)	(2,375,169)
Impairment loss of property, plant and equipment and others	(25,177)	(34,544)	(23,397)	(995)	(84,113)
Impairment loss of available-for-sale financial assets	(136,638)	-	-	(16,166)	(152,804)
Share of profit or loss of investment in associates	(33,361)	-	-	(6,888)	(40,249)
Income tax expense	(1,111,709)	(35,322)	(22,536)	(16,454)	(1,186,021)
Segments profit	3,689,461	195,298	154,618	155,277	4,194,654
Segments assets	67,961,383	12,120,560	8,764,698	6,663,297	95,509,938
Investment in associates	14,226,687	1,899,762	918,079	186,490	17,231,018
Acquisition of non-current assets	9,385,381	607,076	207,619	594,514	10,794,590
Segments liabilities	23,169,910	9,706,622	5,554,097	4,528,283	42,958,912

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(*1)

As segment assets and liabilities are determined based on separate financial statements, for subsidiaries which are in a different segment from that of its immediate parent company, their carrying amount in separate financial statements is eliminated upon consolidation. In addition, adjustments are made to adjust the amount of investment in associates from the amount reflected in segment assets to that determined using equity method in consolidated financial statements.

3) For the year ended December 31, 2012

(in millions of Won)

Guarantors	Steel	Trading	Construction	Others	Total
External revenues	35,258,970	18,945,642	4,675,596	4,723,943	63,604,151
Internal revenues	17,609,789	7,467,872	5,050,287	2,857,139	32,985,087
Total revenues	52,868,759	26,413,514	9,725,883	7,581,082	96,589,238
Interest income	176,229	50,907	43,815	21,811	292,762
Interest expenses	(553,508)	(174,607)	(48,975)	(116,499)	(893,589)
Depreciation and amortization	(2,334,357)	(35,788)	(35,323)	(218,515)	(2,623,983)
Impairment loss of property, plant and equipment and others	(46,951)	(30,073)	(7,734)	(16,257)	(101,015)
Impairment loss of available-for-sale financial assets	(201,850)	(254)	(1,713)	(20,354)	(224,171)
Share of profit or loss of investment in associates	(39,806)	(5,579)	(27)	(2,764)	(48,176)
Income tax expense	(658,307)	(184,318)	(135,469)	(77,139)	(1,055,233)
Segments profit	2,245,977	325,197	345,295	301,670	3,218,139
Segments assets	69,920,261	10,904,747	10,775,895	7,723,374	99,324,277
Investment in associates	15,802,052	1,043,018	1,130,216	435,980	18,411,266
Acquisition of non-current assets	7,629,767	395,081	167,818	781,087	8,973,753
Segments liabilities	23,105,008	7,865,399	7,008,996	4,836,641	42,816,044

(d) Reconciliations of total segment revenues, profit or loss, assets and liabilities, and other significant items to their respective consolidated financial statement line items are as follows:

1) Revenues

(in millions of Won)

	2010	2011	2012
Total revenue for reportable segments	66,466,181	99,046,240	96,589,238
Elimination of inter-segment revenue	(18,578,926)	(30,107,515)	(32,985,087)
	47,887,255	68,938,725	63,604,151

2) Profit

(in millions of Won)

	2010	2011	2012
Total profit for reportable segments	66,466,181	99,046,240	96,589,238
Goodwill and PP&E FV adjustments			
Elimination of inter-segment profits			
Income tax expense	(18,578,926)	(30,107,515)	(32,985,087)
Profit before income tax expense	4,782,395	3,368,486	63,604,151

3) Assets

(in millions of Won)

	2011	2012
Total assets for reportable segments (*1)	95,509,938	99,324,277
Equity-accounted investees	(13,393,184)	(15,365,984)
Goodwill and PP&E FV adjustments	4,357,046	3,657,016
Elimination of inter-segment assets	(8,064,962)	(8,349,458)
	78,408,838	79,265,851

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4) Liabilities

(in millions of Won)

	2011	2012
Total liabilities for reportable segments	42,958,912	42,816,044
Goodwill and PP&E FV adjustments	341,852	330,791
Elimination of inter-segment liabilities	(5,621,847)	(6,310,403)
	37,678,917	36,836,432

5) Other significant items

a) December 31, 2010

(in millions of Won)

	Goodwill and PP&E FV			
	Total Segment	adjustments	Elimination of inter-segment	Consolidated
Interest income	298,433	-	(5,505)	292,928
Interest expenses	604,974	(1,301)	(16,790)	586,883
Depreciation and amortization	3,070,464	13,073	(47,642)	3,035,895
Share of profit or loss of equity-accounted investees	(11,692)	-	194,348	182,656
Income tax expense	1,052,049	-	29,423	1,081,472
Impairment loss of property, plant and equipment and others	130,882	-	(2,799)	128,083
Impairment of available-for-sale financial assets	57,172	-	-	57,172
	5,202,282	11,772	151,035	5,365,089

b) December 31, 2011

(in millions of Won)

	Goodwill and PP&E FV			
	Total Segment	adjustments	Elimination of inter-segment	Consolidated
Interest income	243,282	-	(27,048)	216,234
Interest expenses	(824,675)	6,312	30,015	(788,348)
Depreciation and amortization	(2,375,169)	(63,690)	172,560	(2,266,299)
Share of profit or loss of investment in associates	(40,249)	-	90,818	50,569
Income tax expense	(1,186,021)	12,194	105,718	(1,068,109)
Impairment loss of property, plant and equipment and others	(84,113)	-	(14,958)	(99,071)
Impairment loss of available-for-sale financial assets	(152,804)	-	-	(152,804)
	(4,419,749)	(45,184)	357,105	(4,107,828)

c) December 31, 2012

(in millions of Won)

	Goodwill and PP&E FV			
	Total Segment	adjustments	Elimination of inter-segment	Consolidated
Interest income	292,762	-	(13,955)	278,807
Interest expenses	(893,589)	1,372	20,760	(871,457)
Depreciation and amortization	(2,623,983)	(77,496)	137,719	(2,563,760)
Share of profit or loss of investment in associates	(48,176)	-	25,474	(22,702)
Income tax expense	(1,055,233)	15,150	57,203	(982,880)
Impairment loss of property, plant and equipment and others	(101,015)	(258,451)	24,070	(335,396)
Impairment loss of available-for-sale financial assets	(224,171)	-	-	(224,171)
	(4,653,405)	(319,425)	251,271	(4,721,559)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Continued As of December 31, 2012

(e) Revenue by geographic area for years ended December 31, 2010, 2011 and 2012 are as follows:

(in millions of Won)

	2010	2011	2012
Domestic	37,759,641	53,986,926	47,692,025
Japan	1,503,703	2,386,578	2,380,651
China	5,133,279	6,070,588	6,022,875
Asia excluding Japan and China	1,763,108	2,645,428	3,157,469
North America	426,138	1,281,906	1,792,706
Others	1,301,386	2,567,299	2,558,425
Total	47,887,255	68,938,725	63,604,151

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

(f) Non-current assets by geographic area as of December 31, 2011 and 2012 are as follows

(in millions of Won)

	2011	2012
Domestic	29,386,052	31,213,290
Japan	320,009	256,532
China	1,474,983	1,745,076
Asia excluding Japan and China	1,752,302	3,162,715
North America	110,702	125,206
Others	1,181,597	1,957,112
Total	34,225,645	38,459,931

Non-current assets by geographic area include investment property, property, plant and equipment, goodwill and other intangible assets.

(g) There are no customers whose revenue is 10% or more of total consolidated revenues.

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FINANCIAL STATEMENTS

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

Consolidated Statements of Changes in Equity

(in millions of Won)

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

See accompanying notes to the consolidated financial statements.

FINANCIAL STATEMENTS

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

Consolidated Statements of Cash Flows

(in millions of Won)

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

See accompanying notes to the consolidated financial statements.