

POSCO
Form 20-F
April 29, 2015
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As filed with the Securities and Exchange Commission on April 29, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

(Mark One)

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

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014**

OR

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

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

For the transition period from _____ to _____

Commission file number 1-13368

POSCO

(Exact name of Registrant as specified in its charter)

POSCO
(Translation of Registrant's name into English)

The Republic of Korea
(Jurisdiction of incorporation or organization)

POSCO Center, 440 Teheran-ro, Gangnam-gu

Seoul, Korea 135-777

(Address of principal executive offices)

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(Name, telephone, e-mail and/or facsimile number and address of company contact person)

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
American Depositary Shares, each representing one-fourth of one share of common stock	New York Stock Exchange, Inc.
Common Stock, par value Won 5,000 per share * Securities registered or to be registered pursuant to Section 12(g) of the Act.	New York Stock Exchange, Inc. *

None

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

None

As of December 31, 2014, there were 79,993,028 shares of common stock, par value Won 5,000 per share, outstanding (not including 7,193,807 shares of common stock held by the company as treasury shares)

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

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

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

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

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

Large accelerated filer x Accelerated filer " Non-accelerated filer "

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

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

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

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

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GLOSSARY

ADR	American Depositary Receipt evidencing ADSs.
ADR depositary	Citibank, N.A.
ADS	American Depositary Share representing one-fourth of one share of Common Stock.
Australian Dollar or A\$	The currency of the Commonwealth of Australia.
Commercial Code	Commercial Code of the Republic of Korea.
common stock	Common stock, par value Won 5,000 per share, of POSCO.
deposit agreement	Deposit Agreement, dated as of July 19, 2013, among POSCO, the ADR Depositary and all holders and beneficial owners from time to time of ADRs issued thereunder.
Dollars, \$ or US\$	The currency of the United States of America.
FSCMA	Financial Investment Services and Capital Markets Act of the Republic of Korea.
Government	The government of the Republic of Korea.
IASB	International Accounting Standards Board.
IFRS	International Financial Reporting Standards.
Yen or JPY	The currency of Japan.
Korea	The Republic of Korea.
Korean GAAP	Generally accepted accounting principles in the Republic of Korea.
Gwangyang Works	Gwangyang Steel Works.
We	POSCO and its consolidated subsidiaries.
Pohang Works	Pohang Steel Works.
POSCO Group	POSCO and its consolidated subsidiaries.
Renminbi	The currency of the People's Republic of China.
Securities Act	The United States Securities Act of 1933, as amended.
Securities Exchange Act	The United States Securities Exchange Act of 1934, as amended.
SEC	The United States Securities and Exchange Commission.
tons	Metric tons (1,000 kilograms), equal to 2,204.6 pounds.
U.S. GAAP	Generally accepted accounting principles in the United States of America.
Won or	The currency of the Republic of Korea.
Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.	

Table of Contents**PART I****Item 1. *Identity of Directors, Senior Managers and Advisers*****Item 1.A. *Directors and Senior Management*****Not applicable****Item 1.B. *Advisers*****Not applicable****Item 1.C. *Auditors*****Not applicable****Item 2. *Offer Statistics and Expected Timetable*****Not applicable****Item 2.A. *Offer Statistics*****Not applicable****Item 2.B. *Method and Expected Timetable*****Not applicable****Item 3. *Key Information*****Item 3.A. *Selected Financial Data***

The selected financial data presented below should be read in conjunction with our Consolidated Financial Statements and related notes thereto and Item 5. Operating and Financial Review and Prospects included elsewhere in this annual report. The selected financial data in Won as of December 31, 2013 and 2014 and for each of the years in the three-year period ended December 31, 2014 were derived from our Consolidated Financial Statements included elsewhere in this annual report. Our Consolidated Financial Statements are prepared in accordance with IFRS as issued by the IASB.

In addition to preparing financial statements in accordance with IFRS as issued by the IASB included in this annual report, we also prepare financial statements in accordance with Korean International Financial Reporting Standards (K-IFRS) as adopted by the Korean Accounting Standards Board (the KASB), which we are required to file with the Financial Services Commission and the Korea Exchange under the Financial Investment Services and Capital Markets Act of Korea. English translations of such financial statements are furnished to the Securities and Exchange Commission under Form 6-K. During the three years ended December 31, 2014, we are required to adopt certain amendments and interpretations to K-IFRS, relating to presentation of operating profit. Additionally, under K-IFRS, revenue from the development and sale of certain real estate is recognized using the percentage of completion method. However, under IFRS as issued by the IASB, revenue from the development and sale of real estate is recognized when an individual unit of residential real estate is delivered to the buyer. As a result, our consolidated statements of comprehensive income and our consolidated statements of financial position prepared in accordance with IFRS as issued by the IASB included in this annual report differ from our consolidated statements of comprehensive income and consolidated statements of financial position prepared in accordance with K-IFRS. See Item 5.A. Operating Results Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS.

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

Selected consolidated statement of comprehensive income data

	For the Year Ended December 31,					
	2010	2011	2012	2013	2014	2014
	(In billions of Won and millions of Dollars, except per share data)					
Revenue ⁽¹⁾	47,887	68,890	63,345	61,766	64,759	US\$ 58,914
Cost of sales ⁽²⁾	39,722	59,784	55,921	54,914	57,465	52,279
Gross profit	8,165	9,105	7,425	6,852	7,293	6,635
Administrative expenses	1,492	2,035	2,129	2,232	2,310	2,101
Selling expenses	1,120	1,612	1,679	1,632	1,760	1,601
Other operating income	223	307	448	229	269	245
Other operating expenses	342	367	809	651	980	891
Operating profit	5,434	5,398	3,255	2,566	2,513	2,286
Share of profit (loss) of equity-accounted investees, net	183	51	(23)	(180)	(300)	(273)
Finance income	1,739	3,190	2,897	2,381	2,397	2,180
Finance costs	2,088	3,867	2,798	2,829	3,222	2,931
Profit before income tax	5,267	4,773	3,332	1,938	1,388	1,263
Income tax expense	1,081	1,066	974	589	824	749
Profit	4,186	3,707	2,358	1,349	564	513
Total comprehensive income	4,765	2,435	1,720	1,363	108	99
Profit (loss) for the period attributable to:						
Owners of the controlling company	4,106	3,641	2,437	1,371	633	576
Non-controlling interests	80	65	(79)	(22)	(69)	(63)
Total comprehensive income (loss) attributable to:						
Owners of the controlling company	4,640	2,524	1,887	1,439	182	165
Non-controlling interests	126	(89)	(167)	(75)	(73)	(66)
Basic and diluted earnings per share ⁽³⁾	53,297	47,138	31,552	17,338	7,514	6.84
Dividends per share of common stock	10,000	10,000	8,000	8,000	8,000	
Dividends per share of common stock (in Dollars) ⁽⁴⁾	US\$ 8.78	US\$ 8.67	US\$ 7.47	US\$ 7.58	US\$ 7.28	

Selected consolidated statements of financial position data

	As of December 31,					
	2010	2011	2012	2013	2014	2014
	(In billions of Won and millions of Dollars)					
Working capital ⁽⁵⁾	9,395	13,942	11,993	11,681	10,833	US\$ 9,855
Total current assets	27,672	33,547	31,817	32,039	33,208	30,211
Property, plant and equipment, net	25,438	28,453	32,276	35,760	35,241	32,061
Total non-current assets	41,746	44,854	47,711	52,802	52,636	47,885
Total assets	69,418	78,401	79,527	84,841	85,844	78,096
Short-term borrowings and current portion of long-term borrowings	10,476	10,792	10,509	10,714	12,195	11,095
Long-term borrowings, excluding current portion	10,664	16,020	14,412	15,533	15,233	13,858
Total liabilities	30,881	37,679	37,133	39,060	40,586	36,923
Share capital	482	482	482	482	482	439
Total equity	38,537	40,722	42,394	45,781	45,257	41,173

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	2010	For the Year Ended December 31,				2014	US\$	2014
		2011	2012	2013	2014			
	(In billions of Won and millions of Dollars)							
Net cash provided by operating activities	3,582	1,692	7,319	4,858	3,412		3,104	
Net cash used in investing activities	(6,915)	(5,517)	(6,169)	(8,752)	(3,745)		(3,406)	
Net cash provided by (used in) financing activities	4,588	4,900	(908)	3,532	135		123	
Net increase (decrease) in cash and cash equivalents	1,248	1,078	82	(472)	(187)		(170)	
Cash and cash equivalents at beginning of the year	2,273	3,521	4,599	4,681	4,209		3,829	
Cash and cash equivalents at end of the year	3,521	4,599	4,681	4,209	4,022		3,659	

- (1) Includes sales by our consolidated subsidiaries of steel products purchased by such subsidiaries from third parties, including trading companies to which we sell steel products.
- (2) Includes purchases of steel products by our consolidated subsidiaries from third parties, including trading companies to which we sell steel products.
- (3) See Note 36 of Notes to Consolidated Financial Statements for method of calculation. The weighted average number of common shares outstanding used to calculate basic and diluted earnings per share was 77,032,878 shares as of December 31, 2010, 77,251,818 shares as of December 31, 2011, 77,244,444 shares as of December 31, 2012, 78,009,654 shares as of December 31, 2013 and 79,801,539 shares as of December 31, 2014.
- (4) Translated into Dollars by applying the exchange rate at the end of the applicable year as announced by Seoul Money Brokerage Services, Ltd.
- (5) Working capital means current assets minus current liabilities.

EXCHANGE RATE INFORMATION

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

Period	At End of Period	Average Rate (1)		
		(Per US\$1.00)	High	Low
2010	1,138.9	1,156.3	1,261.5	1,104.0
2011	1,153.3	1,108.1	1,199.5	1,049.5
2012	1,071.1	1,126.9	1,181.8	1,071.1
2013	1,055.3	1,095.0	1,159.1	1,051.5
2014	1,099.2	1,053.2	1,118.3	1,008.9
October	1,054.0	1,060.3	1,072.3	1,047.0
November	1,101.1	1,095.1	1,113.1	1,058.8
December	1,099.2	1,104.2	1,118.3	1,088.1
2015 (through April 28)	1,074.5	1,097.8	1,133.9	1,074.5
January	1,090.8	1,088.9	1,108.7	1,077.3
February	1,099.2	1,098.4	1,109.8	1,088.3
March	1,104.2	1,112.6	1,133.9	1,096.5
April (through April 28)	1,074.5	1,090.6	1,109.4	1,074.5

Source: Seoul Money Brokerage Services, Ltd.

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

Item 3.B. Capitalization and Indebtedness

Not applicable

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

Not applicable

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Item 3.D. Risk Factors

You should carefully consider the risks described below.

The global economic downturn may adversely affect our business and performance. The global economic outlook for the near future remains uncertain.

Our business is affected by highly cyclical market demand for our steel products from a number of industries, including the construction, automotive, shipbuilding and electrical appliances industries as well as downstream steel processors, which are sensitive to general conditions in the global economy. Macroeconomic factors, such as the economic growth rate, employment levels, interest rates, inflation rates, exchange rates, commodity prices, demographic trends and fiscal policies of governments can have a significant effect on such industries. From time to time, these industries have experienced significant and sometimes prolonged downturns, which, in turn, have negatively impacted our steel business. The global economic outlook for the near future remains uncertain, particularly in light of concerns regarding the financial difficulties affecting many governments worldwide, including southern Europe and Latin America, as well as the recent slowdown of economic growth in China and other major emerging market economies and political and social instability in various countries in the Middle East and Northern Africa, including Iraq, Syria and Yemen, as well as in Ukraine and Russia.

An actual or anticipated further deterioration of global economic conditions may result in a decline in demand for our products that could have a negative impact on the prices at which they can be sold. In such a case, we will likely face pressure to reduce prices and we may need to rationalize our production capacity and reduce fixed costs. In the past, we have adjusted our crude steel production levels and sales prices in response to sluggish demand from our customers in industries adversely impacted by the deteriorating economic conditions. We recorded crude steel production of 39.7 million tons in 2012, 38.3 million tons in 2013 and 37.7 million tons in 2014. The average unit sales prices for our semi-finished and finished steel products were Won 1,071 thousand per ton in 2012, Won 998 thousand per ton in 2013 and Won 936 thousand per ton in 2014.

We expect that fluctuation in demand for our steel products and trading services to continue to prevail at least in the near future. We may decide to further adjust our future crude steel production or our sales prices on an on-going basis subject to market demand for our products, the production outlook of the global steel industry and global economic conditions in general. In addition, economic downturns in the Korean and global economies could result in market conditions characterized by weaker demand for steel products from a number of industries as well as falling prices for export and import products and reduced trade levels. Deterioration of market conditions may result in changes in assumptions underlying the carrying value of certain assets, which in turn could result in impairment of such assets, including intangible assets such as goodwill. In addition, our ability to reduce expenditures for production facilities and research and development during an industry downturn is limited because of the need to maintain our competitive position. If we are unable to reduce our expenses sufficiently to offset reductions in price and sales volume, our margins will suffer and our business, financial condition and results of operations may be materially and adversely affected.

Korea is our most important market, and our current business and future growth could be materially and adversely affected if economic conditions in Korea deteriorate.

We are incorporated in Korea, and a substantial portion of our operations and assets are located in Korea. Korea is our most important market, accounting for 44.6% of our total revenue from steel products produced and sold by us in 2014. Domestic demand for our products is affected by the condition of major steel consuming industries, such as construction, shipbuilding, automotive, electrical appliances and downstream steel processors, and the Korean economy in general. In addition, the trading operations of Daewoo International Corporation (Daewoo International), our consolidated subsidiary in which we hold a 60.3% interest, are affected by the general level of trade between Korea and other countries, which in turn tends to fluctuate based on general conditions in the Korean and

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global economies. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea. The economic indicators in Korea in recent years have shown mixed signs, and future growth of the Korean economy is subject to many factors beyond our control, including developments in the global economy.

Due to recent liquidity and credit concerns and volatility in the global financial markets, the value of the Won relative to the Dollar and other foreign currencies and the stock prices of Korean companies have fluctuated significantly in recent years. In particular, there has been increased volatility in light of concerns regarding the financial difficulties affecting many governments worldwide, including southern Europe and Latin America, as well as the recent slowdown of economic growth in China and other major emerging market economies. In addition, political and social instability in various countries in the Middle East and Northern Africa, including Iraq, Syria and Yemen, as well as in Ukraine and Russia, have resulted in an increase in volatility in the global financial markets. Accordingly, the overall prospects for the Korean and global economies in the remainder of 2015 and beyond remain uncertain. Any future deterioration of the Korean or global economy could adversely affect our business, financial condition and results of operations.

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

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

declines in consumer confidence and a slowdown in consumer spending;

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

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

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

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

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

social and labor unrest;

substantial decreases in the market prices of Korean real estate;

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

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

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

increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;

geo-political uncertainty and risk of further attacks by terrorist groups around the world;

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the occurrence of severe health epidemics in Korea and other parts of the world, including the recent Ebola outbreak;

deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from trade disputes or disagreements in foreign policy;

political uncertainty or increasing strife among or within political parties in Korea;

hostilities or political or social tensions involving oil producing countries in the Middle East and North Africa and any material disruption in the global supply of oil or increase in the price of oil;

the occurrence of severe earthquakes, tsunamis and other natural disasters in Korea and other parts of the world, particularly in trading partners (such as the March 2011 earthquake in Japan, which also resulted in the release of radioactive materials from a nuclear plant that had been damaged by the earthquake); and

an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States.

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

Our export sales and overseas sales to customers abroad accounted for 55.4% of our total revenue from steel products produced and sold by us in 2014. Our export sales volume to customers in Asia, including China, Japan, Indonesia, Thailand and Malaysia, accounted for 66.7% of our total export sales revenue from steel products produced and exported by us in 2014, and we expect our sales to these countries, especially to China, to remain important in the future. Accordingly, adverse economic and financial developments in these countries may have an adverse effect on demand for our products. Economic weakness in Asia may also adversely affect our sales to the Korean companies that export to the region, especially companies in the construction, shipbuilding, automotive, electrical appliances and downstream steel processing industries. Weaker demand in these countries, combined with addition of new steel production capacity, particularly in China, may also reduce export prices in Dollar terms of our principal products. We attempt to maintain and expand our export sales to generate foreign currency receipts to cover our foreign currency purchases and debt service requirements. Consequently, any decrease in our export sales could also increase our foreign exchange risks.

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

Our consolidated financial statements are prepared from our local currency denominated financial results, assets and liabilities and our subsidiaries around the world, which are then translated into Won. A substantial proportion of our consolidated financial results is accounted for in currencies other than the Won. Accordingly, our consolidated financial results and assets and liabilities may be materially affected by changes in the exchange rates of foreign currencies. In 2014, 55.4% of our total revenue from steel products produced and sold by us was in overseas markets outside of Korea. To the extent that we incur costs in one currency and make sales in another, our profit margins may be affected by changes in the exchange rates between the two currencies. Since the currency in which sales are recorded may not be the same as the currency in which expenses are incurred, foreign exchange rate fluctuations may materially affect our results of operations. Depreciation of the Won may materially affect the results of our operations because, among other things, it causes:

an increase in the amount of Won required for us to make interest and principal payments on our foreign currency-denominated debt;

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

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

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

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

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

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

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

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

We purchase substantially all of the principal raw materials we use from sources outside Korea, including iron ore and coal. POSCO imported approximately 53.8 million dry metric tons of iron ore and 28.4 million wet metric tons of coal in 2014. Iron ore is imported primarily from Australia, Brazil and Canada. Coal is imported primarily from Australia, Canada, Russia and the United States. Although we have not experienced significant unanticipated supply disruptions in the past, supply disruptions, which could be caused by political or other events in the countries from which we import these materials, could adversely affect our operations. In addition, we are particularly exposed to increases in the prices of coal, iron ore and nickel, which represent the largest components of our cost of goods sold. The prices of our key raw materials have fluctuated significantly in recent years. For example, the average market price of coal per wet metric ton (benchmark free on board price of Australian premium hard coking coal) was US\$209 in 2012, US\$159 in 2013 and US\$125 in 2014. The average market price of iron ore per dry metric ton (free on board price of Platts Iron Ore index with iron (Fe) 62% content) was US\$122 in 2012, US\$126 in 2013 and US\$88 in 2014.

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Our long-term supply contracts generally have terms of three to ten years and provide for periodic price adjustments to the then-market prices. We typically adjust the prices on a quarterly basis and maintain approximately one month of inventory of raw materials. Such price negotiations are driven by various factors, including the global economic outlook, global market prices of raw materials and steel products, supply and demand outlook of raw materials and production costs of raw materials. Typically, globally influenced buyers and sellers of raw materials determine benchmark prices of raw materials, based on which other buyers and sellers negotiate their prices after taking into consideration the quality of raw materials and other factors. In the case of iron ore, if we fail to agree on the quarterly price adjustment within a predetermined deadline, the supplier and we typically agree on the purchase price based on the price formula that reflects the spot market price as well as the quality of iron ore and transportation expense. As of December 31, 2014, 137 million tons of iron ore and 32 million tons of coal remained to be purchased under long-term supply contracts. Future increases in prices of our key raw materials and our inability to pass along such increases to our customers could adversely affect our margins and profits. Increased prices may also cause potential customers to defer purchase of steel products, which would have an adverse effect on our business, financial condition and results of operations.

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

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

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

reduce export prices in Dollar terms of our principal products, which in turn may reduce our sales prices in Korea;

increase competition in the Korean market as foreign producers seek to export steel products to Korea as other markets experience a slowdown;

negatively affect demand for our products abroad and our ability to expand export sales; and

affect our ability to increase steel production in general.

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

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

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

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

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

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

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

Competition for new project awards in overseas markets is also intense. In these markets, POSCO E&C faces competition from local construction companies, as well as international

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

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

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

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

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

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

difficulties in managing a larger business; and

loss of key management personnel or customers.

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

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

We conduct international trading and construction operations abroad, and our business relies on a global trading network comprised of overseas subsidiaries, branches and representative offices. Although many of our subsidiaries and overseas branches are located in developed countries, we also

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

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

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

challenges caused by distance, language and cultural differences;

higher costs associated with doing business internationally;

legal and regulatory restrictions, including foreign exchange controls that might prevent us from repatriating cash earned in countries outside Korea;

longer payment cycles in some countries;

credit risk and higher levels of payment fraud;

currency exchange risks;

potentially adverse tax consequences;

political and economic instability; and

seasonal reductions in business activity during the summer months in some countries.

We have limited insurance coverage and may incur significant losses resulting from operating hazards, product liability claims from customers or business interruptions.

The normal operation of our manufacturing facilities may be interrupted by accidents caused by operating hazards, power supply disruptions and equipment failures, as well as natural disasters. As with other industrial companies, our operations involve the use, handling, generation, processing, storage, transportation and disposal of hazardous materials, which may result in fires, explosions, spills and other unexpected or dangerous accidents causing property damage as well as personal injuries or death. We are also exposed to risks associated with product liability claims in the event that the use of the products we sell results in injury. We maintain property insurance for our property, plant and equipment that we believe to be consistent with market practice in Korea. However, we may not have adequate resources to satisfy a judgment in excess of our insurance coverage in the event of a successful claim against us. Any occurrence of accidents or other events affecting our operations could result in potentially significant monetary damages, diversion of resources, production disruption and delay in delivery of our products, which

may have a material adverse effect on our business, financial condition and results of operations.

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

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

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

In recent years, we have become subject to a number of anti-dumping duties in the United States, Canada, India, Indonesia, Australia, Thailand, Brazil, Taiwan and Malaysia and safeguard duties in Thailand. We are also subject to a number of on-going anti-dumping and safeguard investigations in Malaysia, the European Union, Indonesia, India and Thailand. In addition, the Mexican government initiated an anti-dumping investigation in October 2012 relating to our exports of cold rolled steel products, and the investigation was suspended until 2018 on condition that we comply with supply undertakings. Our products that are subject to anti-dumping, safeguard or countervailing duty proceedings in the aggregate currently do not account for a material portion of our total sales, and such proceedings have not had a material adverse impact on our business and operations in recent years. However, there can be no assurance that increases in, or new impositions of, anti-dumping duties, safeguard duties, countervailing duties, quotas or tariffs on our exports of products abroad may not have a material adverse impact on our exports in the future. See Item 4. Information on the Company Item 4.B. Business Overview Markets Exports.

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

As part of consortia or through acquisitions of minority interests, we engage in overseas natural resources exploration, development and production projects in various locations, including a gas field exploration project in Myanmar, in which Daewoo International had invested approximately US\$ 1,808 million as of December 31, 2014 and plans to make further investments in the future. Daewoo International began recognizing revenue from the Myanmar gas field project starting in November 2013. We may also selectively acquire or invest in companies or businesses that engage in such activities. As part of our efforts to diversify our operations, we intend to continue to expand our operations by carefully seeking out promising exploration, development and production opportunities abroad. To the extent that we enter into these arrangements, our success in these endeavors will depend in part on the willingness of our partner companies to dedicate sufficient resources to their partnership with us.

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

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production projects will be profitable, that we will be able to meet the financing requirements for such projects, or that we can recoup the costs related to such investments, which in turn could materially and adversely affect our business, financial condition and results of operations.

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

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

In addition, our consortium partners may:

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

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

be unable or unwilling to fulfill their obligations;

have financial difficulties; or

have disputes with us as to their rights, responsibilities and obligations.

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

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

In order to complement our steel operations, we engage in engineering and construction activities through POSCO E&C, an 89.5%-owned subsidiary. The construction segment, which accounted for approximately 12.5% of our consolidated sales in 2014 after adjusting for inter-company sales and not taking into account the basis difference described in Note 42 of Notes to Consolidated Financial Statements, is highly cyclical and tends to fluctuate based on macroeconomic factors, such as consumer confidence and income, employment levels, interest rates, inflation rates, demographic trends and policies of the Government. Although we believe that POSCO E&C's strategy of focusing on high-value-added plant construction and urban planning and development projects such as Songdo New City has enabled it to be exposed to a lesser degree to general economic conditions in Korea in comparison to some of its domestic competitors, our construction revenues have fluctuated in the past depending on the level of domestic construction activity including new construction orders. POSCO

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E&C's construction operations could suffer in the future in the event of a general downturn in the construction market resulting in weaker demand, which could adversely affect POSCO E&C's business, results of operations or financial condition.

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

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

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

unanticipated variations in labor and equipment productivity over the term of a contract;

unanticipated increases in labor, raw material, parts and components, subcontracting and overhead costs, including as a result of bad weather;

delivery delays and corrective measures for poor workmanship; and

errors in estimates and bidding.

If unforeseen additional expenses arise over the course of a construction project, such expenses are usually borne by POSCO E&C, and its profit from the project will be correspondingly reduced or eliminated. If POSCO E&C experiences significant unforeseen additional expenses with respect to its fixed price projects, it may incur losses on such projects, which could have a material adverse effect on its financial condition and results of operations.

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

The performance of POSCO E&C's domestic residential property business is highly dependent on the general condition of the real estate market in Korea. The construction industry in Korea is experiencing a downturn due to excessive investment in recent years in residential property development projects, stagnation of real property prices and reduced demand for residential property, especially in areas outside of Seoul. In addition, as liquidity and credit concerns and volatility in the global financial markets increased significantly starting in September 2008, there has been a general decline in the willingness by banks and other financial institutions in Korea to engage in project financing and other lending activities to construction companies, which may adversely impact POSCO E&C's ability to meet its desired funding needs. The Government has taken measures to support the Korean construction industry, including easing of regulations imposed on redevelopment of apartment buildings and resale restrictions in the metropolitan areas, as well as reductions in property taxes. Although the Korean real estate market temporarily recovered in the second half of 2009 and into 2010, declines in demand and price took place in the Korean real estate market in recent years due to the downturn of the domestic economic cycle and financial risk in Europe, and the overall prospects for the Korean real estate market in 2015 and beyond remain uncertain.

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

We are subject to national and local environmental laws and regulations, including increasing pressure to reduce emission of carbon dioxide relating to our manufacturing process, and our steel manufacturing and construction operations could expose us to risk of substantial liability relating to environmental or health and safety issues, such as those resulting from discharge of pollutants and carbon dioxide into the environment, the handling, storage and disposal of solid or hazardous materials or wastes and the investigation and remediation of contaminated sites. We may be responsible for the investigation and remediation of environmental conditions at currently and formerly operated manufacturing or construction sites. For example, we recognized provision expenses of Won 89 billion in 2014 related to restoration costs of contaminated land near our magnesium plant in Gangneung, Korea. We may also be subject to associated liabilities, including liabilities for natural resource damage, third party property damage or personal injury resulting from lawsuits brought by the Government or private litigants. In the course of our operations, hazardous wastes may be generated at third party-owned or operated sites, and hazardous wastes may be disposed of or treated at third party-owned or operated disposal sites. If those sites become contaminated, we could also be held responsible for the cost of investigation and remediation of such sites, for any associated natural resource damage, and for civil or criminal fines or penalties.

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

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

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

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

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

Our success depends largely on our ability to develop and use our technology and know-how in a proprietary manner without infringing the intellectual property rights of third parties. The validity and

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scope of claims relating to technology and patents involve complex scientific, legal and factual questions and analysis and, therefore, may be highly uncertain. In addition, because patent applications in many jurisdictions are kept confidential for an extended period before they are published, we may be unaware of other persons' pending patent applications that relate to our products or manufacturing processes. Accordingly, we face the risk of litigation proceedings relating to infringement of intellectual property rights of third parties. See Item 8.A. Consolidated Statements and Other Financial Information - Legal Proceedings.

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

We may be exposed to potential claims for unpaid wages and become subject to additional labor costs arising from the Supreme Court of Korea's interpretation of ordinary wages.

Under the Labor Standards Act, an employee is legally entitled to ordinary wages. Under the guidelines previously issued by the Ministry of Employment and Labor (formerly the Ministry of Labor), ordinary wages include base salary and certain fixed monthly allowances for overtime work performed during night shifts and holidays. Prior to the Supreme Court of Korea's decision described below, we and other companies in Korea had interpreted these guidelines as excluding fixed bonuses that are paid other than on a monthly basis (such as bi-monthly, quarterly or biannually paid bonuses) from the scope of ordinary wages.

On December 18, 2013, the Supreme Court of Korea ruled that regularly paid bonuses, including those that are paid other than on a monthly basis, shall be deemed ordinary wages if these bonuses are paid regularly and uniformly on a fixed basis notwithstanding differential amounts based on seniority. The Supreme Court of Korea ruled that if regular bonus payments are limited to only those working for the employer on a specific date, such bonuses are not fixed and thus do not constitute part of ordinary wage. In addition, under this decision, any collective bargaining agreement or labor-management agreement that attempts to exclude such regular bonuses from ordinary wage will be deemed void for violation of the mandatory provisions of Korean law. However, the Supreme Court of Korea further ruled that an employee's claim for underpayments under the expanded scope of ordinary wages for the past three years within the statute of limitations may be denied based on principles of good faith if (i) there is an agreement between the employer and employees that the regular bonus shall be excluded from ordinary wage in determining the total amount of wage, (ii) such claim results in further wage payments that far exceed the level of total amount of wage agreed between the employer and employees, and (iii) such claim would cause an unexpected financial burden to the employer leading to material managerial difficulty or a threat to the employer's existence. The principles of good faith, however, do not apply to an agreement on wages entered into between the employer and employees after December 18, 2013, the date of the above decision of the Supreme Court of Korea.

In light of the Supreme Court of Korea's decision above, the Ministry of Employment and Labor published its new guidelines (the Guidelines) on January 23, 2014. According to the Guidelines, the

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Government excludes, from ordinary wage, regular bonuses contingent on employment on a specific date. Based on the Supreme Court of Korea's decision and the Guidelines, we believe that regular bonuses that we have paid to our employees are likely to be excluded from ordinary wage since we have paid regular bonuses to only those working for us on the initial date of payment calculation, the 15th day of each month. However, the Supreme Court decision may result in additional labor costs to us in the form of additional payments under the expanded scope of ordinary wages applicable in the past three years as well as to be incurred in the future, which may have an adverse effect on our financial condition and results of operations.

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

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

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

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

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

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

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

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

North Korea's economy also faces severe challenges that may aggravate social and political pressures within North Korea. There can be no assurance that the level of tensions affecting the

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Korean peninsula will not escalate in the future. Any further increase in tensions, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between Korea and North Korea break down or military hostilities occur, could have a material adverse effect on the Korean economy and on our business, results of operations and financial condition and the market value of our common shares and ADSs.

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

Under the deposit agreement, holders of shares of our common stock may deposit those shares with the ADR depositary's custodian in Korea and obtain ADRs, and holders of ADRs may surrender ADRs to the ADR depositary and receive shares of our common stock. However, under current Korean laws and regulations, the depositary bank is required to obtain our prior consent for the number of shares to be deposited in any given proposed deposit that exceeds the difference between (i) the aggregate number of shares deposited by us for the issuance of ADSs (including deposits in connection with the initial and all subsequent offerings of ADSs and stock dividends or other distributions related to these ADSs) and (ii) the number of shares on deposit with the depositary bank at the time of such proposed deposit. It is possible that we may not give the consent. As a result, if you surrender ADRs and withdraw shares of common stock, you may not be able to deposit the shares again to obtain ADRs. See Item 10. Additional Information Item 10.D. Exchange Controls.

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

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

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

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

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

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

We are incorporated in Korea with our principal executive offices located in Seoul. The majority of our directors and senior management are residents of jurisdictions outside the United States, and

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

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

We acquired a controlling interest in Sungjin Geotec Co., Ltd. (Sungjin Geotec), a manufacturer of specialized equipment used in the power and energy industries in May 2010. Sungjin Geotec merged with POSCO Plantec Co., Ltd. (POSCO Plantec) in July 2013, and we currently hold a 73.9% interest in POSCO Plantec. Prior to the merger, Sungjin Geotec entered into contracts with various suppliers to supply equipment for the development of natural gas fields in Iran, including natural gas fields located in South Pars that is led by Pars Oil and Gas Company, a subsidiary of National Iranian Oil Company. Sungjin Geotec recognized revenues of approximately Won 27 billion in 2010, Won 240 billion in 2011 and Won 134 billion in 2012, and net profits of approximately Won 1 billion in 2010, Won 15 billion in 2011 and Won 25 billion in 2012 related to such activities. Sungjin Geotec has completed or terminated all of its remaining outstanding supply contracts to sell equipment for the development of natural gas fields in Iran, and neither Sungjin Geotec nor POSCO Plantec (subsequent to the merger with Sungjin Geotec in July 2013) recognized any revenues nor profits from such activities in 2013 and 2014. POSCO Plantec does not plan to engage in any sale of equipment in Iran related to the country s development of petroleum resources.

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

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

There can be no assurance that Sungjin Geotec s Iran-related business activities did not constitute sanctionable activities or that we will not be subjected to sanctions under the ISA as amended by the CISADA. Our business and reputation could be adversely affected if the U.S. government were to determine that Sungjin Geotec s Iran-related business activities constituted sanctionable activity attributable to us. Investors in our securities may also be adversely affected if we

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are sanctioned under the CISADA or if their investment in our securities is restricted under any sanctions regimes with which the investors are required to comply. As noted above, sanctions under the ISA could include the blocking of any property in which we have an interest, which would effectively prohibit all U.S. persons from receiving any payments from us, or otherwise acquiring, holding, withholding, using, transferring, withdrawing, transporting, importing, or exporting any property in which we have any interest.

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

The U.S. Department of the Treasury's Office of Foreign Assets Control, or OFAC, enforces certain laws and regulations (OFAC Sanctions) that impose restrictions upon U.S. persons and, in some instances, foreign entities owned or controlled by U.S. persons, with respect to activities or transactions with certain countries, governments, entities and individuals that are the subject of OFAC Sanctions (U.S. Sanctions Targets). U.S. persons are also generally strictly prohibited from facilitating such activities or transactions. Similarly, the European Union enforces certain laws and regulations (E.U. Sanctions) that impose restrictions upon nationals of E.U. member states, persons located within E.U. member states, entities incorporated or constituted under the law of an E.U. member state, or business conducted in whole or in part in E.U. member states with respect to activities or transactions with certain countries, governments, entities and individuals that are the subject of E.U. Sanctions (E.U. Sanctions Targets) and together with U.S. Sanctions Targets, Sanctions Targets). E.U. persons are also generally prohibited from activities that promote such activities or transactions.

We engage in limited business activities in countries that are deemed Sanctions Targets, including Cuba, Iran, Syria and Sudan. We produce and export, typically through our sales subsidiaries, steel products to such countries, including automotive steel sheets and other steel materials to Iranian entities. Our subsidiaries also engage in limited business activities in countries that are deemed Sanctions Targets. In particular, Daewoo International, a global trading company in which we hold a 60.3% interest, engages in the trading of steel, raw materials and other items with entities in countries that are deemed Sanctions Targets, including Iran and Sudan. We believe that such activities and investments do not involve any U.S. goods or services. Our activities and investments in Cuba, Iran, Syria and Sudan accounted for approximately 1.4% of our consolidated revenues in 2012, 0.2% in 2013 and 0.1% in 2014.

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

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

This annual report contains forward-looking statements that are based on our current expectations, assumptions, estimates and projections about our company and our industry. The forward-looking statements are subject to various risks and uncertainties. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as anticipate, believe, estimate, expect, intend, project, similar expressions. Those statements include, among other things, the discussions of our business strategy and expectations

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concerning our market position, future operations, margins, profitability, liquidity and capital resources. We caution you that reliance on any forward-looking statement involves risks and uncertainties, and that although we believe that the assumptions on which our forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and, as a result, the forward-looking statements based on those assumptions could be incorrect. The uncertainties in this regard include, but are not limited to, those identified in the risk factors discussed above. In light of these and other uncertainties, you should not conclude that we will necessarily achieve any plans and objectives or projected financial results referred to in any of the forward-looking statements. We do not undertake to release the results of any revisions of these forward-looking statements to reflect future events or circumstances.

Item 4. Information on the Company
Item 4.A. History and Development of the Company

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

Our legal and commercial name is POSCO. Our principal executive offices are located at POSCO Center, 440 Teheran-ro, Gangnam-gu, Seoul, Korea 135-777, and our telephone number is (822) 3457-0114.

Item 4.B. Business Overview
The Company

We are the largest fully integrated steel producer in Korea, and one of the largest steel producers in the world, based on annual crude steel production. We produced approximately 37.7 million tons of crude steel in 2014 and approximately 38.3 million tons in 2013, a substantial portion of which was produced at Pohang Works and Gwangyang Works. As of December 31, 2014, Pohang Works had 17.4 million tons of annual crude steel and stainless steel production capacity, and Gwangyang Works had an annual crude steel production capacity of 20.8 million tons. We believe Pohang Works and Gwangyang Works are two of the most technologically advanced integrated steel facilities in the world. We manufacture and sell a diversified line of steel products, including cold rolled and hot rolled products, stainless steel products, plates, wire rods and silicon steel sheets, and we are able to meet a broad range of customer needs from manufacturing industries that consume steel, including automotive, shipbuilding, home appliance, engineering and machinery industries.

We sell primarily to the Korean market. Domestic sales accounted for 44.6% of our total revenue from steel products produced and sold by us in 2014 and 48.8% in 2013. On a non-consolidated basis, we believe that we had an overall market share of approximately 41% of the total sales volume of steel products sold in Korea in 2014 and approximately 43% in 2013. Our export sales and overseas sales to customers abroad accounted for 55.4% of our total revenue from steel products produced and sold by us in 2014 and 51.2% in 2013. Our major export market is Asia, with Asia other than China and Japan accounting for 28.3%, China accounting for 26.6%, and Japan accounting for 11.7% of our total steel export revenue from steel products produced and exported by us in 2014 and China accounting for 30.2%, Asia other than China and Japan accounting for 27.7%, and Japan accounting for 12.5% of our total steel export revenue from steel products produced and exported by us in 2013.

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

We generated revenue of Won 64,759 billion and profit of Won 564 billion in 2014, compared to revenue of Won 61,766 billion and profit of Won 1,349 billion in 2013. We had total assets of Won 85,844 billion and total equity of Won 45,257 billion as of December 31, 2014, compared to total assets of Won 84,841 billion and total equity of Won 45,781 billion as of December 31, 2013.

Business Strategy

Leveraging on our success during the past four decades, our goal is to strengthen our position as one of the leading steel producers in the world through focusing on core technologies, further solidifying our market leading position in Korea, and pursuing operational efficiencies to increase our margins in markets abroad. In order to compete effectively in the dynamic global market environment driven by emerging economies and increasing demand for more environmentally friendly products, we are committed to leveraging our competitive advantages and further enhancing our leadership positions. We believe that our proprietary technologies and expertise in developing environmentally-friendly steel production facilities, ability to independently construct such facilities, and know-how in their efficient operation and management enables us to develop differentiated steel products at a highly competitive cost structure. We also plan to selectively explore opportunities in growth industries that are integral to our overall business model, and we have identified steel, comprehensive materials, energy and new businesses as our key areas of focus.

We seek to strengthen our competitiveness and pursue growth through the following core business strategies:

Seek Opportunities to Further Strengthen Our Position in Global Markets as well as Selectively Expand Our Production Infrastructure Abroad

We plan to pursue higher margin businesses in various key markets abroad as well as further strengthen our competitiveness in new markets that we have entered in recent years. In China, which is showing signs of slowdown in economic growth and oversupply of steel products, we plan to focus on higher-margin products and pursue strategic entry or exit of various segments and regions. In Southeast Asia, we plan to pursue stabilization of our production operations in Indonesia as well as focus on increasing our market share of key products in Thailand, particularly for the automotive industry. We also plan to pursue differentiated strategies in each of our other key regions.

Drawing on our expertise in steel production, we also plan to carefully seek out promising business opportunities abroad to expand our production infrastructure. We seek out promising investment opportunities abroad, primarily in India and Southeast Asia. We believe that India and Southeast Asia continue to offer substantial growth opportunities, and we plan to selectively seek investment opportunities to construct steel production facilities.

Maintain Technology Leadership in Steel Manufacturing

As part of our strategy, we have identified core products that we plan to further develop, such as premium automotive steel sheets, silicon steel and API-grade steel, and we will continue to invest in developing innovative products that offer the greatest potential returns and enhance the overall quality

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of our products. In order to increase our competitiveness and the proportion of our sales of higher margin, higher value-added products, we plan to make additional investments in the development of new manufacturing technologies and upgrade our facilities through continued modernization and rationalization.

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

Diversify into Production of Comprehensive Materials

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

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

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

Pursue Cost-Cutting through Operational and Process Innovations

We seek to achieve cost reductions in this era of increasing raw material costs through our company wide process for innovation and enhancing efficiency of operations. We believe that strategic cost cutting measures through utilization of efficient production methods and management discipline will strengthen our corporate competitiveness. We will also strive to invest more in human resources development to nurture employees who are capable of working in the global environment.

Selectively Seek Opportunities in Growth Industries

We will continue to selectively seek opportunities in growth industries to diversify our business both vertically and horizontally. Through POSCO ICT Co., Ltd., a 65.4%-owned subsidiary, we engage in information and technology consulting services as well as automation and system integration engineering services. POSCO E&C is one of the leading engineering and construction companies in

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Korea that primarily engages in the planning, design and construction of industrial plants and architectural works and civil engineering. On September 20, 2010, we acquired a controlling interest in Daewoo International Corporation for Won 3.37 trillion. Daewoo International is a global trading company that primarily engages in trading of steel and raw materials as well as investing in energy development projects. We will continue to selectively seek opportunities to identify new growth engines and diversify our operations.

Major Products

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

cold rolled products;

hot rolled products;

stainless steel products;

plates;

wire rods; and

silicon steel sheets.

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

Steel Products	2012		2013		2014	
	Billions of Won	%	Billions of Won	%	Billions of Won	%
Cold rolled products	11,421	32.4%	9,879	31.1%	9,336	29.3%
Hot rolled products	6,291	17.8	5,134	16.1	5,346	16.8
Stainless steel products	7,305	20.7	7,425	23.4	6,830	21.5
Plates	3,620	10.3	3,266	10.3	3,519	11.1
Wire rods	1,906	5.4	1,867	5.9	2,160	6.8
Silicon steel sheets	1,556	4.4	1,476	4.6	1,267	4.0
Sub-total	32,099	91.0	29,047	91.4	28,458	89.4
Others	3,160	9.0	2,748	8.6	3,384	10.6
Total	35,259	100.0%	31,795	100.0%	31,842	100.0%

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

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For the Year Ended December 31,
2013

Steel Products	2012		2013		2014	
	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%
Cold rolled products	11,863	39.6%	11,915	40.9%	11,881	39.1%
Hot rolled products	8,540	28.5	7,589	26.1	7,783	25.6
Stainless steel products	2,760	9.2	2,883	9.9	2,650	8.7
Plates	4,145	13.8	3,849	13.2	4,638	15.3
Wire rods	1,531	5.1	1,735	6.0	2,400	7.9
Silicon steel sheets	1,143	3.8	1,134	3.9	1,038	3.4
Total ⁽¹⁾	29,983	100.0%	29,104	100.0%	30,390	100.0%

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

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In addition to steel products produced by us and directly sold to external customers, we engage our consolidated sales subsidiaries (including Daewoo International) to sell our steel products produced by us. Our revenue from steel products produced by us and sold to our consolidated sales subsidiaries that in turn sold them to their external customers amounted to Won 10,344 billion in 2012, Won 8,391 billion in 2013 and Won 9,176 billion in 2014. Sales of such steel products by our consolidated sales subsidiaries to external customers are recognized as external revenue of the Trading Segment.

Cold Rolled Products

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

Our deliveries of cold rolled products produced by us and directly sold to external customers amounted to 11.9 million tons in 2014, representing 39.1% of our total sales volume of principal steel products produced by us and directly sold to external customers.

Cold rolled products constitute our largest product category in terms of sales volume and revenue from steel products produced by us and directly sold to external customers. In 2014, our sales volume of cold rolled products produced by us and directly sold to external customers remained relatively unchanged compared to our sales volume in 2013.

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

Hot Rolled Products

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

Our deliveries of hot rolled products produced by us and directly sold to external customers amounted to 7.8 million tons in 2014, representing 25.6% of our total sales volume of principal steel products produced by us and directly sold to external customers. The largest customers of our hot rolled products are downstream steelmakers in Korea which use the products to manufacture pipes and cold rolled products.

Hot rolled products constitute our second largest product category in terms of sales volume and third largest product category in terms of revenue from steel products produced by us and directly sold to external customers. In 2014, our sales volume of hot rolled products produced by us and directly sold to external customers increased by 2.6% compared to 2013 primarily due to the commencement of production by our no. 4 hot rolling mill at Gwangyang Works in July 2014.

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

Stainless Steel Products

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

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Our deliveries of stainless steel products produced by us and directly sold to external customers amounted to 2.7 million tons in 2014, representing 8.7% of our total sales volume of principal steel products produced by us and directly sold to external customers.

Stainless steel products constitute our second largest product category in terms of revenue from steel products produced by us and directly sold to external customers. Although sales of stainless steel products accounted for only 8.7% of total sales volume of the principal steel products produced by us and directly sold to external customers in 2014, they represented 21.5% of our total revenue from such steel products in 2014. Our sales volume of stainless steel products produced by us and directly sold to external customers decreased by 8.1% in 2014 compared to 2013 due to the rationalization of a stainless cold-rolling mill at Pohang Works in 2014.

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

Plates

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

Our deliveries of plates produced by us and directly sold to external customers amounted to 4.6 million tons in 2014, representing 15.3% of our total sales volume of principal steel products produced by us and directly sold to external customers. The Korean shipbuilding industry, which uses plates to manufacture chemical tankers, rigs, bulk carriers and containers, and the construction industry are our largest customers of plates.

In 2014, our sales volume of plates produced by us and directly sold to external customers increased by 20.5% compared to 2013 due to an increase in sales to domestic shipbuilding companies and an increase in demand from the energy industry.

Including sales of plates produced by us and sold through our consolidated sales subsidiaries in addition to plates produced by us and directly sold to external customers, we had a domestic market share for plates of approximately 37% on a non-consolidated basis.

Wire Rods

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

Our deliveries of wire rods produced by us and directly sold to external customers amounted to 2.4 million tons in 2014, representing 7.9% of our total sales volume of principal steel products produced by us and directly sold to external customers. The largest customers for our wire rods are manufacturers of wire ropes and fasteners.

In 2014, our sales volume of wire rods produced by us and directly sold to external customers increased by 38.3% compared to 2013, primarily reflecting increase in production of wire rods from full-scale operation of the no. 4 wire rod mill in 2014, which expansion was completed in May 2013.

Including sales of wire rods produced by us and sold through our consolidated sales subsidiaries in addition to wire rods produced by us and directly sold to external customers, we had a domestic market share for wire rods of approximately 52% on a non-consolidated basis.

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

Our deliveries of silicon steel sheets produced by us and directly sold to external customers amounted to 1.0 million tons in 2014, representing 3.4% of our total sales volume of principal steel products produced by us and directly sold to external customers.

In 2014, our sales volume of silicon steel sheets produced by us and directly sold to external customers decreased by 8.5% compared to 2013 due to our decision to focus more on production and sale of higher margin silicon steel sheet products.

Including sales of silicon steel sheets produced by us and sold through our consolidated sales subsidiaries in addition to silicon steel sheets produced by us and directly sold to external customers, we had a domestic market share for silicon steel sheets of approximately 81% on a non-consolidated basis.

Others

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

Markets

Korea is our most important market. Domestic sales represented 44.6% of our total revenue from steel products produced and sold by us in 2014. Our export sales and overseas sales to customers abroad represented 55.4% of our total revenue from steel products in 2014. Our sales strategy has been to devote our production primarily to satisfy domestic demand, while seeking export sales to utilize capacity to the fullest extent and to expand our international market presence.

Domestic Market

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

The table below sets out our estimate of the market share of steel products sold in Korea for the periods indicated based on sales volume.

Source	For the Year Ended December 31,		
	2012	2013	2014
POSCO's sales ⁽¹⁾	41.9%	43.4%	40.6%
Other domestic steel companies' sales	23.4	23.6	27.6
Imports	34.8	33.0	31.8
Total	100.0%	100.0%	100.0%

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

Exports

Our export sales and overseas sales to customers abroad represented 55.4% of our total revenue from steel products produced and sold by us in 2014, 66.7% of which was generated from

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exports sales and overseas sales to customers in Asian countries. Our export sales and overseas sales to customers abroad in terms of revenue from such products increased by 10.4% from Won 20,587 billion in 2013 to Won 22,731 billion in 2014.

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

Region	For the Year Ended December 31,					
	2012		2013		2014	
	Billions of Won	%	Billions of Won	%	Billions of Won	%
Asia (other than China and Japan)	5,834	26.7%	5,707	27.7%	6,434	28.3%
China	6,328	28.9	6,220	30.2	6,057	26.6
Japan	3,084	14.1	2,583	12.5	2,668	11.7
Europe	942	4.3	999	4.9	1,428	6.3
Middle East	528	2.4	381	1.8	323	1.4
North America	1,288	5.9	1,145	5.6	2,131	9.4
Others	3,884	17.7	3,552	17.3	3,689	16.2
Total	21,888	100.0%	20,587	100.0%	22,731	100.0%

Steel Products	For the Year Ended December 31,					
	2012		2013		2014	
	Billions of Won	%	Billions of Won	%	Billions of Won	%
Cold rolled products	7,245	33.1%	6,653	32.3%	6,907	30.4%
Hot rolled products	3,783	17.3	3,300	16.0	3,646	16.0
Stainless steel products	5,302	24.2	5,125	24.9	5,615	24.7
Plates	1,573	7.2	1,238	6.0	1,596	7.0
Wire rods	598	2.7	569	2.8	783	3.4
Silicon steel sheets	840	3.8	837	4.1	771	3.4
Others	2,546	11.6	2,863	13.9	3,412	15.0
Total	21,888	100.0%	20,587	100.0%	22,731	100.0%

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

	For the Year Ended December 31,		
	2012	2013	2014
Apparent steel use (million metric tons)	1,439	1,528	1,537
Percentage of annual increase	2.0%	6.2%	0.6%

Source: World Steel Association.

Recent difficulties affecting the European Union and global financial sectors, adverse conditions and volatility in the European Union and worldwide credit and financial markets, fluctuations in oil and commodity prices, the general weakness of the global economy and the slowdown in growth of the Chinese economy have increased the uncertainty of global economic prospects in general and have adversely affected the global and Korean economies. The World Steel Association forecasts that global apparent steel use is expected to increase by 3.3% to 1,576 million metric tons in 2015.

In recent years, driven in part by strong growth in steel consumption in emerging economies, the global steel industry has experienced renewed interest in expansion of steel production capacity. The Organisation for Economic Co-operation and Development estimated the global crude

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steel production capacity to be 2,241 million tons in 2014. The increased production capacity, combined with weakening demand due primarily to the recent slowdown of the global economy, has resulted in production over-capacity in the global steel industry. Production over-capacity in the global steel industry may intensify if the slowdown of the global economy continues or demand from developing countries that have experienced significant growth in recent years does not meet the growth in production capacity.

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We distribute our export products mostly through Korean trading companies, including Daewoo International, and our overseas sales subsidiaries. Our largest export market in 2014 was Asia (other than China and Japan), which accounted for 28.3% of our export revenue from steel products produced and sold by us. The principal products exported to Asia (other than China and Japan) were hot rolled products and cold rolled products. Our exports to Asia (other than China and Japan) amounted to Won 5,707 billion in 2013 and Won 6,434 billion in 2014. Our exports to Asia (other than China and Japan) increased by 12.7% in 2014 primarily due to an increase in sales of plates and slabs produced by PT Krakatau POSCO Co., Ltd., which completed a new production plant in December 2013.

Our second largest export market in 2014 was China, which accounted for 26.6% of our export revenue from steel products produced and sold by us. The principal products exported to China were cold rolled products. Our exports to China decreased by 2.6% from Won 6,220 billion in 2013 to Won 6,057 billion in 2014 primarily due to a decrease in our export prices to China as a result of a slowdown in growth of the Chinese economy. On the other hand, we recorded an increase in our exports to North America by 86.1% from Won 1,145 billion in 2013 to Won 2,131 billion in 2014 primarily due to an increase in demand from automotive parts manufacturers in North America, as well as an increase in our exports to Europe by 42.9% from Won 999 billion in 2013 to Won 1,428 billion in 2014 primarily due to an increase in demand from the energy industry.

Anti-Dumping, Safeguard and Countervailing Duty Proceedings

From time to time, our exporting activities have become subject to anti-dumping, safeguard and countervailing proceedings. In recent years, we have become subject to a number of anti-dumping duties in the United States, Canada, India, Indonesia, Australia, Thailand, Brazil, Taiwan and Malaysia and safeguard duties in Thailand. We are also subject to a number of on-going anti-dumping and safeguard investigations in Malaysia, the European Union, Indonesia, India and Thailand. In addition, the Mexican government initiated an anti-dumping investigation in October 2012 relating to our exports of cold rolled steel products, and the investigation was suspended until 2018 on condition that we comply with supply undertakings. Our products that are subject to anti-dumping, safeguard or countervailing duty proceedings in the aggregate currently do not account for a material portion of our total sales, and such proceedings have not had a material adverse impact on our business and operations in recent years.

Pricing Policy

We determine the sales price of our products based on market conditions. In setting prices, we take into account our costs, including those of raw materials, supply and demand in the Korean market, exchange rates, and conditions in the international steel market. Our prices can fluctuate considerably over time, depending on market conditions and other factors. The prices of our higher value-added steel products in the largest markets are determined considering the prices of similar products charged by our competitors.

Both our export prices and domestic sales prices decreased from 2012 to 2014, reflecting production over-capacity in the global steel industry. We may decide to adjust our sales prices in the future subject to market demand for our products, prices of raw materials, the production outlook of the global steel industry and global economic conditions in general.

Raw Materials***Steel Production***

The principal raw materials used in producing steel through the basic oxygen steelmaking method are iron ore and coal. We require approximately 1.7 tons of iron ore and 0.8 tons of coal to produce one ton of steel. We import all of the coal and virtually all of the iron ore that we use. In 2014, POSCO imported approximately 53.8 million dry metric tons of iron ore and 28.4 million wet metric tons

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of coal. Iron ore is imported primarily from Australia, Brazil and Canada. Coal is imported primarily from Australia, Canada, Russia and the United States. In 2014, we purchased a substantial portion of our iron ore and coal imports pursuant to long-term contracts. The supply contracts have terms of one to ten years and the long-term contracts generally provide for periodic price adjustments to the then-market prices. The long-term contracts to purchase iron ore and coal generally provide for quarterly adjustments to the purchase prices to be determined through negotiation between the supplier and us. Such price negotiations are driven by various factors, including the global economic outlook, global market prices of raw materials and steel products, supply and demand outlook of raw materials and production costs of raw materials. Typically, globally influenced buyers and sellers of raw materials determine benchmark prices of raw materials, based on which other buyers and sellers negotiate their prices after taking into consideration the quality of raw materials and other factors. We or the suppliers may cancel the long-term contracts only if performance under the contracts is prevented by causes beyond our or their control and these causes continue for a specified period.

We also make investments in exploration and production projects abroad to enhance our ability to meet the requirements for high-quality raw materials, either as part of a consortium or through an acquisition of a minority interest. We secured approximately 41% of our iron ore and coal imports in 2014 from foreign mines in which we have made investments. Our major investments to procure supplies of coal, iron ore and nickel are located in Australia, Brazil, New Caledonia and Canada, and our significant investments are as follows:

We made an investment of US\$500 million in December 2008 to acquire a 6.48% interest in Nacional Minérios S.A., an iron ore mining company in Brazil, in a consortium with Japanese steel manufacturers and trading companies. We secured approximately 3.7 million tons of iron ore in 2014, and we have the right to secure up to such amount of iron ore per year.

We made an initial investment of A\$249 million in 2010 to acquire a 3.75% interest in Roy Hill Holdings Pty., Ltd., an iron ore mining company in Australia. We subsequently entered into a contract in March 2012 to invest an additional A\$1,495 million to increase our interest to 15% but sold a 2.5% interest in April 2012 to China Steel Corporation for A\$305 million. In November 2013, we invested an additional A\$47 million in order to maintain our interest of 12.5% in Roy Hill Holdings Pty. Ltd. Through our ownership interest, we expect to secure up to approximately 15.1 million tons of iron ore per year starting in 2015.

In July 2010, we acquired a 24.5% interest in the Australian Premium Iron (API) iron ore joint venture in Pilbara, Australia for A\$184 million, which expects to supply approximately 9.8 million tons of iron ore per year starting in 2020.

As part of a consortium including China Steel Corporation and domestic financial investors, we made an investment of US\$277 million in March 2013 to acquire a minority interest of 3.78% in an iron ore mining asset of ArcelorMittal Mines Canada Inc. in Quebec. We secured approximately 2.7 million tons of iron ore in 2014, and we have the right to secure up such amount of iron ore per year.

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

The average market price of coal per wet metric ton (benchmark free on board price of Australian premium hard coking coal) was US\$209 in 2012, US\$159 in 2013 and US\$125 in 2014. The average market price of iron ore per dry metric ton (free on board price of Platts Iron Ore index with iron (Fe) 62% content) was US\$122 in 2012, US\$126 in 2013 and US\$88 in 2014. We currently do not depend on any single country or supplier for our coal or iron ore.

Stainless Steel Production

The principal raw materials for the production of stainless steel are ferronickel, ferrochrome and stainless steel scrap. We purchase a majority of our ferronickel primarily from suppliers in Korea that

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procure nickel ore from New Caledonia, and the remainder primarily from leading suppliers in Japan, Indonesia and Ukraine. Our primary suppliers of ferrochrome are located in South Africa, India and Kazakhstan. Our stainless steel scraps are primarily supplied by domestic and overseas suppliers in Japan and the European Union. Revert scraps from the Pohang Steelworks are also used for our stainless steel production. The average market price of nickel per ton was US\$17,536 in 2012, US\$15,022 in 2013 and US\$16,871 in 2014.

Transportation

In order to meet our transportation needs for iron ore and coal, we have entered into long-term contracts with shipping companies in Korea to retain a fleet of dedicated vessels. These dedicated vessels transported approximately 80% of the total requirements in 2014, and the remaining approximately 20% was transported by vessels retained through short to medium term contracts, depending on market conditions. Australia and Brazil are the main countries where the vessels are loaded, and they accounted for 65% and 15%, respectively, of our total requirements in 2014. We plan to continue to optimize the fleet of dedicated vessels that we use by 2020 in order to cope with changes in the global shipping environment, as well as upgrade some of the existing vessels with others that utilize more energy-efficient technologies.

The Steelmaking Process

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

Steel Basic Oxygen Steelmaking Method

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

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

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

Stainless Steel Electric Arc Furnace Method

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

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Competition

Domestic Market

We are the largest fully integrated steel producer in Korea. In hot rolled products, where we had a market share of approximately 38% on a non-consolidated basis in 2014, we face competition from a Korean steel producer that operates mini-mills and produces hot rolled coil products from slabs and from various foreign producers, primarily from China and Japan. In cold rolled products and stainless steel products, where we had a market share of approximately 42% and 38%, respectively, on a non-consolidated basis in 2014, we compete with smaller specialized domestic manufacturers and various foreign producers, primarily from China and Japan. For a discussion of domestic market shares, see Markets Domestic Market.

We may face increased competition in the future from new specialized or integrated domestic manufacturers of steel products in the Korean market. Our biggest competitors in Korea are Hyundai Steel Co., Ltd. with an annual crude steel production of approximately 21 million tons and Dongbu Steel Co., Ltd. with an annual crude steel production of approximately 3 million tons. In February 2015, Hyundai Steel Co., Ltd. received conditional approval from the Fair Trade Commission to take over Dongbu Special Steel Co., Ltd., an affiliate of Dongbu Steel Co., Ltd. Dongbu Specialty Steel Co., Ltd. has an annual production capacity of 400 thousand tons of specialty steel.

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

Export Markets

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

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

Subsidiaries and Global Joint Ventures

Steel Production

In order to effectively impleme