

POSCO

**Separate Financial Statements
December 31, 2014 and 2013**

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

Based on a report originally issued in Korea

The Board of Directors and Shareholders
POSCO:

We have audited the accompanying separate financial statements of POSCO ("the Company"), which comprise the separate statements of financial position as of December 31, 2014 and 2013, the separate statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with Korean International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the separate financial position of the Company as of December 31, 2014 and 2013, and its separate financial performance and its separate cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Other Matters

The accompanying separate statement of financial position of the Company as of December 31, 2013, and the related statements of comprehensive income, changes in equity and cash flows for the year then ended, were audited by us in accordance with the previous auditing standards generally accepted in the Republic of Korea.

The procedures and practices utilized in the Republic of Korea to audit such separate financial statements may differ from those generally accepted and applied in other countries.

Seoul, Korea
February 25, 2015

This report is effective as of February 25, 2015, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

POSCO
Separate Statements of Financial Position
As of December 31, 2014 and 2013

<i>(in millions of Won)</i>	Notes	December 31, 2014	December 31, 2013
Assets			
Cash and cash equivalents	4,5,22	₩ 1,742,767	1,394,315
Trade accounts and notes receivable, net	6,22,37	3,157,266	3,393,444
Other receivables, net	7,22,37	562,930	281,161
Other short-term financial assets	8,22	693,729	2,318,816
Inventories	9,34	4,383,568	4,538,657
Assets held for sale	10	1,051,177	1,304
Other current assets	11	31,692	25,782
Total current assets		11,623,129	11,953,479
Long-term trade accounts and notes receivable, net	6,22	23,841	4,464
Other receivables, net	7,22	26,360	45,738
Other long-term financial assets	8,22	1,794,590	3,362,594
Investments in subsidiaries, associates and joint ventures	12	16,178,891	15,092,836
Investment property, net	13	90,137	92,879
Property, plant and equipment, net	14	22,323,215	23,240,603
Intangible assets, net	15	403,907	438,783
Other long-term assets	11	133,253	10,902
Total non-current assets		40,974,194	42,288,799
Total assets		₩ 52,597,323	54,242,278

See accompanying notes to the separate financial statements.

POSCO
Separate Statements of Financial Position
As of December 31, 2014 and 2013, Continued

<i>(in millions of Won)</i>	Notes	December 31, 2014	December 31, 2013
Liabilities			
Trade accounts and notes payable	22,37	₩ 777,401	735,457
Short-term borrowings	4,6,16,22	1,236,290	1,931,283
Other payables	17,22,37	1,032,496	791,883
Other short-term financial liabilities	18,22	9,236	46,009
Current income tax liabilities	35	304,362	153,278
Provisions	19	47,759	8,501
Other current liabilities	21	108,508	38,109
Total current liabilities		3,516,052	3,704,520
Long-term borrowings	4,8,16,22	5,300,927	6,731,788
Other payables	17,22	88,807	124,679
Other long-term financial liabilities	18,22	50,574	231,539
Defined benefit liabilities, net	20	86,158	100,650
Deferred tax liabilities	35	1,047,666	1,034,102
Provisions	19	31,474	-
Other long-term liabilities	21	234	3,538
Total non-current liabilities		6,605,840	8,226,296
Total liabilities		10,121,892	11,930,816
Shareholders' Equity			
Share capital	23	482,403	482,403
Capital surplus	23	1,247,616	1,233,040
Hybrid bonds	24	996,919	996,919
Reserves	25	94,042	403,939
Treasury shares	26	(1,534,457)	(1,579,123)
Retained earnings	27	41,188,908	40,774,284
Total shareholders' equity	4	42,475,431	42,311,462
Total liabilities and shareholders' equity		₩ 52,597,323	54,242,278

See accompanying notes to the separate financial statements.

POSCO
Separate Statements of Comprehensive Income
For the years ended December 31, 2014 and 2013

<i>(in millions of Won, except per share information)</i>	Notes	2014	2013
Revenue	28,37	₩ 29,218,854	30,543,545
Cost of sales	9,20,30,34,37	(24,955,649)	(26,494,617)
Gross profit		4,263,205	4,048,928
Selling and administrative expenses			
Administrative expenses	20,22,29,30,34	(933,984)	(892,966)
Selling expenses	29,34	(979,186)	(940,829)
Operating profit	31	2,350,035	2,215,133
Finance income and costs			
Finance income	22,32	1,050,794	967,073
Finance costs	22,32	(1,014,269)	(918,360)
Other non-operating income and expenses			
Other non-operating income	31,33,37	46,864	140,048
Other non-operating expenses	31,33,34,37	(712,031)	(418,599)
Profit before income tax		1,721,393	1,985,295
Income tax expense	35	(582,435)	(402,699)
Profit		1,138,958	1,582,596
Other comprehensive income (loss)			
Items that will never be reclassified subsequently to profit or loss :			
Remeasurements of defined benefit plans, net of tax	20	(42,464)	(8,692)
Items that are or may be reclassified subsequently to profit or loss :			
Net changes in unrealized fair value of available-for-sale investments, net of tax	8,22,25	(309,897)	400,577
Total comprehensive income, net of tax		₩ 786,597	1,974,481
Basic and diluted earnings per share (in Won)	36	₩ 13,858	20,052

See accompanying notes to the separate financial statements.

POSCO

Separate Statements of Changes in Equity For the years ended December 31, 2014 and 2013

(in millions of Won)

	Share capital	Capital surplus	Hybrid bonds	Reserves	Treasury shares	Retained earnings	Total
Balance as of January 1, 2013	₩ 482,403	1,227,692	-	3,362	(2,391,406)	39,842,497	39,164,548
Comprehensive income :							
Profit	-	-	-	-	-	1,582,596	1,582,596
Other comprehensive income (loss)							
Net changes in unrealized fair value of available-for-sale investments, net of tax	-	-	-	400,577	-	-	400,577
Remeasurements of defined benefit plans, net of tax	-	-	-	-	-	(8,692)	(8,692)
Transactions with owners of the Company, recognized directly in equity :							
Year-end dividends	-	-	-	-	-	(463,467)	(463,467)
Interim dividends	-	-	-	-	-	(154,489)	(154,489)
Issuance of hybrid bonds	-	-	996,919	-	-	-	996,919
Interest of hybrid bonds	-	-	-	-	-	(24,161)	(24,161)
Disposal of treasury shares	-	5,348	-	-	812,283	-	817,631
Balance as of December 31, 2013	₩ 482,403	1,233,040	996,919	403,939	(1,579,123)	40,774,284	42,311,462
Balance as of January 1, 2014	₩ 482,403	1,233,040	996,919	403,939	(1,579,123)	40,774,284	42,311,462
Comprehensive income :							
Profit	-	-	-	-	-	1,138,958	1,138,958
Other comprehensive loss							
Net changes in unrealized fair value of available-for-sale investments, net of tax	-	-	-	(309,897)	-	-	(309,897)
Remeasurements of defined benefit plans, net of tax	-	-	-	-	-	(42,464)	(42,464)
Transactions with owners of the Company, recognized directly in equity :							
Year-end dividends	-	-	-	-	-	(478,702)	(478,702)
Interim dividends	-	-	-	-	-	(159,568)	(159,568)
Interest of hybrid bonds	-	-	-	-	-	(43,600)	(43,600)
Disposal of treasury shares	-	14,576	-	-	44,666	-	59,242
Balance as of December 31, 2014	₩ 482,403	1,247,616	996,919	94,042	(1,534,457)	41,188,908	42,475,431

See accompanying notes to the separate financial statements.

POSCO
Separate Statements of Cash Flows
For the year ended December 31, 2014 and 2013

<i>(in millions of Won)</i>	<u>Notes</u>	<u>2014</u>	<u>2013</u>
Cash flows from operating activities			
Profit	₩	1,138,958	1,582,596
Adjustments for :			
Costs for defined benefit plans		114,372	122,656
Employee benefits		19,777	-
Depreciation		2,067,793	1,932,002
Amortization		74,112	38,067
Finance income		(773,099)	(659,054)
Finance costs		756,480	655,855
Valuation losses of inventories		24,867	4,532
Gain on disposal of property, plant and equipment		(8,882)	(6,773)
Loss on disposal of property, plant and equipment		57,777	94,533
Impairment loss on property, plant and equipment		30,334	5,697
Loss on disposal of investments in subsidiaries, associates and joint ventures		-	12,295
Impairment loss on investments in subsidiaries, associates and joint ventures		209,795	235,794
Gain on disposal of assets held for sale		-	(67,875)
Other provision expense		89,844	-
Income tax expense		582,435	402,699
Others		86,716	(6,546)
Changes in operating assets and liabilities	39	197,954	687,980
Interest received		97,441	109,073
Interest paid		(321,684)	(390,175)
Dividends received		151,150	232,281
Income taxes paid		(433,055)	(222,111)
Net cash provided by operating activities	₩	<u>4,163,085</u>	<u>4,763,526</u>

See accompanying notes to the separate financial statements.

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Separate Statements of Cash Flows

For the year ended December 31, 2014 and 2013, Continued

<i>(in millions of Won)</i>	Notes	2014	2013
Cash flows from investing activities	40		
Proceeds from disposal of short-term financial instruments	₩	4,103,905	3,528,479
Proceeds from disposal of long-term financial instruments		-	5
Decrease in held-to-maturity investments		-	30,000
Proceeds from disposal of available-for-sale investments		41,740	194,820
Collection of long-term loans		19,751	14,441
Proceeds from disposal of investment in subsidiaries, associates and joint ventures		427	6,114
Proceeds from disposal of investment property		18	-
Proceeds from disposal of intangible assets		2,347	1,100
Proceeds from disposal of assets held for sale		1,291	-
Acquisition of short-term financial investments		(2,478,109)	(4,144,157)
Acquisition of available-for-sale investments		(30,727)	(71,045)
Increase in long-term loans		(26,451)	(3,354)
Acquisition of investment in subsidiaries, associates and joint ventures		(1,209,223)	(1,193,501)
Acquisition of investment property		(41)	-
Acquisition of property, plant and equipment		(1,643,789)	(3,013,628)
Payment for cost of disposal of property, plant and equipment		(15,346)	(14,297)
Acquisition of intangible assets		(20,869)	(103,041)
Net cash used in investing activities		<u>(1,255,076)</u>	<u>(4,768,064)</u>
Cash flows from financing activities	40		
Proceeds from borrowings		1,429,041	2,431,539
Increase in long-term financial liabilities		7,196	3,766
Receipt of government grants		-	5,000
Proceeds from disposal of treasury shares		43,188	14,019
Proceeds from issuance of hybrid bonds		-	996,919
Repayment of borrowings		(3,350,330)	(3,132,803)
Decrease in long-term financial liabilities		(7,125)	(3,009)
Decrease in derivative liabilities		-	(23,348)
Payment of cash dividends		(637,927)	(617,570)
Payment of interest of hybrid bonds		(43,600)	(21,860)
Net cash used in financing activities		<u>(2,559,557)</u>	<u>(347,347)</u>
Effect of exchange rate changes on cash held		<u>-</u>	<u>(6,360)</u>
Net increase (decrease) in cash and cash equivalents		348,452	(358,245)
Cash and cash equivalents			
Cash and cash equivalents at beginning of the year		1,394,315	1,752,560
Cash and cash equivalents at end of the year	₩	<u>1,742,767</u>	<u>1,394,315</u>

See accompanying notes to the separate financial statements.

POSCO
Notes to the Separate Financial Statements
As of December 31, 2014 and 2013

1. Reporting Entity

POSCO (the "Company") is the largest steel producer in Korea which was incorporated on April 1, 1968, under the Commercial Code of the Republic of Korea to manufacture and sell steel rolled products and plates in the domestic and overseas markets.

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

As of December 31, 2014 and 2013, major shareholders are as follows:

Shareholder's name	2014		2013	
	Number of shares	Ownership(%)	Number of shares	Ownership(%)
National Pension Service	7,203,493	8.26	6,577,907	7.54
Nippon Steel & Sumitomo Metal Corporation(*1)	4,394,712	5.04	4,394,712	5.04
Saudi Arabia, Kingdom of Saudi Arabia	2,109,593	2.42	948,477	1.09
Hyundai Heavy Industries Co.,Ltd. and subsidiaries(*2)	1,319,560	1.51	2,197,707	2.52
Pohang University of Science and Technology	1,905,000	2.18	1,905,000	2.18
KB Financial Group Inc. and subsidiaries(*2)	1,847,438	2.12	1,846,994	2.12
Others	68,407,039	78.47	69,316,038	79.51
	<u>87,186,835</u>	<u>100.00</u>	<u>87,186,835</u>	<u>100.00</u>

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

(*2) Includes shares held by subsidiaries pursuant to Articles of Incorporation.

As of December 31, 2014, the shares of the Company are listed on the Korea Exchange, while its depository shares are listed on the New York, Tokyo and London Stock Exchanges.

2. Statement of Compliance

Statement of compliance

The separate financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in the Act on External Audits of Corporations in the Republic of Korea.

These financial statements are separate financial statements prepared in accordance with K-IFRS No. 1027 "Separate Financial Statements" presented by a parent, an investor with joint control of, or significant influence over, an investee, in which the investments are accounted for at cost.

POSCO
Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

The separate financial statements were authorized for issue by the Board of Directors on January 29, 2015, and will be submitted for approval at the shareholders' meeting to be held on March 13, 2015.

Basis of measurement

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

- (a) Derivatives instruments are measured at fair value
- (b) Available-for-sale financial assets are measured at fair value
- (c) Defined benefit liabilities are measured at the present value of the defined benefit obligation less the fair value of the plan asset.

Functional and presentation currency

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

Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period prospectively.

(a) Judgements

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

- Note 8 - Other financial asset
- Note 13 - Investment property, net
- Note 14 - Property, plant and equipment, net

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Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

(b) Assumptions and estimation uncertainties

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

- Note 19 - Provisions
- Note 20 - Employee benefits
- Note 38 - Commitments and contingencies

(c) Measurement of fair value

The Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Company has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the department manager of finance department.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of K-IFRS including the level in the fair value hierarchy in which such valuation techniques should be classified.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the assets or liability, either directly or indirectly.
- Level 3 – inputs for the assets or liability that are not based on observable market data.

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Information about the assumptions made in measuring fair values is included in the following note:

- Note 22 – Financial instruments

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Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

Changes in accounting policies

The Company has adopted the following amendments to standards and new interpretation with a date of initial application of January 1, 2014.

- 1) K-IFRS No. 1032, "Financial Instruments: Presentation"
- 2) K-IFRS No. 1036, "Impairment of Assets"
- 3) K-IFRS No. 2121, "Levies"

The details of changes in accounting policies are as follows.

- 1) Offsetting financial assets and financial liabilities
The Company has adopted amendments to K-IFRS No. 1032, "Offsetting Financial Assets and Financial Liabilities" since January 1, 2014. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'. According to the amendments, the right to set off should not be contingent on a future event, and legally enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendments also state that some gross settlement systems would be considered equivalent to net settlement if they eliminate or result in insignificant credit and liquidity risk and process receivables and payables in a single settlement process or cycle.
- 2) Recoverable Amount Disclosures for Non-Financial Assets
The Company has adopted amendments to K-IFRS No. 1036 "Impairment of Assets" since January 1, 2014. The amendments require the disclosure of information about the recoverable amount of impaired assets, if that amount is based on fair value less costs of disposal. They also require the disclosure of additional information about that fair value measurement. In addition, if the recoverable amount of impaired assets based on fair value less costs of disposal was measured using a present value technique, the amendments also require the disclosure of the discount rates that have been used in the current and previous measurements.
- 3) Levies
The Company has adopted K-IFRS No. 2121, "Levies" since January 1, 2014. K-IFRS No. 2121 is an Interpretation of K-IFRS No. 1037 Provisions, Contingent Liabilities and Contingent Assets, on the accounting for levies imposed by governments. K-IFRS No. 1037 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (or "obligating event"). K-IFRS No. 2121 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

The interpretation does not provide guidance on the accounting for the costs arising from recognizing the liability to pay a levy. Other K-IFRSs should be applied to determine whether the recognition of a liability to pay a levy gives rise to an asset or an expense.

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Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

Impact of changes in accounting policies

Upon adoption of amendments to K-IFRS No. 1032 and K-IFRS No. 2121, there is no impact on the Company's prior year's separate financial statements. Upon adoption of amendments to K-IFRS No. 1036, the Company has made the required disclosures in the annual financial statements as applicable (see note 12).

3. Summary of Significant Accounting Policies

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

Investments in subsidiaries, associates and joint ventures

These separate financial statements are prepared and presented in accordance with K-IFRS No. 1027 "Separate Financial Statements". The Company applied the cost method to investments in subsidiaries, associates and joint ventures in accordance with K-IFRS No. 1027. Dividends from a subsidiary, associate or joint venture are recognized in profit or loss when the right to receive the dividend is established.

Foreign currency transactions and translation

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

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

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Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

Cash and cash equivalents

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

Non-derivative financial assets

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

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

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

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

(b) Held-to-maturity financial assets

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

(c) Loans and receivables

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

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Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

(d) Available-for-sale financial assets

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

(e) Derecognition of non-derivative financial assets

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

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

(f) Offsetting a financial asset and a financial liability

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

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Notes to the Separate Financial Statements
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Inventories

Inventory costs, except materials-in-transit in which costs are determined by using specific identification method, are determined by using the moving-weighted average method. The cost of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The allocation of fixed production overheads to the costs of finished goods or work in progress are based on the normal capacity of the production facilities.

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

Non-current assets held for sale

Non-current assets or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. In order to be classified as held for sale, the assets or disposal groups must be available for immediate sale in their present condition and their sale must be highly probable. The assets or disposal groups that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

The Company recognizes an impairment loss for any initial or subsequent write-down of an asset or disposal group to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with K-IFRS No. 1036 "Impairment of Assets".

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

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Investment property

Property held to earn rentals or for capital appreciation or both is classified as investment property. Investment property is measured initially at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

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

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

Property, plant and equipment

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

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

- (a) it is probable that future economic benefits associated with the item will flow to the Company and
- (b) the cost can be measured reliably.

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

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

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

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

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

Buildings	5-40 years
Structures	5-40 years
Machinery and equipment	15 years
Vehicles	4-9 years
Tools	4 years
Furniture and fixtures	4 years
Lease assets	18 years

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

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Borrowing costs

The Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Company borrows funds specifically for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. The Company immediately recognizes other borrowing costs as an expense. To the extent that the Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Company shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Company capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period.

Intangible assets

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

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

Intellectual property rights	10 years
Development costs	4 years
Port facilities usage rights	4-75 years
Other intangible assets	4 years

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

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

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

Government grants

Government grants are not recognized unless there is reasonable assurance that the Company will comply with the grant's conditions and that the grant will be received.

(a) Grants related to assets

Government grants whose primary condition is that the Company purchase, construct or otherwise acquire long-term assets are deducted from the carrying amount of the assets and recognized in profit or loss on a systematic and rational basis over the life of the depreciable assets.

(b) Grants related to income

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

Leases

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

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(a) Finance leases

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

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

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the Company adopts for similar depreciable assets that are owned. If there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

(b) Operating leases

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

Impairment for financial assets

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

Objective evidence that a financial asset or group of financial assets are impaired includes:

- (a) significant financial difficulty of the issuer or obligor
- (b) a breach of contract, such as a default or delinquency in interest or principal payments
- (c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider
- (d) it becoming probable that the borrower will enter bankruptcy or other financial reorganization
- (e) the disappearance of an active market for that financial asset because of financial difficulties

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- (f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If there is objective evidence that financial assets are impaired, impairment losses are measured and recognized.

(a) Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Company can recognize impairment losses directly or establish a provision to cover impairment losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

(b) Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

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(c) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

Impairment for non-financial assets

The carrying amounts of the Company's non-financial assets, other than assets arising from employee benefits, inventories, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

Management estimates the recoverable amount of an individual asset. If it is impossible to measure the individual recoverable amount of an asset, then management estimates the recoverable amount of cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

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Any impairment identified at the CGU level is used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Derivative financial instruments

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss.

(a) Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria have been met: (a) the economic characteristics and risks of the host contract and the embedded derivatives are not clearly and closely related to a separate instrument with the same terms as the embedded derivative that would meet the definition of a derivative, and (b) the hybrid (combined) instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives from the host contract are recognized immediately in profit or loss.

(b) Other derivatives

Changes in the fair value of a derivative that is not designated as a hedging instrument are recognized immediately in profit or loss.

Non-derivative financial liabilities

The Company classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Company recognizes financial liabilities in the separate statement of financial position when the Company becomes a party to the contractual provisions of the financial liability.

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

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

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(b) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Financial guarantee liabilities are initially measured at their fair values and, if not designated as financial liabilities at fair value through profit or loss, they are subsequently measured at the higher of:

- 1) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and
- 2) the amount initially recognized less, cumulative amortization recognized on a straight-line basis over the guarantee period

At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Company derecognizes a financial liability from the separate statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

Employee benefits

(a) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within twelve months after the end of the period in which the employees render the related service. When an employee has rendered service to the Company during an accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as profit or loss. If the Company has a legal or constructive obligation which can be reliably measured, the Company recognizes the amount of expected payment for profit-sharing and bonuses payable as liabilities.

(b) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, less the fair value of any related assets.

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The present value is determined by discounting the expected future cash flows using the interest rate of corporate bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

(c) Retirement benefits: Defined contribution plans

For defined contribution plans, when an employee has rendered service to the Company during a period, the Company recognizes the contribution payable to a defined contribution plan in exchange for that service as an accrued expense, after deducting any contributions already paid. If the contributions already paid exceed the contribution due for service before the end of the reporting period, the Company recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(d) Retirement benefits: Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method.

The discount rate is the yield at the reporting date on corporate bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Company recognizes all actuarial gains and losses arising from actuarial assumption changes and experiential adjustments in other comprehensive income when incurred.

When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Company recognizes an asset, to the extent of the total of cumulative unrecognized past service cost and present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

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Remeasurements of net defined benefit liabilities, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Company determines the net interest expense(income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments, net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss in curtailment is recognized immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Provision for restoration related to contaminated area is recognized when the area meets the Company's policy and legal standards of contamination.

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Equity instruments

(a) Share capital

Common stock is classified as equity and the incremental costs arising directly attributable to the issuance of common stock less their tax effects are deducted from equity.

If the Company reacquires its own equity instruments, the amount of those instruments ("treasury shares") are presented as a contra equity account. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of its own equity instruments. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase to equity, and the resulting surplus or deficit on the transaction is recorded in capital surplus.

(b) Hybrid bonds

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of financial liability and an equity instrument. When the Company has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the instruments are classified as equity instruments.

Revenue

Revenue from the sale of goods, services provided and the use of assets is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates, which are not significant for all periods presented.

(a) Sale of goods

Revenue from the sale of goods in the ordinary course of activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. The appropriate timing for transfer of risks and rewards varies depending on the individual terms and conditions of the sales contract. For international sales, this timing depends on the type of international commercial terms of the contract.

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(b) Rental income

Rental income from investment property, net of lease incentives granted, is recognized in profit or loss on a straight-line basis over the term of the lease.

Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Company's right to receive payment is established.

Finance costs comprise interest expense on borrowings and changes in the fair value of financial assets at fair value through profit or loss. Borrowing costs are recognized in profit or loss using the effective interest rate method.

Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

(a) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit of future periods, and non-taxable or non-deductible items from the accounting profit.

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(b) Deferred tax

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The Company recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and joint ventures, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Company recognizes a deferred tax asset for deductible temporary differences arising from investments in subsidiaries, associates and joint ventures, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized. However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

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Earnings per share

Management calculates basic earnings per share ("EPS") data for the Company's ordinary shares, which is presented at the end of the statement of comprehensive income. Basic EPS is calculated by dividing profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Company for annual periods beginning after January 1, 2014, and the Company has not early adopted them.

(a) Amendments to K-IFRS No. 1019 "Employee Benefits"

Amendments to K-IFRS No. 1019 introduced a practical expedient to accounting for defined benefit plan, when employees or third parties pay contributions if certain criteria are met. According to the amendments, the entity is permitted to recognize those contributions as a reduction of the service cost in the period in which the related service is rendered, instead of forecast future contributions from employees or third parties and attribute them to periods or service as negative benefits. This amendment is effective for the Company for annual periods beginning on or after January 1, 2015, with early adoption permitted.

Management believes the impact of the amendments on the Company's separate financial statements is not significant.

(b) Amendments to K-IFRS No. 1027 "Separate Financial Statements"

Amendments to K-IFRS No. 1027 introduced equity accounting as a third option in the entity's separate financial statements, in addition to the existing cost and fair value options. This amendment is effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

Management is in the progress of evaluating the impact of the amendments on the Company.

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4. Risk Management

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- capital risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these separate financial statements.

(a) Financial risk management

1) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

2) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities. In addition, credit risk arises from finance guarantees.

The Company implements a credit risk management policy under which the Company only transacts business with counterparties that have a certain level of credit rate evaluated based on financial condition, historical experience, and other factors. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of a nation or an industry in which a customer operates its business does not have a significant influence on credit risk. The Company has established a credit policy under which each new customer is analyzed individually for creditworthiness.

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The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for companies of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. Debt securities are analyzed individually, and an expected loss shall be directly deducted from debt securities.

Credit risk also arises from transactions with financial institutions, and such transactions include transactions of cash and cash equivalents, various deposits, and financial instruments such as derivative contracts. The Company manages its exposure to this credit risk by only entering into transactions with banks that have high international credit ratings. The Company's treasury department authorizes, manages, and oversees new transactions with financial institutions with whom the Company has no previous relationship. Furthermore, the Company limits its exposure to credit risk of financial guarantee contracts by strictly evaluating their necessity based on internal decision making processes, such as the approval of the board of directors.

3) Liquidity risk management

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company's cash flow from business, borrowing or financing is sufficient to meet the cash requirements for the Company's strategy investments. Management believes that the Company is capable of raising funds by borrowing or financing if the Company is not able to generate cash flow requirements from its operations. The Company has committed borrowing facilities with various banks.

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4) Market risk management

Market risk means that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The goal of market risk management is optimization of profit and controlling the exposure to market risk within acceptable limits.

① Currency risk

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Company, Korean Won.

The Company's policy in respect of foreign currency risks is a natural hedge whereby foreign currency income is offset with foreign currency expenditures. The remaining net exposures after the natural hedge have been hedged using derivative contracts such as forward exchange contracts. In addition, the Company's derivative transactions are limited to hedging actual foreign currency transactions and speculative hedging is not permitted. Based on this policy, the Company has foreign currency borrowings from banks and hedges foreign currency risks of the foreign currency borrowings by using foreign currency swaps.

② Interest rate risk

The Company mostly borrows at fixed interest rates. The Company's management monitors interest rate risks regularly.

③ Other market risk

Equity price risk arises from listed equity securities among available-for-sale equity securities. Management of the Company measures regularly the fair value of listed equity securities and the risk of variance in future cash flow caused by market price fluctuations. Significant investments are managed separately and all buy and sell decisions are approved by management of the Company.

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As of December 31, 2014 and 2013, Continued

(b) Management of capital risk

The fundamental goal of capital management is the maximization of shareholders' value by means of the stable dividend policy and the retirement of treasury shares. The capital structure of the Company consists of equity and net debt, deducting cash and cash equivalents and current financial instruments from borrowings. The Company applied the same financial risk management strategy that was applied in the previous period.

Net borrowing-to-equity ratio as of December 31, 2014 and 2013 is as follows:

<i>(in millions of Won)</i>	2014	2013
Total borrowings	₩ 6,537,217	8,663,071
Less: Cash and cash equivalents	1,742,767	1,394,315
Net borrowings	4,794,450	7,268,756
Total equity	₩ 42,475,431	42,311,462
Net borrowings-to-equity ratio	11.29%	17.18%

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Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

5. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2014 and 2013 are as follows:

(in millions of Won)

		<u>2014</u>	<u>2013</u>
Demand deposits and checking accounts	₩	867	302,434
Time deposits		545,000	549,381
Other cash equivalents(*1)		1,196,900	542,500
	₩	<u>1,742,767</u>	<u>1,394,315</u>

(*1) Mainly includes money market trust and others.

6. Trade Accounts and Notes Receivable

Trade accounts and notes receivable as of December 31, 2014 and 2013 are as follows:

(in millions of Won)

		<u>2014</u>	<u>2013</u>
Current			
Trade accounts and notes receivable	₩	3,166,238	3,403,316
Less: Allowance for doubtful accounts		(8,972)	(9,872)
	₩	<u>3,157,266</u>	<u>3,393,444</u>
Non-current			
Trade accounts and notes receivable	₩	32,247	7,806
Less: Present value discount		(7,396)	(3,114)
Less: Allowance for doubtful accounts		(1,010)	(228)
	₩	<u>23,841</u>	<u>4,464</u>

Trade accounts and notes receivable sold to financial institutions, for which the derecognition conditions were not met, amounted to ₩203,138 million as of December 31, 2013 (2014: nil), and were included in short-term borrowings.

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As of December 31, 2014 and 2013, Continued

7. Other Receivables

Other receivables as of December 31, 2014 and 2013 are as follows:

<i>(in millions of Won)</i>		2014	2013
Current			
Short-term loans	₩	4,748	-
Other accounts receivable(*1)		564,765	281,667
Others		3,950	10,065
Less: Allowance for doubtful accounts		(10,533)	(10,571)
	₩	<u>562,930</u>	<u>281,161</u>
Non-current			
Long-term loans	₩	21,229	54,945
Long-term other accounts receivable		2,334	2,723
Others		2,797	2,523
Less: Allowance for doubtful accounts		-	(14,453)
	₩	<u>26,360</u>	<u>45,738</u>

(*1) Included dividends receivable amounting to ₩200,824 million from POSCO Specialty., Co. Ltd.

8. Other Financial Assets

(a) Other financial assets as of December 31, 2014 and 2013 are as follows:

<i>(in millions of Won)</i>		2014	2013
Current			
Short term derivatives assets held for trading	₩	708	-
Short-term financial instruments(*1)		609,584	2,317,867
Cash deposits(*2,3)		83,437	949
	₩	<u>693,729</u>	<u>2,318,816</u>
Non-current			
Long-term derivatives assets held for trading	₩	9,525	7,788
Available-for-sale securities(equity instruments)		1,767,621	3,333,915
Available-for-sale securities(others)		17,408	20,855
Cash deposits(*4)		36	36
	₩	<u>1,794,590</u>	<u>3,362,594</u>

(*1) Short-term financial instruments amounting to ₩5,200 million and ₩4,700 million are provided as collateral in relation to long term borrowings from National Forestry Cooperatives Federation as of December 31, 2014 and 2013, respectively.

(*2) Deposits amounting to ₩5,465 million and ₩949 million as of December 31, 2014 and 2013, respectively, are restricted in relation to government assigned project.

(*3) As of December 31, 2014, ₩77,972 million of deposits have been provided as collateral for disposal of investments in subsidiaries.

(*4) The Company is required to provide deposits to maintain checking accounts and accordingly the withdrawal of these deposits is restricted.

POSCO
Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

(b) Available-for-sale equity securities as of December 31, 2014 and 2013 are as follows:

(in millions of Won)

	2014				2013			
	Number of shares	Ownership (%)	Acquisition cost	Fair value	Net changes in fair value of available-for-sale investments(*7)	Accumulated impairment loss	Book value	Book value
Marketable equity securities								
Nippon Steel & Sumitomo Metal Corporation	238,352,000	2.51	₩ 719,622	659,926	(59,696)	-	659,926	842,909
SK Telecom Co., Ltd.(*1)	-	-	-	-	-	-	-	419,933
KB Financial group Inc.	11,590,550	3.00	536,516	418,998	22,602	(140,120)	418,998	489,701
Hyundai Heavy Industries Co., Ltd.(*2)	1,477,000	1.94	343,506	169,855	-	(173,651)	169,855	379,589
Shinhan Financial group Inc.	4,369,881	0.92	228,778	194,241	71,605	(106,142)	194,241	206,695
Hana Financial group Inc.	2,430,498	0.84	15,633	77,776	62,143	-	77,776	106,699
Others (13 companies)(*2,3)			155,940	99,594	29,731	(86,077)	99,594	108,895
			<u>1,999,995</u>	<u>1,620,390</u>	<u>126,385</u>	<u>(505,990)</u>	<u>1,620,390</u>	<u>2,554,421</u>
Non-marketable equity securities								
The Siam United Steel	-	-	-	-	-	-	-	57,643
Nacional Minerios S.A.(*4)	-	-	-	-	-	-	-	517,193
Dongbu Metal Co., Ltd.(*2,5)	3,000,000	10.00	98,242	17,295	-	(80,947)	17,295	85,371
Others (41 companies)(*6)			141,049	129,936	(2,318)	(8,795)	129,936	119,287
			<u>239,291</u>	<u>147,231</u>	<u>(2,318)</u>	<u>(89,742)</u>	<u>147,231</u>	<u>779,494</u>
			<u>₩ 2,239,286</u>	<u>1,767,621</u>	<u>124,067</u>	<u>(595,732)</u>	<u>1,767,621</u>	<u>3,333,915</u>

(*1) During the year ended December 31, 2014, exchange bonds on American Depository Receipts ("ADRs") of SK Telecom Co., Ltd. were exercised. Accordingly, the Company recognized a gain on disposal of available-for-sale securities amounting to ₩198,671 million.

(*2) During the year ended December 31, 2014, the Company recognized ₩173,651 million, ₩729 million, ₩60 million and ₩80,947 million of impairment loss on securities of Hyundai Heavy Industries Co., Ltd., Dgenx Co., Ltd., TONGYANG NETWORKS Co., Ltd., and Dongbu Metal Co., Ltd., respectively, due to the significant decline in the fair value of the shares.

(*3) During the year ended December 31, 2014, the Company recognized an additional impairment loss of ₩1,105 million, ₩1,005 million, ₩1,251 million and ₩4,720 million on securities of UNION STEEL CO., LTD., Seoul Semiconductor Co., Ltd., PT.Krakatau Steel and Steel Flower Co., Ltd., respectively, due to the continued prolonged decline in the fair value of the shares.

(*4) The Company recognized ₩88,572 million of impairment loss on investment in Nacional Minerios S.A. for the year ended December 31, 2014, due to the prolonged decline in the fair value of the shares. As of December 31, 2014, the Company classified the securities as assets held for sale based on the merger agreement of Nacional Minerios S.A. with other shareholders (note 10).

(*5) Fair value is based on an analysis performed by an external professional evaluation agency.

(*6) Non-marketable equity securities whose fair values cannot be reliably measured are recorded at cost.

(*7) Represents the amount of cumulative amounts that is recorded in accumulated other comprehensive income as of December 31, 2014

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9. Inventories

(a) Inventories as of December 31, 2014 and 2013 are as follows:

<i>(in millions of Won)</i>	2014	2013
Finished goods	₩ 901,524	755,286
Semi-finished goods	1,207,143	1,259,390
By-products	21,439	13,793
Raw materials	822,273	983,902
Fuel and materials	510,508	520,236
Materials-in-transit	944,966	1,009,996
Others	582	586
	<u>4,408,435</u>	<u>4,543,189</u>
Less: Allowance for inventories valuation	(24,867)	(4,532)
	<u>₩ 4,383,568</u>	<u>4,538,657</u>

(b) The changes of allowance for inventories valuation for the years ended December 31, 2014 and 2013 were as follows:

<i>(in millions of Won)</i>	2014	2013
Beginning	₩ 4,532	370
Loss on valuation of inventories	24,867	4,532
Write-off	(4,532)	(370)
Ending	<u>₩ 24,867</u>	<u>4,532</u>

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Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

10. Assets Held for Sale

Assets held for sale as of December 31, 2014 and 2013 are as follows:

<i>(in millions of Won)</i>		2014	2013
Available-for-sale securities(*1)	₩	580,062	-
Investments in subsidiaries(*2,3)		468,443	-
Investment in associates(*4)		-	1,304
Property, plant and equipment (land)		2,672	-
	₩	<u>1,051,177</u>	<u>1,304</u>

(*1) In November 2014, Nacional Minerios S.A. (which was an available-for-sale investment of the Company) entered into a merger agreement with another entity through share exchange. The merger transaction was approved by the Company's Board of Directors on December 12, 2014. Pursuant to the merger agreement, the Company will dispose of its equity interests in Nacional Minerios S.A. in exchange for equity interests in the new entity. Accordingly, the Company classified its investment in Nacional Minerios S.A. as assets held for sale after recording impairment loss on the investment.

(*2) The Company determined to dispose of 52.2% of shares of POSCO Specialty Co., Ltd to SeAH Besteel Corp. by and entered into a disposal agreement. The agreement was approved by the Board of Directors on December 12, 2014, and the Company classified the investment in subsidiaries of ₩ 454,943 million as assets held for sale.

(*3) The Company determined to dispose of the shares of POSFINE Co., Ltd, an associate of the Company, to Hahn & Company PRIVATE EQUITY FUND No.1, and classified the accompanying investment in the subsidiary of ₩13,500 million as assets held for sale.

(*4) The Company determined to dispose of the shares of POSVINA Co., Ltd., a subsidiary of the Company during the year ended December 31, 2013. Disposal of the asset held-for-sale was completed during the year ended December 31, 2014, and the Company recognized an impairment loss for asset held for sale of ₩14 million.

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Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

11. Other Assets

Other current assets and other long-term assets as of December 31, 2014 and 2013 are as follows:

<i>(in millions of Won)</i>	2014	2013
Current		
Advance payments	₩ 9,828	4,871
Prepaid expenses	21,864	20,911
	<u>₩ 31,692</u>	<u>25,782</u>
Non-current		
Long-term prepaid expenses	₩ 6,344	6,980
Others(*1)	126,909	3,935
Less : Allowance for doubtful accounts	-	(13)
	<u>₩ 133,253</u>	<u>10,902</u>

(*1) As of December 31, 2014, the Company recognized assets amounting to ₩123,110 million in connection with the additional payment for prior years as a result of tax audits that were finalized in 2014 based on the Company's best estimate of the tax amounts to be paid when the result of the Company's appeal is finalized.

12. Investments in Subsidiaries, Associates and Joint ventures

(a) Investments in subsidiaries, associates and joint ventures as of December 31, 2014 and 2013 are as follows:

<i>(in millions of Won)</i>	2014	2013
Subsidiaries	₩ 13,257,282	12,316,564
Associates	647,973	825,197
Joint ventures	2,273,636	1,951,075
	<u>₩ 16,178,891</u>	<u>15,092,836</u>

There are no restrictions on the ability of subsidiaries, associates and joint ventures to transfer funds to the controlling company, such as in the form of cash dividends, repayment of loans or payment of advances.

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As of December 31, 2014 and 2013, Continued

(b) Details of subsidiaries and carrying values as of December 31, 2014 and 2013 are as follows:

(in millions of Won)

	Country	Principal operations	Number of shares	Ownership (%)	2014			2013
					Acquisition cost	Net asset value	Book value	Book value
[Domestic]								
Daewoo International Corporation	Korea	Trading	68,681,566	60.31	₩ 3,371,481	2,343,917	3,371,481	3,371,481
POSCO ENGINEERING & CONSTRUCTION, LTD.	Korea	Engineering and construction	32,876,418	89.53	1,510,716	2,972,450	1,510,716	1,510,716
POSCO Green Gas Technology	Korea	Gas production and sales	13,652	100.00	682,600	679,311	682,600	-
POSCO ENERGY CO., LTD.	Korea	Generation of electricity	40,234,508	89.02	658,176	1,584,491	658,176	658,176
POSCO Processing&Service	Korea	Steel sales and service	20,340,136	96.01	624,678	871,481	624,678	421,927
POSCO PLANTEC Co., Ltd.(*1,2)	Korea	Other structural metal product manufacturing	110,027,475	60.84	520,588	215,859	341,293	-
POSCO Specialty Steel Co., Ltd.(*3)	Korea	Manufacture and sale of specialty steel	26,000,000	72.09	173,899	948,735	173,899	628,842
POSCO COATED & COLOR STEEL Co., Ltd.	Korea	Coated steel manufacturing	3,412,000	56.87	108,421	166,468	108,421	108,421
POSCO Venture Capital Co., Ltd.	Korea	Investment in venture companies	19,700,000	95.00	103,780	111,011	103,780	103,780
POSCO CHEMTECH	Korea	Business facility maintenance	3,544,200	60.00	100,535	507,448	100,535	100,535
POSMATE	Korea	Computer hardware and software distribution	902,946	57.30	72,804	178,969	72,804	63,222
POSCO ICT	Korea	Business facility maintenance	99,403,282	65.38	70,990	422,288	70,990	70,990
POSCO M-TECH(*4,5)	Korea	Steel manufacturing and Sales	20,342,460	48.85	107,278	49,286	66,067	107,278
POSCO Family Strategy Fund	Korea	Investment in venture companies	400	60.79	40,000	53,144	40,000	40,000
Busan E&E Co., Ltd.(*6)	Korea	Municipal solid waste fuel and power generation	6,029,660	70.00	30,148	40,456	30,148	30,148
POSHIMETAL Co., Ltd.(*8)	Korea	Steel manufacturing and sales	10,023,000	65.00	49,452	(5,420)	-	49,452
Others (10 companies)(*9)					136,245	306,515	134,196	354,873
					<u>8,361,791</u>	<u>11,446,409</u>	<u>8,089,784</u>	<u>7,619,841</u>
[Foreign]								
PT. KRAKATAU POSCO	Indonesia	Steel manufacturing and sales	739,900	70.00	813,431	823,714	855,110	808,492
POSCO WA PTY LTD	Australia	Mine development	589,035,511	100.00	611,248	450,299	611,248	446,093
POSCO Maharashtra Steel Private Limited	India	Steel manufacturing and sales	214,649,818	100.00	456,065	197,562	465,788	355,987
POSCO AUSTRALIA PTY LTD	Australia	Steel Sales and mine development	761,775	100.00	330,623	660,815	330,623	330,623
POSCO Thainox Public Company Limited(*7)	Thailand	Stainless steel manufacturing	6,620,532,219	84.93	500,740	298,946	329,756	340,249
Zhangjiagang Pohang Stainless Steel Co., Ltd.	China	Stainless steel manufacturing	-	58.60	283,845	516,449	284,392	284,753
POSCO-China Holding Corp.	China	Investment management	-	100.00	240,430	257,961	240,430	240,430
POSCO-India Private Limited	India	Steel manufacturing and sales	764,999,999	99.99	184,815	116,897	184,815	184,815
POSCO MEXICO S.A. DE C.V.	Mexico	Plate steel manufacturing	2,686,705,272	84.84	180,069	208,429	182,110	182,080
POSCO America Corporation	USA	Trading-Steel	415,530	99.45	167,285	63,571	167,285	140,381
POSCO-VIETNAM Co., Ltd.	Vietnam	Steel manufacturing	-	85.00	154,691	26,775	156,778	157,295
POSCO VST CO., LTD.	Vietnam	Stainless steel manufacturing	-	95.65	144,573	24,477	145,049	145,288
POSCO(Guangdong) Automotive Steel Co., Ltd.	China	Plate steel manufacturing	117,187,089	83.64	130,751	126,283	131,051	131,291
POSCO ASSAN TST STEEL INDUSTRY	Turkey	Steel manufacturing and sales	144,579,160	60.00	92,800	28,925	95,213	95,710
POSCO COATED STEEL (THAILAND) CO., LTD.	Thailand	Plate steel manufacturing	27,000,000	100.00	90,012	90,450	90,012	6,020
POSCO Investment Co., Ltd.	Hong Kong	Finance	4,999,999	99.99	85,521	109,805	86,775	87,211
POSCO JAPAN Co., Ltd.	Japan	Trading-Steel	90,438	100.00	68,436	110,322	68,436	68,436
Qingdao Pohang Stainless Steel Co., Ltd.	China	Stainless steel manufacturing	-	70.00	65,982	84,984	65,982	65,982
POSCO(Suzhou) Automotive Processing Center Co., Ltd.	China	Steel manufacturing and sales	-	90.00	62,494	124,852	62,494	62,494
POSCO Electrical Steel India Private Limited	India	Electrical steel manufacturing and sales	24,120,664	100.00	57,119	32,234	58,441	58,662
POSCO AFRICA (PROPRIETARY) LIMITED	South Africa	Trading	1,390	100.00	50,297	40,755	50,297	50,297
POSCO-Malaysia SDN. BHD.	Malaysia	Steel manufacturing and sales	144,772,000	81.79	45,479	(10,693)	45,479	31,027
POSCO China Dalian Plate Processing Center Co., Ltd.	China	Heavy plate processing and marketing	-	80.00	32,992	13,321	32,992	32,992
POSCO Asia Co., Ltd.	Hong Kong	Steel transit trade	9,360,000	100.00	32,189	46,664	32,189	32,189
POSCO(Guangdong) Steel Co., Ltd.	China	Plate steel sheet manufacturing	-	87.04	31,299	42,740	31,299	31,299
POSCO-Uruguay S.A	Uruguay	Wood manufacturing and sales	558,592,496	98.11	30,243	21,240	30,243	29,341
Others (31 companies)(*9)					333,615	507,590	333,211	297,286
					<u>5,277,044</u>	<u>5,015,367</u>	<u>5,167,498</u>	<u>4,696,723</u>
					<u>₩ 13,638,835</u>	<u>16,461,776</u>	<u>13,257,282</u>	<u>12,316,564</u>

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- (*1) As of December 31, 2014, there is objective evidence of impairment due to the prolonged decline in the fair value of the investment below cost. Recoverable amount was determined based on fair value less cost to sell, which was calculated by adding a 8.8% control premium and disposal cost to the stock price as of December 31, 2014. As a result, the Company recognized an impairment loss of ₩103,993 million as the carrying value was higher than its recoverable amount as of December 31, 2014.
- (*2) During the year ended December 31, 2014, it is classified as subsidiary from associate due to increase in percentage of ownership through capital increase.
- (*3) The Company determined to dispose of 52.2% of POSCO Specialty Steel Co., Ltd.'s share and classified the investment in a subsidiary of ₩454,943 million as assets held for sale.
- (*4) It was classified as an investment in a subsidiary as the Company has control over of more than half of the voting rights by virtue of an agreement with Postech, which has 4.72% of ownership in POSCO M-TECH Co., Ltd.
- (*5) As of December 31, 2014, there is objective evidence of impairment due to the prolonged decline in the fair value of the investment below cost. Recoverable amount was determined based on fair value less cost to sell, which was calculated by adding a 13.7% control premium and disposal cost to the stock price as of December 31, 2014. As a result, the Company recognized an impairment loss of ₩41,211 million as the carrying value was higher than its recoverable amount as of December 31, 2014.
- (*6) As of December 31, 2014, the investments in subsidiaries amounting to ₩30,148 million were provided as collateral in relation to the loan agreements of Busan E&E Co., Ltd.
- (*7) As of December 31, 2014, there is objective evidence of impairment due to the prolonged decline in the fair value of the investment below cost. Recoverable amount was determined based on fair value less cost to sell, which was calculated by adding a 13.7% control premium and disposal cost to the stock price as of December 31, 2014. As a result, the Company recognized an impairment loss of ₩10,493 million as the carrying value was higher than its recoverable amount as of December 31, 2014.
- (*8) As of December 31, 2014, there is objective evidence of impairment due to the prolonged decline in the fair value of the investment below cost. The recoverable amount was determined based on value-in-use, which was calculated by applying 7.4% discount rate. As a result, the Company recognized impairment loss of ₩49,452 million as the carrying value was higher than its recoverable amount as of December 31, 2014.
- (*9) The Company recognized an impairment loss of ₩2,049 million and ₩404 million on POSCO LED Co., Ltd. and Motta Resources Indonesia, respectively, as the carrying value was higher than its recoverable amount as of December 31, 2014.

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Notes to the Separate Financial Statements
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(c) Details of associates and carrying values as of December 31, 2014 and 2013 are as follows:

(in millions of Won)

	Country	Principal operations	Number of shares	Ownership (%)	2014		2013	
					Acquisition cost	Net asset value	Book value	Book value
[Domestic]								
POSCO PLANTEC Co., Ltd.(*1)	Korea	-	-	-	₩ -	-	-	185,786
EQP POSCO Global 1st Fund	Korea	Mine investment	169,106,080,000	26.97	169,106	620,916	169,106	169,106
SNNC Co., Ltd.	Korea	Storage of materials	18,130,000	49.00	100,655	298,351	100,655	100,655
Others (4 companies)(*2)					21,867	110,468	21,867	18,921
					<u>291,628</u>	<u>1,029,735</u>	<u>291,628</u>	<u>474,468</u>
[Foreign]								
Nickel Mining Company SAS	New Caledonia	Raw material manufacturing and Sales	3,234,698	49.00	189,197	269,371	189,197	189,197
7623704 Canada Inc.	Canada	Mine investment	114,452,000	10.40	124,341	1,138,122	124,341	124,341
Zhongyue POSCO (Qinhuangdao) Tinsplate Industrial Co., Ltd	China	Tinsplate manufacturing and sales	-	24.00	11,003	67,539	11,003	11,003
Others (9 companies)					31,700	44,092	31,804	26,188
					<u>356,241</u>	<u>1,519,124</u>	<u>356,345</u>	<u>350,729</u>
					<u>₩ 647,869</u>	<u>2,548,859</u>	<u>647,973</u>	<u>825,197</u>

(*1) During the year ended December 31, 2014, it was reclassified from associate to subsidiary due to increase in percentage of ownership through capital increase.

(*2) The Company has recognized an impairment loss of ₩2,193 million on Hyundai Investment Network No.1 Private Equity Fund due to the prolonged decline in the market value of the shares.

(d) Details of joint ventures and carrying values as of December 31, 2014 and 2013 are as follows:

(in millions of Won)

	Country	Principal operations	Number of shares	Ownership (%)	2014		2013	
					Acquisition cost	Net asset value	Book value	Book value
Roy Hill Holdings Pty Ltd(*1)	Australia	Mine development	10,494,377	10.00	₩ 1,225,464	3,377,978	1,225,464	983,569
CSP - Companhia Siderurgica do Pecem	Brazil	Steel manufacturing	827,771,230	20.00	469,891	1,593,004	469,891	393,925
POSCO-NPS Niobium LLC	USA	Mine development	325,050,000	50.00	364,609	715,546	364,609	364,609
KOBRASCO	Brazil	Facilities lease	2,010,719,185	50.00	98,962	199,573	98,962	98,962
Others (5 companies)					114,710	463,668	114,710	110,010
					<u>₩ 2,273,636</u>	<u>6,349,769</u>	<u>2,273,636</u>	<u>1,951,075</u>

(*1) As of December 31, 2014, the investments in joint ventures amounting to ₩1,225,464 million were provided as collateral in relation to loan from project financing of Roy Hill Holdings Pty Ltd.

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13. Investment Property, Net

(a) Investment property as of December 31, 2014 and 2013 are as follows:

(in millions of Won)

		2014			2013		
		Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Land	₩	36,020	-	36,020	36,020	-	36,020
Buildings		95,568	(45,456)	50,112	95,564	(42,882)	52,682
Structures		7,009	(3,004)	4,005	7,009	(2,832)	4,177
	₩	<u>138,597</u>	<u>(48,460)</u>	<u>90,137</u>	<u>138,593</u>	<u>(45,714)</u>	<u>92,879</u>

The fair value of investment property as of December 31, 2014 is ₩287,210 million.

(b) Changes in the carrying value of investment property for the years ended December 31, 2014 and 2013 were as follows:

1) For the year ended December 31, 2014

(in millions of Won)

		Beginning	Acquisitions	Disposals	Depreciation(*1)	Transfer(*2)	Ending
Land	₩	36,020	-	-	-	-	36,020
Buildings		52,682	41	(18)	(2,404)	(189)	50,112
Structures		4,177	-	-	(160)	(12)	4,005
	₩	<u>92,879</u>	<u>41</u>	<u>(18)</u>	<u>(2,564)</u>	<u>(201)</u>	<u>90,137</u>

(*1) The useful life and depreciation method of investment property are identical to those of property, plant and equipment.

(*2) Mainly includes assets transferred to property, plant and equipment in relation to change in rental ratio and the purpose of use.

2) For the year ended December 31, 2013

(in millions of Won)

		Beginning	Depreciation(*1)	Transfer(*2)	Ending
Land	₩	41,811	-	(5,791)	36,020
Buildings		63,697	(2,793)	(8,222)	52,682
Structures		5,018	(186)	(655)	4,177
	₩	<u>110,526</u>	<u>(2,979)</u>	<u>(14,668)</u>	<u>92,879</u>

(*1) The useful life and depreciation method of investment property are identical to those of property, plant and equipment.

(*2) Mainly includes assets transferred to property, plant and equipment in relation to change in rental ratio and the purpose of use.

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14. Property, Plant and Equipment, Net

(a) Property, plant and equipment as of December 31, 2014 and 2013 are as follows:

(in millions of Won)

	2014					2013				
	Acquisition cost	Accumulated depreciation	Accumulated impairment	Government grants	Book value	Acquisition cost	Accumulated depreciation	Accumulated impairment	Government grants	Book value
Land	₩ 1,420,994	-	-	-	1,420,994	1,397,271	-	-	-	1,397,271
Buildings	5,801,650	(3,036,496)	(4,312)	-	2,760,842	5,433,167	(2,794,762)	(631)	-	2,637,774
Structures	4,617,918	(1,996,823)	(8,542)	-	2,612,553	4,277,603	(1,808,087)	(470)	-	2,469,046
Machinery and equipment	35,056,496	(20,530,303)	(22,927)	-	14,503,266	32,428,259	(19,221,165)	(4,384)	-	13,202,710
Vehicles	197,467	(184,514)	-	-	12,953	189,666	(178,897)	-	-	10,769
Tools	187,712	(164,388)	-	-	23,324	188,204	(162,524)	-	-	25,680
Furniture and fixtures	261,846	(223,942)	(320)	-	37,584	254,663	(206,987)	(282)	-	47,394
Finance lease assets	11,466	(5,096)	-	-	6,370	11,466	(4,459)	-	-	7,007
Construction-in-progress	950,329	-	-	(5,000)	945,329	3,447,952	-	-	(5,000)	3,442,952
	₩ 48,505,878	(26,141,562)	(36,101)	(5,000)	22,323,215	47,628,251	(24,376,881)	(5,787)	(5,000)	23,240,603

(b) Changes in the carrying value of property, plant and equipment for the years ended December 31, 2014 and 2013 were as follows:

1) For the year ended December 31, 2014

(in millions of Won)

	Beginning	Acquisitions	Disposals	Depreciation	Impairment(*1)	Others(*2)	Ending
Land	₩ 1,397,271	39	(392)	-	-	24,076	1,420,994
Buildings	2,637,774	5,941	(1,912)	(249,792)	(3,681)	372,512	2,760,842
Structures	2,469,046	11,239	(1,750)	(194,088)	(8,072)	336,178	2,612,553
Machinery and equipment	13,202,710	125,297	(29,430)	(1,574,903)	(18,543)	2,798,135	14,503,266
Vehicles	10,769	792	(8)	(7,884)	-	9,284	12,953
Tools	25,680	5,795	(54)	(15,996)	-	7,899	23,324
Furniture and fixtures	47,394	7,150	(5)	(21,929)	(38)	5,012	37,584
Finance lease assets	7,007	-	-	(637)	-	-	6,370
Construction-in-progress	3,442,952	1,628,325	-	-	-	(4,125,948)	945,329
	₩ 23,240,603	1,784,578	(33,551)	(2,065,229)	(30,334)	(572,852)	22,323,215

(*1) The Company has recognized an impairment loss since the recoverable amounts of FINEX 1 plant and STS 1 steelmaking plant were lower than their book value.

(*2) Represents assets transferred from construction-in-progress to investment to subsidiary (KRW 558,915 million), property, plant and equipment, from investment property, to intangible assets, and to assets held-for-sale.

2) For the year ended December 31, 2013

(in millions of Won)

	Beginning	Acquisitions	Disposals	Depreciation	Others(*1)	Ending
Land	₩ 1,367,822	-	(627)	-	30,076	1,397,271
Buildings	2,734,839	7,034	(8,628)	(241,678)	146,207	2,637,774
Structures	2,113,750	16,624	(5,519)	(181,725)	525,916	2,469,046
Machinery and equipment	12,888,614	113,921	(57,800)	(1,456,354)	1,714,329	13,202,710
Vehicles	13,039	794	(4)	(8,682)	5,622	10,769
Tools	29,693	4,006	(9)	(15,118)	7,108	25,680
Furniture and fixtures	67,431	2,819	(875)	(24,829)	2,848	47,394
Finance lease assets	7,644	-	-	(637)	-	7,007
Construction-in-progress	2,943,903	3,009,545	-	-	(2,510,496)	3,442,952
	₩ 22,166,735	3,154,743	(73,462)	(1,929,023)	(78,390)	23,240,603

(*1) Represents assets transferred from construction-in-progress to property, plant and equipment, investment property and intangible assets.

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(c) Borrowing costs capitalized and the capitalized interest rate for the years ended December 31, 2014 and 2013 are as follows:

<i>(in millions of Won)</i>		2014	2013
Weighted average expenditure	₩	1,227,496	2,894,479
Borrowing costs capitalized		51,428	137,221
Capitalization rate		4.19%	4.74%

15. Intangible Assets, Net

(a) Intangible assets as of December 31, 2014 and 2013 are as follows:

(in millions of Won)

		2014				2013			
		Acquisition cost	Accumulated amortization	Accumulated impairment	Book value	Acquisition cost	Accumulated amortization	Accumulated impairment	Book value
Intellectual property rights	₩	24,829	(7,235)	-	17,594	18,970	(5,158)	-	13,812
Membership		59,949	-	(6,795)	53,154	55,672	-	(6,795)	48,877
Development expense		242,747	(114,806)	-	127,941	95,514	(66,046)	-	29,468
Port facilities usage rights		511,212	(349,184)	-	162,028	509,375	(337,166)	-	172,209
Construction-in-progress		16,756	-	-	16,756	153,719	-	-	153,719
Other intangible assets		296,112	(269,678)	-	26,434	280,804	(260,106)	-	20,698
	₩	<u>1,151,605</u>	<u>(740,903)</u>	<u>(6,795)</u>	<u>403,907</u>	<u>1,114,054</u>	<u>(668,476)</u>	<u>(6,795)</u>	<u>438,783</u>

(b) Changes in the carrying value of intangible assets for the years ended December 31, 2014 and 2013 were as follows:

1) For the year ended December 31, 2014

(in millions of Won)

		Beginning	Acquisitions	Disposals	Amortization	Impairment(*2)	Transfer(*3)	Ending
Intellectual property rights	₩	13,812	-	(217)	(2,261)	-	6,260	17,594
Membership(*1)		48,877	5,896	(2,209)	-	590	-	53,154
Development expense		29,468	381	-	(48,766)	-	146,858	127,941
Port facilities usage rights		172,209	-	-	(12,018)	-	1,837	162,028
Construction-in-progress		153,719	16,414	-	-	-	(153,377)	16,756
Other intangible assets		20,698	13,577	-	(11,067)	-	3,226	26,434
	₩	<u>438,783</u>	<u>36,268</u>	<u>(2,426)</u>	<u>(74,112)</u>	<u>590</u>	<u>4,804</u>	<u>403,907</u>

(*1) Economic useful life of membership is indefinite.

(*2) The Company reversed accumulated impairment loss up to the carrying value before recognition of any impairment loss since recoverable amounts of some memberships exceeded the carrying value, either.

(*3) Represents assets transferred from construction-in-progress to intangible assets and assets transferred from property, plant and equipment.

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2) For the year ended December 31, 2013

(in millions of Won)

	Beginning	Acquisitions	Disposals	Amortization	Impairment(*2)	Transfer(*3)	Ending
Intellectual property rights	₩ 8,904	-	(291)	(1,625)	-	6,824	13,812
Membership(*1)	49,560	1,022	(1,124)	-	(581)	-	48,877
Development expense	30,092	1,902	-	(16,156)	-	13,630	29,468
Port facilities usage rights	87,983	-	-	(10,265)	-	94,491	172,209
Construction-in-progress	96,035	98,459	-	-	-	(40,775)	153,719
Other intangible assets	21,267	1,658	-	(10,021)	-	7,794	20,698
	<u>₩ 293,841</u>	<u>103,041</u>	<u>(1,415)</u>	<u>(38,067)</u>	<u>(581)</u>	<u>81,964</u>	<u>438,783</u>

(*1) Economic useful life of membership is indefinite.

(*2) Since the carrying amount exceeded recoverable amount, impairment loss on memberships was recognized.

(*3) Represents assets transferred from construction-in-progress to intangible assets and assets transferred from property, plant and equipment.

16. Borrowings

(a) Borrowings as of December 31, 2014 and 2013 are as follows:

(in millions of Won)

	2014	2013
Short-term borrowings		
Short-term borrowings	₩ -	203,138
Current portion of long-term borrowings	236,553	188,381
Current portion of loans from foreign financial institutions	418	927
Current portion of debentures	1,000,000	1,540,109
Less : Current portion of discount on debentures issued	(681)	(1,272)
	<u>₩ 1,236,290</u>	<u>1,931,283</u>
Long-term borrowings		
Long-term borrowings	₩ 447,437	648,251
Loans from foreign financial institutions	627	1,140
Debentures	4,871,627	6,107,973
Less : Discount on debentures issued	(18,764)	(38,167)
Add : Premium on debentures redemption	-	12,591
	<u>₩ 5,300,927</u>	<u>6,731,788</u>

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(b) Short-term borrowings as of December 31, 2014 and 2013 are as follows:

(in millions of Won)

Lenders	2014	2013
Transfers of account receivables that do not qualify for derecognition	₩ -	203,138

(c) Current portion of long-term borrowings as of December 31, 2014 and 2013 are as follows:

(in millions of Won)

	Lenders	Issuance date	Maturity date	Annual interest rate (%)	2014	2013
Borrowings	Woori Bank and others	2006.10.31~ 2011.04.28	2017.03.15~ 2024.06.15	0.75~1.75	₩ 15,532	14,969
Borrowings	Export-Import Bank of Korea	2010.02.18~ 2011.03.23	2015.09.23~ 2017.07.26	4.09~4.50	221,021	173,412
Loans from foreign financial institutions	NATIXIS(*1)	1986.03.31	2017.03.31	2.00	418	927
Debentures	Domestic debentures 294 and another	2010.08.04~ 2010.11.16	2015.08.04~ 2015.11.16	4.38~4.81	999,319	499,975
Debentures	Global fund 1 and another	-	-	-	-	1,038,862
					₩ <u>1,236,290</u>	<u>1,728,145</u>

(*1) As of December 31, 2014, Korea Development Bank has provided guarantees to the Company for loans from foreign financial institutions.

(d) Long-term borrowings excluding current portion, as of December 31, 2014 and 2013 are as follows:

(in millions of Won)

	Lenders	Issuance date	Maturity date	Annual interest rate (%)	2014	2013
Borrowings	Woori Bank and others(*1)	2006.10.31~ 2013.05.08	2017.03.15~ 2041.05.08	0.75~1.75	₩ 55,662	71,194
Borrowings	Korea National Oil Corporation	2007.12.27~ 2013.12.30	2022.06.25~ 2026.12.29	3 year Government bond	14,159	13,593
Borrowings	Export-Import Bank of Korea	2010.07.26~ 2013.07.03	2017.07.26~ 2018.03.23	4.09~4.50	377,616	563,464
Loans from foreign financial institutions	NATIXIS(*2)	1986.03.31	2017.03.31	2.00	627	1,140
Debentures	Domestic debentures 297 and others	2011.03.04~ 2013.10.04	2016.03.04~ 2023.10.04	3.35~4.65	2,295,585	3,292,417
Debentures	Samurai Bond 11 and others	2006.08.10~ 2013.12.11	2016.08.20~ 2021.12.22	0.93~5.88	2,557,278	2,789,980
					₩ <u>5,300,927</u>	<u>6,731,788</u>

(*1) Short-term financial instruments amounting to ₩5,200 million and ₩4,700 million as of December 31, 2014 and 2013, respectively, are collateralized for long-term borrowings from the National Forestry Cooperative Federation.

(*2) As of December 31, 2014, Korea Development Bank has provided guarantees to the Company for loans from foreign financial institutions.

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17. Other Payables

Other payables as of December 31, 2014 and 2013 are as follows:

<i>(in millions of Won)</i>		2014	2013
Current			
Accounts payable	₩	627,337	463,196
Accrued expenses		386,014	306,723
Dividend payable		9,523	9,180
Finance lease liabilities		1,218	1,124
Withholdings		8,404	11,660
	₩	<u>1,032,496</u>	<u>791,883</u>
Non-current			
Long-term accounts payable	₩	54,131	91,827
Accrued expenses		22,767	22,922
Finance lease liabilities		4,006	5,042
Long-term withholdings		7,903	4,888
	₩	<u>88,807</u>	<u>124,679</u>

18. Other Financial Liabilities

Other financial liabilities as of December 31, 2014 and 2013 are as follows:

<i>(in millions of Won)</i>		2014	2013
Current			
Derivative liabilities	₩	-	36,964
Financial guarantee liabilities		9,236	9,045
	₩	<u>9,236</u>	<u>46,009</u>
Non-current			
Derivative liabilities	₩	-	175,463
Financial guarantee liabilities		50,574	56,076
	₩	<u>50,574</u>	<u>231,539</u>

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Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

19. Provisions

(a) Provisions as of December 31, 2014 and 2013 are as follows:

(in millions of Won)

		2014		2013	
		Current	Non-current	Current	Non-current
Estimated allowance(*1)	₩	8,423	-	8,501	-
Provision for restoration(*2)		39,336	31,063	-	-
Provision for litigation(*3)		-	411	-	-
	₩	<u>47,759</u>	<u>31,474</u>	<u>8,501</u>	<u>-</u>

(*1) Represents the provision for bonuses for executives.

(*2) Due to contamination of the land near the Company's magnesium plant located in Gangneung, the Company recognized a provision of ₩89,433 million related to restoration costs. When estimating the related costs, the Company has assumed that it would use all of technologies and materials available to restore the land. In addition, the Company has applied a discount rate of 3.04% to measure the present value of these costs.

(*3) The Company has recognized a provision for several litigations based on the Company's estimates.

(b) Changes in provisions for the years ended December 31, 2014 and 2013 were as follows:

1) For the year ended December 31, 2014

(in millions of Won)

		Beginning	Increase	Utilization	Ending
Estimated allowance at the end of period	₩	8,501	10,643	(10,721)	8,423
Provision for restoration at the end of period		-	89,433	(19,034)	70,399
Provision for litigation at the end of period		-	411	-	411
	₩	<u>8,501</u>	<u>100,487</u>	<u>(29,755)</u>	<u>79,233</u>

2) For the year ended December 31, 2013

(in millions of Won)

		Beginning	Increase	Utilization	Ending
Estimated allowance at the end of period	₩	6,239	12,428	(10,166)	8,501

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20. Employee Benefits

(a) Defined contribution plans

The expense related to post-employment benefit plans under defined contribution plans for the years ended December 31, 2014 and 2013 were as follows:

<i>(in millions of Won)</i>		<u>2014</u>	<u>2013</u>
Expense related to post-employment benefit plans under defined contribution plans	₩	18,229	15,903

(b) Defined benefit plans

1) The amounts recognized in relation to net defined benefit liabilities in the statements of financial position as of December 31, 2014 and 2013 are as follows:

<i>(in millions of Won)</i>		<u>2014</u>	<u>2013</u>
Present value of funded obligations	₩	1,017,164	905,918
Fair value of plan assets		(931,006)	(805,268)
Net defined benefit liabilities	₩	<u>86,158</u>	<u>100,650</u>

2) Changes in present value of defined benefit obligations for the years ended December 31, 2014 and 2013 were as follows:

<i>(in millions of Won)</i>		<u>2014</u>	<u>2013</u>
Defined benefit obligation at the beginning of period	₩	905,918	817,618
Current service costs		113,688	118,975
Interest costs		32,595	27,942
Remeasurement :		47,604	11,553
- Loss from change in financial assumptions		36,238	13,555
- Loss (Gain) from change in demographic assumptions		11,366	(2,002)
Transfer-in		1,959	-
Benefits paid		(84,600)	(70,170)
Defined benefit obligation at the end of period	₩	<u>1,017,164</u>	<u>905,918</u>

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Notes to the Separate Financial Statements
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3) Changes in the fair value of plan assets for the years ended December 31, 2014 and 2013 were as follows:

<i>(in millions of Won)</i>		2014	2013
Fair value of plan assets at the beginning of period	₩	805,268	677,362
Interest on plan assets		31,911	24,261
Remeasurement of plan assets		(8,417)	86
Contributions to plan assets		146,000	140,000
Transfer-in		1,959	-
Benefits paid		(45,715)	(36,441)
Fair value of plan assets at the end of period	₩	<u>931,006</u>	<u>805,268</u>

The Company expects to make an estimated contribution of ₩146,000 million to the defined benefit plan assets in 2015.

4) The fair value of plan assets as of December 31, 2014 and 2013 are as follows:

<i>(in millions of Won)</i>		2014	2013
Debt instruments	₩	125,353	-
Deposits		749,749	805,202
Others		55,904	66
Total	₩	<u>931,006</u>	<u>805,268</u>

5) The amounts recognized in the statements of comprehensive income for the years ended December 31, 2014 and 2013 were as follows:

<i>(in millions of Won)</i>		2014	2013
Current service costs	₩	113,688	118,975
Net interest costs(*1)		684	3,681
	₩	<u>114,372</u>	<u>122,656</u>

(*1) The actual return on plan assets amounted to ₩23,494 million and ₩24,347 million for the years ended December 31, 2014 and 2013, respectively.

The above expenses by function were as follows:

<i>(in millions of Won)</i>		2014	2013
Cost of sales	₩	90,993	97,490
Selling and administrative expenses		23,121	23,834
Others		258	1,332
Total	₩	<u>114,372</u>	<u>122,656</u>

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6) Actuarial gains (losses), net of tax recognized in other comprehensive income for the years ended December 31, 2014 and 2013 were as follows:

(in millions of Won)

		<u>2014</u>	<u>2013</u>
Beginning	₩	(158,462)	(149,770)
Current actuarial losses		(56,021)	(11,467)
Tax effects		13,557	2,775
Ending	₩	<u>(200,926)</u>	<u>(158,462)</u>

7) The principal actuarial assumptions as of December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Discount rate	2.96%	3.95%
Expected future increases in salaries(*1)	2.80%	3.30%

(*1) The expected future increases in salaries are based on the average salary increase rate for the past three years.

All assumptions are reviewed at the end of the reporting period. Additionally, the total estimated defined benefit obligation includes actuarial assumptions associated with the long-term characteristics of the defined benefit plan.

8) Reasonably possible changes at the reporting date to one of the relevant actuarial assumption, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

(in millions of Won)

		<u>1% Increase</u>		<u>1% Decrease</u>	
		<u>Amount</u>	<u>Percentage (%)</u>	<u>Amount</u>	<u>Percentage (%)</u>
Discount rate	₩	(73,296)	(7.2)	91,644	9.0
Expected future increases in salaries		90,883	8.9	(74,078)	(7.3)

9) As of December 31, 2014 the maturity of the expected benefit payments are as follows:

(in millions of Won)

		<u>Within</u>	<u>1 year</u>	<u>5 years</u>	<u>10 years</u>	<u>After</u>	
		<u>1 year</u>	<u>- 5 years</u>	<u>- 10 years</u>	<u>- 20 years</u>	<u>20 years</u>	<u>Total</u>
Benefits paid	₩	201	69,783	379,347	670,110	190,989	1,310,430

The maturity analysis of the defined benefit obligation were nominal amounts of defined benefit obligations using expected remaining working lives of employees.

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21. Other Liabilities

Other liabilities as of December 31, 2014 and 2013 are as follows:

<i>(in millions of Won)</i>		2014	2013
Current			
Advances received	₩	88,880	20,912
Withholding		18,417	15,905
Unearned revenue		1,211	1,292
		<u>108,508</u>	<u>38,109</u>
Non-current			
Unearned revenue		234	538
Others		-	3,000
	₩	<u>234</u>	<u>3,538</u>

22. Financial Instruments

(a) Classification of financial instruments

1) Financial assets as of December 31, 2014 and 2013 are as follows:

<i>(in millions of Won)</i>		2014	2013
Financial assets at fair value through profit or loss			
Derivatives assets held for trading	₩	10,233	7,788
Available-for-sale financial assets		1,785,029	3,354,770
Loans and receivables		6,024,798	7,263,709
	₩	<u>7,820,060</u>	<u>10,626,267</u>

2) Financial liabilities as of December 31, 2014 and 2013 are as follows:

<i>(in millions of Won)</i>		2014	2013
Financial liabilities at fair value through profit or loss			
Derivatives liabilities held for trading	₩	-	212,427
Financial liabilities measured at amortized cost			
Trade accounts and notes payable		777,401	735,457
Borrowings		6,537,217	8,663,071
Financial guarantee liabilities(*1)		59,810	65,121
Others		1,036,487	916,562
		<u>8,410,915</u>	<u>10,380,211</u>
	₩	<u>8,410,915</u>	<u>10,592,638</u>

POSCO
Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

(*1) Financial liabilities were recognized in connection with financial guarantee contracts as of December 31, 2014. The details of the amount of guarantees provided are as follows:

(in millions of Won)

<u>Guarantee beneficiary</u>	<u>Financial institution</u>	<u>Foreign currency</u>		<u>Won equivalent</u>
POSCO(Guangdong)	BOA	USD	30,000,000	32,976
Automotive Steel Co., Ltd.	SMBC	USD	35,000,000	38,472
Zhangjiagang Pohang	BTMU	USD	30,000,000	32,976
Stainless Steel Co., Ltd.	Credit Agricole	USD	50,000,000	54,960
	Mizuho	USD	50,000,000	54,960
POSCO Maharashtra	Citi	USD	60,000,000	65,952
Steel Private Limited	DBS	USD	100,000,000	109,920
	HSBC	USD	80,000,000	87,936
	ING	USD	30,000,000	32,976
	KDB	USD	30,000,000	32,976
	Export-Import Bank of Korea	USD	193,000,000	212,146
	SCB	USD	73,069,000	80,317
POSCO ASSAN TST	KDB	USD	50,000,000	54,960
STEEL INDUSTRY	SMBC	USD	71,392,500	78,475
	ING	USD	45,000,000	49,464
	HSBC	USD	27,000,000	29,678
POSCO Electrical Steel	SCB	USD	33,784,000	37,135
India Private Limited	ING	USD	50,000,000	54,960
POSCO Investment Co., Ltd.	BOC	CNY	350,000,000	62,031
	BOA	USD	45,000,000	49,464
	BTMU	USD	30,000,000	32,976
	HSBC	USD	50,000,000	54,960
	ING	USD	30,000,000	32,976
	JP Morgan	USD	50,000,000	54,960
	SCB	USD	45,000,000	49,464
	SMBC	USD	30,000,000	32,976
	Mizuho	USD	50,000,000	54,960
POSCO MEXICO S.A. DE C.V.	BOA	USD	40,000,000	43,968
	HSBC	USD	40,000,000	43,968
	KDB	USD	50,000,000	54,960
	Mizuho	USD	45,000,000	49,464
	SMBC	USD	109,725,000	120,610
POSCO-VIETNAM Co., Ltd.	Export-Import Bank of Korea	USD	196,000,000	215,443
	HSBC	USD	30,000,000	32,976
	Mizuho	USD	16,000,000	17,587
POSCO VST CO., LTD.	ANZ	USD	25,000,000	27,480
	HSBC	USD	20,000,000	21,984
	Mizuho	USD	20,000,000	21,984
LLP POSUK Titanium	Kookmin Bank	USD	15,000,000	16,488
PT. KRAKATAU POSCO	ANZ	USD	73,500,000	80,791
	BOA	USD	35,000,000	38,472
	BTMU	USD	119,000,000	130,805
	Credit Suisse AG	USD	91,000,000	100,027
	HSBC	USD	91,000,000	100,027
	Export-Import Bank of Korea	USD	567,000,000	623,246
	Mizuho	USD	105,000,000	115,416
	SCB	USD	107,800,000	118,494
	SMBC	USD	140,000,000	153,888
	CTBC	USD	21,000,000	23,083
CSP - Companhia	KDB	USD	56,666,667	62,288
Siderurgica do Pecem				
		USD	3,381,937,167	3,717,424
		CNY	350,000,000	62,031

POSCO
Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

3) Finance income and costs by category of financial instrument for the years ended December 31, 2014 and 2013 were as follows:

① For the year ended December 31, 2014

(in millions of Won)

	Finance income and costs							Other comprehensive income (loss)
	Interest income (cost)	Dividend income	Gain and loss on foreign currency	Gain and loss on disposal	Impairment loss	Others	Total	
Financial assets at fair value through profit or loss	₩ -	-	-	-	-	2,445	2,445	-
Available-for-sale financial assets	298	41,342	-	226,215	(352,040)	-	(84,185)	(309,897)
Loans and receivables	92,774	-	65,667	-	-	(648)	157,793	-
Financial liabilities at fair value through profit or loss	-	-	-	(24,123)	-	-	(24,123)	-
Financial liabilities at amortized cost	(256,636)	-	(26,749)	(38,596)	-	(257)	(322,238)	-
	₩ (163,564)	41,342	38,918	163,496	(352,040)	1,540	(270,308)	(309,897)

Finance income in the statement of comprehensive income includes the dividends from subsidiaries, associates, and joint ventures of ₩306,833 million for the year ended December 31, 2014.

② For the year ended December 31, 2013

(in millions of Won)

	Finance income and costs							Other comprehensive income (loss)
	Interest income (cost)	Gain and loss on valuation	Gain and loss on foreign currency	Gain and loss on disposal	Impairment loss	Others	Total	
Financial assets at fair value through profit or loss	₩ -	1,773	-	8,869	-	-	10,642	-
Available-for-sale financial assets	4,568	-	-	97,013	(170,805)	45,829	(23,395)	400,577
Held-to-maturity investments	367	-	-	-	-	-	367	-
Loans and receivables	101,737	-	(19,619)	(80)	-	(898)	81,140	-
Financial liabilities at fair value through profit or loss	-	(195,719)	-	-	-	-	(195,719)	-
Financial liabilities at amortized cost	(271,020)	-	304,629	-	-	(314)	33,295	-
	₩ (164,348)	(193,946)	285,010	105,802	(170,805)	44,617	(93,670)	400,577

Finance income in the statement of comprehensive income includes the dividends from subsidiaries, associates, and joint ventures of ₩142,383 million for the year ended December 31, 2013.

POSCO
Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

(b) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the Company's maximum exposure to credit risk. The maximum exposure to credit risk as of December 31, 2014 and 2013 are as follows:

<i>(in millions of Won)</i>	2014	2013
Cash and cash equivalents	₩ 1,742,767	1,394,315
Financial assets at fair value through profit or loss	10,233	7,788
Available-for-sale financial assets	17,408	20,855
Loans and other receivables	1,100,924	2,471,486
Trade accounts and notes receivable	3,157,266	3,393,444
Long-term trade accounts and notes receivable	23,841	4,464
	<u>₩ 6,052,439</u>	<u>7,292,352</u>

The Company provided financial guarantee for the repayment of loans of subsidiaries, associates, and joint ventures. As of December 31, 2014 and 2013, the maximum exposure to credit risk caused by financial guarantee amounted to ₩3,779,455 million and ₩3,579,693 million, respectively.

2) Impairment losses on financial assets

① Allowance for doubtful accounts as of December 31, 2014 and 2013 were as follows:

<i>(in millions of Won)</i>	2014	2013
Trade accounts and note receivable	₩ 9,982	10,100
Other accounts receivable	10,533	10,571
Long-term loans	-	14,453
Other assets	-	13
	<u>₩ 20,515</u>	<u>35,137</u>

② Impairment losses on financial assets for the years ended December 31, 2014 and 2013 were as follows:

<i>(in millions of Won)</i>	2014	2013
Bad debt expenses	₩ 19,605	3,980
Impairment loss on available-for-sale securities	352,040	170,805

POSCO
Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

- ③ The aging and impairment losses of trade accounts and notes receivable as of December 31, 2014 and 2013 are as follows:

(in millions of Won)

	2014		2013	
	Trade accounts and notes receivable	Impairment	Trade accounts and notes receivable	Impairment
Not due	₩ 3,025,296	-	3,072,283	-
Over due less than 1 month	46,656	57	68,759	58
1 month - 3 months	12,468	212	26,657	674
3 months - 12 months	8,061	46	174,479	1,241
Over 12 months	98,608	9,667	65,830	8,127
	₩ 3,191,089	9,982	3,408,008	10,100

- ④ Changes in the allowance for doubtful accounts for the years ended December 31, 2014 and 2013 were as follows:

(in millions of Won)

	2014	2013
Beginning	₩ 35,137	37,241
Bad debt expenses	19,605	3,980
Others	(34,227)	(6,084)
Ending	₩ 20,515	35,137

(c) Liquidity risk

Contractual maturities for non-derivate financial liabilities, including estimated interest, are as follows:

(in millions of Won)

	Book value	Cash flow for contracts	Not later than 3 month	3 month - 6 months	6 months - 1 year	1 year - 5 years	After 5 years
Trade accounts payable	₩ 777,401	777,401	777,401	-	-	-	-
Borrowings	6,537,217	7,489,767	171,824	83,008	1,248,159	4,447,408	1,539,368
Financial guarantee liabilities(*1)	59,810	3,779,455	3,779,455	-	-	-	-
Other financial liabilities	1,036,487	1,038,275	938,357	303	9,020	90,595	-
	₩ 8,410,915	13,084,898	5,667,037	83,311	1,257,179	4,538,003	1,539,368

- (*1) For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

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Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

(d) Currency risk

- 1) The Company has exposure to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in foreign exchange rates. The exposure to currency risk as of December 31, 2014 and 2013 are as follows:

(in millions of Won)

		2014		2013	
		Assets	Liabilities	Assets	Liabilities
USD	₩	988,023	2,839,040	701,159	3,815,529
JPY		56,037	721,588	450,938	1,370,603
CNH		-	-	76,678	-
INR		365,705	-	34,513	-
Others		15,677	1,725	11,032	3,357
	₩	1,425,442	3,562,353	1,274,320	5,189,489

- 2) As of December 31, 2014 and 2013, provided that functional currency against foreign currencies other than functional currency hypothetically strengthens or weakens by 10%, the changes in gain or loss for the years ended December 31, 2014 and 2013 were as follows:

(in millions of Won)

		2014		2013	
		10% increase	10% decrease	10% increase	10% decrease
USD	₩	(185,102)	185,102	(311,437)	311,437
JPY		(66,555)	66,555	(91,967)	91,967
CNH		-	-	7,668	(7,668)
INR		36,571	(36,571)	3,451	(3,451)

(e) Interest rate risk

- 1) The carrying amount of interest-bearing financial instruments as of December 31, 2014 and 2013 were as follows:

(in millions of Won)

		2014	2013
Fixed rate			
Financial assets	₩	2,478,673	3,773,978
Financial liabilities		(6,469,632)	(8,580,517)
	₩	<u>(3,990,959)</u>	<u>(4,806,539)</u>
Variable rate			
Financial liabilities	₩	(67,585)	(82,554)

- 2) Sensitivity analysis on the fair value of financial instruments with fixed interest rate

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Company does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

POSCO
Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

3) Sensitivity analysis on the fair value of financial instruments with variable interest rate

As of December 31, 2014 and 2013, provided that other factors remain the same and the interest rate of borrowings with floating rates increases or decreases by 1%, the changes in interest expense for the years ended December 31, 2014 and 2013 were as follows:

		2014		2013	
		1% increase	1% decrease	1% increase	1% decrease
(in millions of Won)					
Variable rate					
financial instruments	₩	(676)	676	(826)	826

(f) Fair value

1) Fair value and book value

The carrying amount and the fair value of financial instruments as of December 31, 2014 and 2013 are as follows:

		2014		2013	
		Book value	Fair value	Book value	Fair value
(in millions of Won)					
Assets measured at fair value					
Available-for-sale financial assets(*1)	₩	1,648,567	1,648,567	3,224,711	3,224,711
Derivatives assets held for trading(*2)		10,233	10,233	7,788	7,788
		<u>1,658,800</u>	<u>1,658,800</u>	<u>3,232,499</u>	<u>3,232,499</u>
Assets measured amortized cost(*3)					
Cash and cash equivalents		1,742,767	1,742,767	1,394,315	1,394,315
Trade accounts and note receivable, net		3,181,107	3,181,107	3,397,908	3,397,908
Loans and other receivables		1,100,924	1,100,924	2,471,486	2,471,486
		<u>6,024,798</u>	<u>6,024,798</u>	<u>7,263,709</u>	<u>7,263,709</u>
Liabilities measured at fair value					
Derivatives liabilities held for trading(*2)		-	-	212,427	212,427
Liabilities measured amortized cost(*3)					
Trade accounts and notes payable		777,401	777,401	735,457	735,457
Borrowings		6,537,217	6,918,972	8,663,071	8,943,063
Financial guarantee liabilities		59,810	59,810	65,121	65,121
Others		1,036,487	1,036,487	916,562	916,562
	₩	<u>8,410,915</u>	<u>8,792,670</u>	<u>10,380,211</u>	<u>10,660,203</u>

(*1) The fair value of available-for-sale financial assets publicly traded is measured at the closing bid price quoted at the end of the reporting period. Meanwhile, the fair value of unquoted available-for-sale financial assets is calculated using the valuation results from an external pricing service in which weighted average cost of capital of evaluated companies is used as a discount rate. Available-for-sale financial assets which are not measured at fair value are excluded.

(*2) The fair value of derivatives is measured using valuation models such as Black-Scholes model and others in which the market yields on government bonds are used as a discount rate.

POSCO
Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

(*3) The fair value of financial assets and liabilities measured at amortized cost is determined at the present value of estimated future cash flows discounted at the current market interest rate. The fair value is calculated for the disclosures in the notes. On the other hand, the Company has not performed fair value measurement for the financial assets and liabilities measured at amortized cost except borrowings since their carrying amounts approximate fair value.

2) Interest rate for determining fair value

Interest rates used to discount the estimated cash flows as of December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Borrowings	0.74%~3.69%	0.76%~4.08%

3) The fair value hierarchy

① The fair value of financial instruments by fair value hierarchy as of December 31, 2014 and 2013 are as follows:

a. December 31, 2014

(in millions of Won)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets				
Available-for-sale financial assets	₩ 1,620,390	-	28,177	1,648,567
Derivatives assets held for trading	-	10,233	-	10,233
	<u>₩ 1,620,390</u>	<u>10,233</u>	<u>28,177</u>	<u>1,658,800</u>

b. December 31, 2013

(in millions of Won)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets				
Available-for-sale financial assets	₩ 2,554,421	-	670,290	3,224,711
Derivatives assets held for trading	-	7,788	-	7,788
	<u>2,554,421</u>	<u>7,788</u>	<u>670,290</u>	<u>3,232,499</u>
Financial liabilities				
Derivatives liabilities held for trading	₩ -	212,427	-	212,427

POSCO
Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

- ② Changes in financial assets classified as level 3 for the years ended December 31, 2014 and 2013 were as follows:

<i>(in millions of Won)</i>		2014	2013
Beginning	₩	670,290	671,025
Acquisition		2,675	6,857
Other comprehensive income (loss)		117,804	(4,015)
Impairment		(169,519)	(3,577)
Disposal and others(*1)		(593,073)	-
Ending	₩	<u>28,177</u>	<u>670,290</u>

- (*1) Included ₩580,062 million transfer to assets held for sale for the year ended December 31, 2014.

23. Share Capital and Capital Surplus

- (a) Share capital as of December 31, 2014 and 2013 are as follows:

<i>(Share, Won)</i>		2014	2013
Authorized shares		200,000,000	200,000,000
Par value	₩	5,000	5,000
Issued shares(*1)		87,186,835	87,186,835
Shared capital(*2)	₩	482,403,125,000	482,403,125,000

- (*1) As of December 31, 2014, total numbers of ADRs of 51,622,460 are equivalent to 12,905,615 shares of common stock.

- (*2) As of December 31, 2014 the difference between the ending balance of common stock and the par value of issued common stock is ₩46,469 million due to retirement of 9,293,790 treasury stocks.

- (b) The changes in issued common stock for the years ended December 31, 2014 and 2013 were as follows:

		2014			2013		
		Issued shares	Treasury shares	Number of outstanding shares	Issued shares	Treasury shares	Number of outstanding shares
Beginning	₩	87,186,835	(7,403,211)	79,783,624	87,186,835	(9,942,391)	77,244,444
Disposal of treasury shares		-	209,404	209,404	-	2,539,180	2,539,180
Ending		87,186,835	(7,193,807)	79,993,028	87,186,835	(7,403,211)	79,783,624

POSCO
Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

(c) Capital surplus as of December 31, 2014 and 2013 were as follows:

<i>(in millions of Won)</i>	2014	2013
Additional paid in capital	₩ 463,825	463,825
Gain on disposal of treasury shares	783,791	769,215
	<u>₩ 1,247,616</u>	<u>1,233,040</u>

24. Hybrid Bonds

(a) Hybrid bonds classified as equity as of December 31, 2014 were as follows:

<i>(in millions of Won)</i>	Date of issue	Date of maturity	Rate of interest (%)		2014	2013
Hybrid bond 1-1(*1)	2013-06-13	2043-06-13	4.30	₩	800,000	800,000
Hybrid bond 1-2(*1)	2013-06-13	2043-06-13	4.60		200,000	200,000
Issuance cost					(3,081)	(3,081)
				₩	<u>996,919</u>	<u>996,919</u>

(*1) Details of hybrid bonds as of December 31, 2014 are as follows:

<i>(in millions of Won)</i>	Hybrid bond 1-1	Hybrid bond 1-2
Issue price	800,000	200,000
Maturity date	30 years (The Company has a right to extend the maturity date)	30 years (The Company has a right to extend the maturity date)
Interest rate	Issue date ~ 2018-06-12 : 4.3% reset every 5 years as follows; · After 5 years : return on government bond (5 years) + 1.3 % · After 10 years : additionally + 0.25% according to Step-up clauses · After 25 years : additionally + 0.75%	Issue date ~ 2023-06-12 : 4.6 % reset every 10 years as follows; · After 10 years : return on government bond (10 years) + 1.4 % · After 10 years : additionally + 0.25% according to Step-up clauses · After 30 years : additionally + 0.75%
Interest payments condition	Quarterly (Optional deferral of interest payment is available to the Company)	Quarterly (Optional deferral of interest payment is available to the Company)
Others	The Company can call the hybrid bond at year 5 and interest payment date afterwards	The Company can call the hybrid bond at year 10 and interest payment date afterwards

The Company holds the right to extend the maturity dates of the hybrid bonds and to defer interest payments for the hybrid bonds. If interest payments for the hybrid bonds are deferred, the Company cannot declare or pay dividends attributable to common stock. Since the Company has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the hybrid bonds have been classified as equity instruments. The interest accumulated but not paid on the hybrid bonds as of December 31, 2014 amounts to ₩2,301 million.

POSCO
Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

25. Reserves

(a) Reserves as of December 31, 2014 and 2013 are as follows:

<i>(in millions of Won)</i>		2014	2013
Accumulated changes in the unrealized fair value of available-for-sale investments, net of tax	₩	94,042	403,939

(b) Changes in the accumulated unrealized fair value of available-for-sale investments for the years ended December 31, 2014 and 2013 were as follows:

<i>(in millions of Won)</i>		2014	2013
Beginning balance	₩	403,939	3,362
Changes in unrealized fair value of available-for-sale investments		(523,168)	467,942
Reclassification to profit or loss upon disposal		(237,708)	(93,976)
Impairment of available -for-sale securities		352,040	170,805
Tax effects		98,939	(144,194)
Ending balance	₩	94,042	403,939

26. Treasury Shares

Based on the Board of Director's resolution, the Company holds treasury shares for the business purposes including price stabilization. The changes in treasury shares for the years ended December 31, 2014 and 2013 were as follows:

<i>(shares, in millions of Won)</i>	2014		2013	
	Number of shares	Amount	Number of shares	Amount
Beginning	7,403,211	₩ 1,579,124	9,942,391	₩ 2,391,406
Disposal of treasury shares	(209,404)	(44,667)	(2,539,180)	(812,283)
Ending	7,193,807	₩ 1,534,457	7,403,211	₩ 1,579,123

27. Retained Earnings

(a) Retained earnings as of December 31, 2014 and 2013 are summarized as follows:

<i>(in millions of Won)</i>		2014	2013
Legal reserve	₩	241,202	241,202
Reserve for business rationalization		918,300	918,300
Reserve for research and manpower development		1,600,000	1,573,333
Appropriated retained earnings for business expansion		35,510,500	34,310,500
Appropriated retained earnings for dividends		1,806,570	2,044,113
Unappropriated retained earnings		1,112,336	1,686,836
	₩	41,188,908	40,774,284

POSCO
Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

(b) Statements of appropriation of retained earnings as of December 31, 2014 and 2013 are as follows:

<i>(in millions of Won)</i>	2014	2013
Retained earnings before appropriation		
Unappropriated retained earnings		
carried over from prior year	₩ 219,010	291,582
Actuarial losses	(42,464)	(8,692)
Interests of Hybrid bonds	(43,600)	(24,161)
Interim dividends	(159,568)	(154,489)
Dividends (ratio) per share		
₩2,000 (40%) in 2014		
₩2,000 (40%) in 2013		
Profit for the period	<u>1,138,958</u>	<u>1,582,596</u>
	1,112,336	1,686,836
Transfer from discretionary reserve		
Reserve for research and manpower development	493,333	383,333
Appropriated retained earnings for dividends	<u>354,787</u>	<u>237,543</u>
	848,120	620,876
Appropriation of retained earnings		
Cash dividends		
Dividends (ratio) per share	479,958	478,702
₩6,000 (120%) in 2014		
₩6,000 (120%) in 2013		
Reserve for research and manpower development	-	410,000
Appropriated retained earnings		
for business expansion	<u>1,200,000</u>	<u>1,200,000</u>
	1,679,958	2,088,702
Unappropriated retained earnings carried forward to subsequent year	₩ <u><u>280,498</u></u>	<u><u>219,010</u></u>

28. Revenue

Details of revenue for the years ended December 31, 2014 and 2013 were as follows:

<i>(in millions of Won)</i>	2014	2013
Revenues		
Sales of goods	₩ 29,105,087	30,436,474
Others	113,767	107,071
	<u>₩ 29,218,854</u>	<u>30,543,545</u>

POSCO
Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

29. Selling and Administrative Expenses

(a) Administrative expenses

Administrative expenses for the years ended December 31, 2014 and 2013 were as follows:

<i>(in millions of Won)</i>		2014	2013
Wages and salaries	₩	204,989	198,726
Expenses related to post-employment benefits		24,224	23,994
Other employee benefits		53,388	44,630
Travel		13,599	14,906
Depreciation		23,430	25,074
Amortization		52,923	18,126
Rental		68,859	54,931
Repairs		10,918	13,623
Advertising		85,486	89,584
Research & development		137,433	150,786
Service fees		184,215	183,053
Vehicles maintenance		7,046	7,012
Industry association fee		7,252	7,710
Training		10,157	9,593
Conference		5,209	4,956
Bad debt expenses		7,976	3,980
Others		36,880	42,282
	₩	<u>933,984</u>	<u>892,966</u>

(b) Selling expenses

Selling expenses for the years ended December 31, 2014 and 2013 were as follows:

<i>(in millions of Won)</i>		2014	2013
Freight and custody expenses	₩	872,594	842,424
Operating expenses for distribution center		9,823	9,370
Sales commissions		79,091	70,397
Sales advertising		4,698	3,145
Sales promotion		5,161	6,375
Sample		1,649	1,247
Sales insurance premium		6,170	7,871
	₩	<u>979,186</u>	<u>940,829</u>

POSCO
Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

30. Research and Development Expenditures Recognized as Expense

Research and development expenditures recognized as expenses for the years ended December 31, 2014 and 2013 were as follows:

<i>(in millions of Won)</i>		2014	2013
Selling and administrative expenses	₩	<u>137,433</u>	<u>150,786</u>
Cost of sales		<u>343,516</u>	<u>364,876</u>
	₩	<u><u>480,949</u></u>	<u><u>515,662</u></u>

31. Reconciliation of Operating Profit

The operating profit in the Company's separate statements of comprehensive income prepared in accordance with K-IFRS differs from that in its separate statements of comprehensive income prepared in accordance with IFRS as issued by IASB. The table below sets forth a reconciliation of the Company's results from operating activities as presented in the Company's separate statements of comprehensive income prepared in accordance with K-IFRS for each of the years ended December 31, 2014 and 2013 to the operating profit as presented in the Company's separate statements of comprehensive income prepared in accordance with IFRS as issued by IASB for each of the corresponding years.

<i>(in millions of Won)</i>		2014	2013
Operating profits on the statement of comprehensive income (K-IFRS) (Note 33)	₩	<u>2,350,035</u>	<u>2,215,133</u>
Add			
Gain on disposals of property, plant and equipment		8,882	6,773
Reversal of impairment loss on intangible assets		2,256	-
Gain on disposals of investment in subsidiaries, associates and joint ventures		-	14,544
Gain on disposals of assets held for sale		-	67,875
Reversal of allowance for doubtful accounts		14,453	-
Others		<u>21,273</u>	<u>50,856</u>
		<u>46,864</u>	<u>140,048</u>
Deduct			
Loss on disposals of property, plant and equipment		(57,777)	(94,533)
Impairment loss on property, plant and equipment		(30,334)	(5,697)
Loss on disposals of intangible assets		(367)	(315)
Impairment loss on intangible assets		(1,666)	(581)
Loss on disposals of investment in subsidiaries, associates and joint ventures		-	(12,295)
Impairment loss on investment in subsidiaries, associates and joint ventures		(209,795)	(235,794)
Impairment loss on assets held for sale		-	(1,814)
Other bad debt expenses		(26,082)	-
Contribution to provisions		(89,844)	-
Donations		(50,654)	(40,319)
Others		<u>(245,512)</u>	<u>(27,251)</u>
		<u>(712,031)</u>	<u>(418,599)</u>
Operating profit (IFRS as issued by IASB)	₩	<u><u>1,684,868</u></u>	<u><u>1,936,582</u></u>

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Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

32. Finance Income and Costs

Details of finance income and costs for the years ended December 31, 2014 and 2013 were as follows:

<i>(in millions of Won)</i>	2014	2013
Finance income		
Interest income	₩ 93,072	106,672
Dividend income	348,175	188,212
Gain on derivative transactions	22,973	9,144
Gain on foreign currency transactions	276,374	299,574
Gain on foreign currency translations	79,956	264,614
Gain on disposals of available-for-sale investment	226,299	97,085
Others	3,945	1,772
	₩ <u>1,050,794</u>	<u>967,073</u>
Finance costs		
Interest expenses	₩ 256,636	271,020
Loss on foreign currency transactions	209,787	261,019
Loss on foreign currency translations	107,625	18,159
Loss on valuation of derivatives	-	195,719
Impairment loss on available-for-sale investment	352,040	170,805
Others	88,181	1,638
	₩ <u>1,014,269</u>	<u>918,360</u>

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Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

33. Other Non-Operating Income and Expenses

Details of other non-operating income and expenses for the years ended December 31, 2014 and 2013 were as follows:

(in millions of Won)

	2014	2013
Other non-operating income		
Gain on disposals of property, plant and equipment	₩ 8,882	6,773
Reversal of impairment loss on intangible assets	2,256	-
Gain on disposals of investment in subsidiaries, associates and joint ventures	-	14,544
Gain on disposals of assets held for sale	-	67,875
Reversal of allowance for doubtful accounts	14,453	-
Others	21,273	50,856
	<u>46,864</u>	<u>140,048</u>
Other non-operating expenses		
Loss on disposals of property, plant and equipment	57,777	94,533
Impairment loss on property, plant and equipment	30,334	5,697
Loss on disposals of intangible assets	367	315
Impairment loss on intangible assets	1,666	581
Loss on disposals of investment in subsidiaries, associates and joint ventures	-	12,295
Impairment loss on investment in subsidiaries, associates and joint ventures	209,795	235,794
Impairment loss on assets held for sale	-	1,814
Other bad debt expenses	26,082	-
Contribution to provisions	89,844	-
Donations	50,654	40,319
Others(*1)	245,512	27,251
	₩ <u>712,031</u>	<u>418,599</u>

(*1) As a result of Korea National Tax Service's periodic audit of tax payments and refunds of the Company, the Company recognized additional tax payments amounting to ₩202,739 million, primarily related to VAT, for the year ended December 31, 2014.

POSCO
Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

34. Expenses by Nature

Expenses that are recorded by nature as cost of sales, selling and administrative expenses and other non-operating expenses in the statements of comprehensive income for the years ended December 31, 2014 and 2013 were as follows (excluding finance costs and income tax expenses):

<i>(in millions of Won)</i>	2014	2013
Changes in inventories(*1)	₩ (81,303)	304,068
Raw materials and consumables used	17,648,525	19,380,227
Employee benefits expenses(*3)	1,462,675	1,425,008
Outsourced processing cost	2,204,385	2,078,917
Depreciation(*2)	2,067,793	1,932,002
Amortization	74,112	38,067
Electricity and water expenses	1,019,769	836,199
Service fees	240,493	243,954
Rental	87,466	76,152
Advertising	85,486	89,584
Freight and custody expenses	872,594	842,424
Sales commissions	79,091	70,397
Loss on disposals of property, plant and equipment	57,777	94,533
Impairment loss on investments in subsidiaries, associates and joint ventures	209,795	235,794
Contribution to provisions	89,844	-
Other expenses	1,462,348	1,099,685
	₩ <u>27,580,850</u>	<u>28,747,011</u>

(*1) Changes in inventories are the changes in products, semi-finished products and by-products.

(*2) Includes depreciation of investment property.

(*3) The details of employee benefits expenses for the years ended December 31, 2014 and 2013 were as follows:

<i>(in millions of Won)</i>	2014	2013
Wages and salaries	₩ 1,330,074	1,286,449
Expenses related to post-employment benefits	132,601	138,559
	₩ <u>1,462,675</u>	<u>1,425,008</u>

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Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

35. Income Taxes

(a) Income tax expense for the years ended December 31, 2014 and 2013 were as follows:

<i>(in millions of Won)</i>	2014	2013
Current income taxes	₩ 461,029	291,035
Deferred income taxes	13,564	254,790
Items credited directly to shareholders' equity	107,842	(143,126)
Income tax expense	₩ <u>582,435</u>	<u>402,699</u>

(b) The calculated income tax expense based on statutory rates compared to the actual amount of taxes recorded by the Company for the years ended December 31, 2014 and 2013 were as follows:

<i>(in millions of Won)</i>	2014	2013
Profit before income tax expense	₩ 1,721,393	1,985,295
Income tax expense computed at statutory rate	416,115	480,441
Adjustments:		
Tax credit	(31,947)	(134,670)
Adjustments on prior year tax from tax audit	15,572	-
Under(over) provision from prior years	(2,957)	2,253
Tax effects due to		
amendments to local income tax law	38,249	-
Investment in subsidiaries,		
associates and joint ventures	118,993	57,823
Tax effect due to permanent differences	31,132	(11,071)
Others	(2,722)	7,923
	<u>166,320</u>	<u>(77,742)</u>
Income tax expense	₩ <u>582,435</u>	<u>402,699</u>
Effective tax rate (%)	33.8%	20.3%

(c) The income taxes credited (charged) directly to equity for the years ended December 31, 2014 and 2013 were as follows:

<i>(in millions of Won)</i>	2014	2013
Net changes in the unrealized fair value		
of available-for-sale securities	₩ 98,939	(144,194)
Defined benefit plan actuarial losses	13,557	2,775
Gain on disposal of treasury shares	(4,654)	(1,707)
	₩ <u>107,842</u>	<u>(143,126)</u>

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Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

(d) The movements in deferred tax assets (liabilities) for the years ended December 31, 2014 and 2013 were as follows:

(in millions of Won)

	2014			2013		
	December 31, 2013	Increase (decrease)	December 31, 2014	December 31, 2012	Increase (decrease)	December 31, 2013
Deferred income tax due to temporary differences						
Reserve for special repairs	₩ (28,462)	16,049	(12,413)	(29,013)	551	(28,462)
Reserve for technology developments	(375,100)	119,387	(255,713)	(368,647)	(6,453)	(375,100)
PPE - Depreciation	(48,133)	8,982	(39,151)	(56,394)	8,261	(48,133)
Prepaid expenses	27,680	(10,253)	17,427	29,781	(2,101)	27,680
PPE - Revaluation	(1,002,798)	(210,911)	(1,213,709)	(789,056)	(213,742)	(1,002,798)
Loss on foreign currency translation	(174,930)	126,516	(48,414)	(52,508)	(122,422)	(174,930)
Defined benefit obligations	184,389	31,757	216,146	157,559	26,830	184,389
Plan assets	(194,925)	(26,291)	(221,216)	(161,152)	(33,773)	(194,925)
Accrued revenue	(1,932)	1,054	(878)	(2,575)	643	(1,932)
Impairment loss on AFS	81,816	23,095	104,911	40,482	41,334	81,816
Difference in acquisition costs of treasury stocks	64,213	(2,074)	62,139	20,378	43,835	64,213
Others	144,399	(49,229)	95,170	101,809	42,590	144,399
	<u>(1,323,783)</u>	<u>28,082</u>	<u>(1,295,701)</u>	<u>(1,109,336)</u>	<u>(214,447)</u>	<u>(1,323,783)</u>
Deferred tax from tax credit						
Tax credit carry-forward	368,053	(154,142)	213,911	266,977	101,076	368,053
	<u>368,053</u>	<u>(154,142)</u>	<u>213,911</u>	<u>266,977</u>	<u>101,076</u>	<u>368,053</u>
Deferred income taxes recognized directly to equity						
Loss (gain) on valuation of available-for-sale securities	(128,962)	98,939	(30,023)	15,232	(144,194)	(128,962)
Defined benefit plan actuarial losses	50,590	13,557	64,147	47,815	2,775	50,590
	<u>(78,372)</u>	<u>112,496</u>	<u>34,124</u>	<u>63,047</u>	<u>(141,419)</u>	<u>(78,372)</u>
₩	<u>(1,034,102)</u>	<u>(13,564)</u>	<u>(1,047,666)</u>	<u>(779,312)</u>	<u>(254,790)</u>	<u>(1,034,102)</u>

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Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

(e) Deferred tax assets (liabilities) as of December 31, 2014, December 31, 2013 are as follows:

(in millions of Won)

	2014			2013		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Deferred income tax due to temporary differences						
Reserve for special repairs	₩ -	(12,413)	(12,413)	-	(28,462)	(28,462)
Reserve for technology developments	-	(255,713)	(255,713)	-	(375,100)	(375,100)
PPE - Depreciation	12,688	(51,839)	(39,151)	12,961	(61,094)	(48,133)
Prepaid expenses	17,427	-	17,427	27,680	-	27,680
PPE - Revaluation	-	(1,213,709)	(1,213,709)	-	(1,002,798)	(1,002,798)
Loss on foreign currency translation	74,104	(122,518)	(48,414)	60,196	(235,126)	(174,930)
Defined benefit obligations	216,146	-	216,146	184,389	-	184,389
Plan assets	-	(221,216)	(221,216)	-	(194,925)	(194,925)
Accrued revenue	-	(878)	(878)	-	(1,932)	(1,932)
Impairment loss on AFS	104,911	-	104,911	81,816	-	81,816
Difference in acquisition costs of treasury stocks	62,139	-	62,139	64,213	-	64,213
Others	186,164	(90,994)	95,170	157,303	(12,904)	144,399
	<u>673,579</u>	<u>(1,969,280)</u>	<u>(1,295,701)</u>	<u>588,558</u>	<u>(1,912,341)</u>	<u>(1,323,783)</u>
Deferred tax from tax credit						
Tax credit carry-forward	213,911	-	213,911	368,053	-	368,053
Deferred income taxes recognized directly to equity						
Loss (gain) on valuation of available-for-sale securities	15,509	(45,532)	(30,023)	40,404	(169,366)	(128,962)
Defined benefit plan actuarial losses	64,147	-	64,147	50,590	-	50,590
	<u>79,656</u>	<u>(45,532)</u>	<u>34,124</u>	<u>90,994</u>	<u>(169,366)</u>	<u>(78,372)</u>
₩	<u>967,146</u>	<u>(2,014,812)</u>	<u>(1,047,666)</u>	<u>1,047,605</u>	<u>(2,081,707)</u>	<u>(1,034,102)</u>

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Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

36. Earnings per Share

Basic and diluted earnings per share for the years ended December 31, 2014 and 2013 are as follows:

<i>(in millions of Won except per share information)</i>	<u>2014</u>	<u>2013</u>
Profit for the period	₩ 1,138,958	1,582,596
Interests of hybrid bonds	(33,049)	(18,314)
Weighted-average number of common shares outstanding(*1)	79,801,539	78,009,654
Basic and diluted earnings per share	13,858	20,052

(*1) The weighted-average number of common shares used to calculate basic and diluted earnings per share are as follows:

<i>(in share)</i>	<u>2014</u>	<u>2013</u>
Total number of common shares issued	87,186,835	87,186,835
Weighted-average number of treasury shares	(7,385,296)	(9,177,181)
Weighted-average number of common shares outstanding	<u>79,801,539</u>	<u>78,009,654</u>

Since there were no potential shares of common stock which had dilutive effects as of December 31, 2014 and 2013, diluted earnings per share is equal to basic earnings per share.

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Notes to the Separate Financial Statements

As of December 31, 2014 and 2013, Continued

37. Related Party Transactions

(a) Significant transactions with related companies for the years ended December 31, 2014 and 2013 were as follows:

1) For the year ended December 31, 2014

(in millions of Won)

	Sales and others(*1)			Purchase and others(*2)				
	Sales	Others	Total	Purchase of material	Purchase of fixed assets	Outsourced processing cost	Others	Total
Subsidiaries(*3)								
POSCO ENGINEERING & CONSTRUCTION., LTD.	₩ 22,659	16,789	39,448	544,202	247,286	3,689	30,852	826,029
POSCO Processing & Service	1,075,567	8,649	1,084,216	785,943	-	-	1,681	787,624
POSCO COATED & COLOR STEEL Co., Ltd.	444,513	12	444,525	-	-	12,313	195	12,508
POSCO ICT(*5)	929	2,593	3,522	356	209,893	26,231	161,173	397,653
POSMATE	520	2,178	2,698	411	28	16,475	34,188	51,102
eNtoB Corporation	-	3	3	297,119	10,433	137	21,073	328,762
POSCO CHEMTECH	532,973	26,537	559,510	513,759	5,449	301,149	923	821,280
POSCO M-TECH	180	24	204	117,940	2,385	200,622	6,887	327,834
POSCO ENERGY CO., LTD.	177,517	1,230	178,747	-	2,263	-	20	2,283
POSCO TMC Co., Ltd.	240,318	9	240,327	-	-	1,056	1,611	2,667
POSCO AST	503,452	5	503,457	10,396	-	57,355	2,671	70,422
POSHIMETAL Co., Ltd.	11,261	3,660	14,921	166,442	-	-	-	166,442
Daewoo International Corporation	3,558,652	20,652	3,579,304	90,361	-	-	3,857	94,218
POSCO Specialty Steel Co., Ltd.	5,313	201,927	207,240	40,124	-	1,939	266	42,329
POSCO America Corporation	747,933	2	747,935	-	-	-	1,794	1,794
POSCO Canada Ltd.	-	-	-	141,767	-	-	-	141,767
POSCO Asia Co., Ltd.	2,167,148	89	2,167,237	169,945	-	10,006	1,969	181,920
POSCO (Thailand) Company Limited	55,221	46	55,267	-	-	-	8	8
Qingdao Pohang Stainless Steel Co., Ltd.	79,783	-	79,783	-	-	-	19	19
POSCO (Suzhou) Automotive Processing Center Co., Ltd.	136,836	-	136,836	-	-	-	5	5
POSCO JAPAN Co., Ltd.	1,329,947	4	1,329,951	15,165	2,269	3	2,279	19,716
POSCO-India Pune Processing Center. Pvt. Ltd.	107,587	74	107,661	-	-	-	-	-
POSCO MEXICO S.A. DE C.V.	287,468	929	288,397	-	-	-	-	-
POSCO Maharashtra Steel Private Limited	444,407	6,053	450,460	-	-	-	-	-
DAEWOO INTERNATIONAL SINGAPORE	-	-	-	57,742	-	-	11,513	69,255
Others	680,066	1,827	681,893	158,484	63,932	15,585	51,674	289,675
	<u>12,610,250</u>	<u>293,292</u>	<u>12,903,542</u>	<u>3,110,156</u>	<u>543,938</u>	<u>646,560</u>	<u>334,658</u>	<u>4,635,312</u>
Associates and joint ventures(*3)								
POSCO Plant Engineering Co., Ltd.(*4)	15,310	64	15,374	3,195	119,369	15,777	22,751	161,092
SNNC	3,077	5,716	8,793	339,991	-	-	5	339,996
POSCHROME (PROPRIETARY) LIMITED	-	-	-	59,241	-	-	-	59,241
PT. POSMI Steel Indonesia	6,061	30	6,091	-	-	-	-	-
POSK (Pinghu) Steel Processing Center Co., Ltd.	2,855	-	2,855	-	-	-	-	-
POSCO-SAMSUNG-Slovakia Processing Center	24,059	-	24,059	-	-	-	-	-
POSCO China Suzhou Processing Center Co., Ltd. (formerly, POSCO-SAMSUNG Suzhou Processing Center Co., Ltd.)	1,132	-	1,132	-	-	-	-	-
Others	737	41,873	42,610	3,668	-	-	-	3,668
	<u>53,231</u>	<u>47,683</u>	<u>100,914</u>	<u>406,095</u>	<u>119,369</u>	<u>15,777</u>	<u>22,756</u>	<u>563,997</u>
	<u>₩ 12,663,481</u>	<u>340,975</u>	<u>13,004,456</u>	<u>3,516,251</u>	<u>663,307</u>	<u>662,337</u>	<u>357,414</u>	<u>5,199,309</u>

(*1) Sales and others are mainly consist of sales of steel products to subsidiaries, associates and joint ventures. These are priced on an arm's length basis.

(*2) Purchases and others are mainly consist of subsidiaries' purchases of construction services and purchases of raw materials to manufacture steel products. These are priced on an arm's length basis.

(*3) As of December 31, 2014, the Company provided guarantees to related parties (note 22).

(*4) It is reclassified from associate to subsidiary due to the additional acquisition of its shares by the Company.

(*5) Others mainly consist of service fees related to maintenance and repair of ERP System.

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Notes to the Separate Financial Statements
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2) For the year ended December 31, 2013

(in millions of Won)

	Sales and others			Purchase and others				
	Sales	Others	Total	Purchase of material	Purchase of fixed assets	Outsourced processing cost	Others	Total
Subsidiaries								
POSCO ENGINEERING & CONSTRUCTION., LTD.	₩ 16,439	3,421	19,860	3,042	2,235,798	5,855	9,242	2,253,937
POSCO Processing & Service	987,424	8	987,432	1,215,510	-	-	805	1,216,315
POSCO COATED & COLOR STEEL Co., Ltd.	472,353	25	472,378	-	-	10,648	98	10,746
POSCO Plant Engineering Co., Ltd.	2,324	19	2,343	1,499	67,081	13,733	2,492	84,805
POSCO ICT	1,210	195	1,405	679	279,660	31,231	157,126	468,696
POSMATE	1,419	85	1,504	805	1,041	15,732	32,894	50,472
eNtoB Corporation	-	10	10	234,352	13,241	149	20,079	267,821
POSCO CHEMTECH	512,139	25,868	538,007	491,562	21,832	287,584	1,223	802,201
POSCO M-TECH	11,122	94	11,216	158,709	2,336	220,986	141	382,172
POSCO ENERGY CO., LTD.	104,209	915	105,124	-	5,178	-	7	5,185
POSCO TMC Co., Ltd.	188,915	15	188,930	-	-	1,051	1,298	2,349
POSCO AST	500,193	10	500,203	6,985	-	56,520	2,029	65,534
POSHIMETAL Co., Ltd.	18,922	137	19,059	166,042	-	-	5	166,047
Daewoo International Corporation	3,522,678	65	3,522,743	16,297	-	-	2,843	19,140
POSCO America Corporation	596,681	1	596,682	-	-	-	339	339
POSCO Canada Ltd.	-	-	-	144,329	-	-	-	144,329
POSCO Asia Co., Ltd.	2,068,965	221	2,069,186	64,434	182	-	1,673	66,289
POSCO (Thailand) Company Limited	56,210	56	56,266	-	-	-	85	85
Qingdao Pohang Stainless Steel Co., Ltd.	58,502	-	58,502	-	-	-	14	14
POSCO (Suzhou) Automotive Processing Center Co., Ltd.	129,345	1	129,346	-	-	-	-	-
POSCO JAPAN Co., Ltd.	1,270,325	-	1,270,325	19,978	2	-	2,972	22,952
POSCO-India Pune Processing Center, Pvt. Ltd.	119,503	7	119,510	-	-	-	-	-
POSCO MEXICO S.A. DE C.V.	256,014	693	256,707	-	-	-	621	621
POSCO Maharashtra Steel Private Limited	176,425	3,157	179,582	-	-	-	236	236
DAEWOO INTERNATIONAL SINGAPORE PTE. LTD.	-	-	-	108,179	-	-	-	108,179
Others	558,923	7,569	566,492	92,527	38,843	18,782	77,101	227,253
	<u>11,630,240</u>	<u>42,572</u>	<u>11,672,812</u>	<u>2,724,929</u>	<u>2,665,194</u>	<u>662,271</u>	<u>313,323</u>	<u>6,365,717</u>
Associates and joint ventures								
SNNC	1,532	458	1,990	402,639	-	-	-	402,639
POSCO PLANTEC Co., Ltd. (formerly, Sungjin Geotec Co., Ltd.)(*1)	15,028	48	15,076	1,735	65,802	9,781	6,883	84,201
POSCHROME (PROPRIETARY) LIMITED	-	-	-	66,762	-	-	-	66,762
PT. POSMI Steel Indonesia	6,538	-	6,538	-	-	-	-	-
POSK (Pinghu) Steel Processing Center Co., Ltd.	3,786	-	3,786	-	-	-	-	-
POSCO-SAMSUNG-Slovakia Processing Center Co., Ltd.	19,906	-	19,906	-	-	-	-	-
POSCO China Suzhou Processing Center Co., Ltd. (formerly, POSCO-SAMSUNG Suzhou Steel Processing Center Co., Ltd.)	6,429	-	6,429	-	-	-	-	-
Others	546	165	711	3,937	-	-	176	4,113
	<u>53,765</u>	<u>671</u>	<u>54,436</u>	<u>475,073</u>	<u>65,802</u>	<u>9,781</u>	<u>7,059</u>	<u>557,715</u>
₩	<u>11,684,005</u>	<u>43,243</u>	<u>11,727,248</u>	<u>3,200,002</u>	<u>2,730,996</u>	<u>672,052</u>	<u>320,382</u>	<u>6,923,432</u>

(*1) Sungjin Geotec Co., Ltd. merged with POSCO Plant Engineering Co., Ltd. and changed its name to POSCO PLANTEC Co., Ltd. in 2013.

POSCO
Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

(b) The related account balances of significant transactions with related companies as of December 31, 2014 and 2013 are as follows:

1) December 31, 2014

(in millions of Won)

	Receivables			Payables			
	Trade accounts and notes receivable	Others	Total	Trade accounts and notes payable	Accounts payable	Others	Total
Subsidiaries							
POSCO ENGINEERING & CONSTRUCTION, LTD.	₩ 42	71,967	72,009	-	41,878	-	41,878
POSCO Processing & Service	94,790	92	94,882	15,202	867	-	16,069
POSCO COATED & COLOR STEEL Co., Ltd.	69,314	67	69,381	-	5	1,936	1,941
POSCO ICT	13	103	116	920	70,823	5,425	77,168
POSMATE	-	1,673	1,673	600	2,007	4,828	7,435
eNtoB Corporation	-	-	-	12,564	28,432	43	41,039
POSCO CHEMTECH	49,456	4,283	53,739	57,610	9,890	17,864	85,364
POSCO M-TECH	-	37	37	7,311	12,231	22,703	42,245
POSCO ENERGY CO., LTD.	17,326	2,809	20,135	-	-	1,962	1,962
POSCO TMC Co., Ltd.	27,429	30	27,459	-	117	115	232
POSCO AST	44,281	54	44,335	-	2,458	3,364	5,822
POSHIMETAL Co., Ltd.	1,269	14	1,283	-	12,846	-	12,846
Daewoo International Corporation	164,029	3,178	167,207	8	210	1	219
POSCO Specialty Steel Co., Ltd.	822	201,823	202,645	4,800	140	184	5,124
POSCO America Corporation	57,164	-	57,164	-	1,511	-	1,511
POSCO Canada Ltd.	-	-	-	-	4,534	-	4,534
POSCO Asia Co., Ltd.	197,104	221	197,325	10,995	-	-	10,995
POSCO (Thailand) Company Limited	7,407	266	7,673	-	-	-	-
Qingdao Pohang Stainless Steel Co., Ltd.	14,748	41	14,789	-	-	-	-
POSCO JAPAN Co., Ltd.	42,692	89	42,781	344	1,552	-	1,896
POSCO-India Pune Processing Center, Pvt. Ltd.	6,401	5	6,406	-	-	-	-
POSCO MEXICO S.A. DE C.V.	96,800	-	96,800	-	-	-	-
POSCO Maharashtra Steel Private Limited	364,899	7,714	372,613	-	-	-	-
Others	126,474	56,788	183,262	7,239	54,727	1,545	63,511
	<u>1,382,460</u>	<u>351,254</u>	<u>1,733,714</u>	<u>117,593</u>	<u>244,228</u>	<u>59,970</u>	<u>421,791</u>
Associates and jointventures							
SNNC	219	125	344	7,017	-	-	7,017
POSCHROME (PROPRIETARY) LIMITED	-	-	-	1,162	-	-	1,162
LLP POSUK Titanium	-	4,235	4,235	-	-	-	-
Others	258	18	276	234	-	-	234
	<u>477</u>	<u>4,378</u>	<u>4,855</u>	<u>8,413</u>	<u>-</u>	<u>-</u>	<u>8,413</u>
	<u>₩ 1,382,937</u>	<u>355,632</u>	<u>1,738,569</u>	<u>126,006</u>	<u>244,228</u>	<u>59,970</u>	<u>430,204</u>

POSCO
Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

2) December 31, 2013

(in millions of Won)

	Receivables			Payables			
	Trade accounts and notes receivable	Others	Total	Trade accounts and notes payable	Accounts payable	Others	Total
Subsidiaries							
POSCO ENGINEERING & CONSTRUCTION, LTD.	₩ 40	110,955	110,995	-	105,603	-	105,603
POSCO Processing & Service	103,400	73	103,473	17,914	683	-	18,597
POSCO COATED & COLOR STEEL Co., Ltd.	69,260	65	69,325	-	59	1,434	1,493
POSCO ICT	75	123	198	-	51,247	-	51,247
POSMATE	489	1,533	2,022	141	3,274	1,058	4,473
eNtoB Corporation	-	-	-	8,057	10,311	-	18,368
POSCO CHEMTECH	46,943	4,313	51,256	35,829	6,983	8,663	51,475
POSCO M-TECH	18	28	46	12,020	21,326	10,799	44,145
POSCO ENERGY CO., LTD.	14,733	2,894	17,627	-	421	-	421
POSCO TMC Co., Ltd.	20,510	26	20,536	-	16	50	66
POSCO AST	85,501	53	85,554	-	3,004	5,238	8,242
POSHMETAL Co., Ltd.	1,721	12	1,733	-	12,624	-	12,624
Daewoo International Corporation	148,383	878	149,261	9,319	-	-	9,319
POSCO America Corporation	57,554	-	57,554	-	-	-	-
POSCO Canada Ltd.	-	-	-	12,323	-	-	12,323
POSCO Asia Co., Ltd.	134,602	142	134,744	2,063	-	-	2,063
POSCO (Thailand) Company Limited	6,052	7	6,059	-	-	-	-
Qingdao Pohang Stainless Steel Co., Ltd.	3,329	-	3,329	-	-	-	-
POSCO JAPAN Co., Ltd.	73,992	-	73,992	862	108	1	971
POSCO-India Pune Processing Center, Pvt. Ltd.	8,117	-	8,117	-	-	-	-
POSCO MEXICO S.A. DE C.V.	100,016	76	100,092	-	-	-	-
POSCO Maharashtra Steel Private Limited	55,392	3,218	58,610	-	-	-	-
Others	54,357	8,887	63,244	6,523	15,421	1,647	23,591
	<u>984,484</u>	<u>133,283</u>	<u>1,117,767</u>	<u>105,061</u>	<u>231,080</u>	<u>28,890</u>	<u>365,021</u>
Associates and jointventures							
SNNC	140	40	180	16,669	-	-	16,669
POSCO PLANTEC Co., Ltd. (formerly, Sungjin Geotec Co., Ltd.)	879	46	925	353	-	-	353
POSCHROME (PROPRIETARY) LIMITED	-	67	67	-	-	-	-
LLP POSUK Titanium	-	4,066	4,066	-	-	-	-
Others	-	17	17	319	2	-	321
	<u>1,019</u>	<u>4,236</u>	<u>5,255</u>	<u>17,341</u>	<u>2</u>	<u>-</u>	<u>17,343</u>
₩	<u>985,503</u>	<u>137,519</u>	<u>1,123,022</u>	<u>122,392</u>	<u>231,082</u>	<u>28,890</u>	<u>382,364</u>

(c) For the years ended December 31, 2014 and 2013, details of compensation to key management officers were as follows:

(in millions of Won)

		2014	2013
Short-term benefits	₩	31,984	31,332
Long-term benefits		12,387	8,004
Retirement benefits		6,354	6,296
	₩	<u>50,725</u>	<u>45,632</u>

Key management officers include directors (including non-standing directors), executive officials and fellow officials who have significant influence and responsibilities in the Company's business and operations.

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Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

38. Commitments and Contingencies

(a) Contingent liabilities

Contingent liabilities may develop in a way not initially expected. Therefore, management continuously assesses contingent liabilities to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognized in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made).

The management makes estimates and assumptions that affect disclosures of commitments and contingencies. All estimates and assumptions are based on the evaluation of current circumstances and appraisals with the supports of internal specialists or external consultants.

The management regularly analyzes current information about these matters and provides for probable contingent losses including the estimate of legal expense to resolve the matters. Internal and external lawyers are used for these assessments. In making the decision regarding the need for provisions, management considers whether the Company has an obligation as a result of a past event, whether it is probable that an outflow of cash or other resources embodying economic benefits will be required to settle the obligation and the ability to make a reliable estimate of the amount of obligation.

(b) Commitments

The Company entered into long-term contracts to purchase iron ore, coal, nickel and others. The contracts of iron ore and coal generally have terms of more than three years and the contracts of nickel have terms of more than one year. These contracts provide for periodic price adjustments based on the market price. As of December 31, 2014, 137 million tons of iron ore and 32 million tons of coal remained to be purchased under such long-term contracts.

The Company entered into an agreement with Tangguh Liquefied Natural Gas (LNG) Consortium in Indonesia to purchase 550 thousand tons of LNG annually for 20 years commencing in August 2005. The purchase price is subject to change, based on changes of the monthly standard oil price (JCC) and with a price ceiling.

As of December 31, 2014, the Company entered into commitments with Korea National Oil Corporation for long-term foreign currency borrowings, which enables the Company to borrow up to the amount of USD 6.86 million, USD 6.58 million and USD 4.12 million. The borrowings are related to the Company's exploration of gas hydrates in Aral Sea, Uzbekistan, the exploration of gas hydrates in Namangan-Chust and the exploration of gas hydrates in Western Fergana-Chenavard, respectively. The repayment of the borrowings depends on the success of the projects. The Company is not liable for the repayment of full or part of the amount borrowed if the respective projects fail. The Company has agreed to pay a certain portion of its profits under certain conditions, as defined by the borrowing agreements.

POSCO
Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

(c) As of December 31, 2014, the Company has provided two blank checks to Korea Resources Corporation as collateral for long-term domestic borrowings, and has provided six blank promissory notes and three blank checks to Korea National Oil Corporation as collateral for long-term foreign currency borrowings.

(d) Litigation in progress

1) Civil lawsuits with Nippon Steel & Sumitomo Metal Corporation

During the year ended December 31, 2012, Nippon Steel & Sumitomo Metal Corporation filed a civil lawsuit in the Tokyo District Court of Japan against POSCO and POSCO Japan Co., Ltd., a subsidiary of POSCO, to prohibit production and sales of grain oriented electrical steel sheets using improperly acquired trade secrets and seeking compensation from the Company of ₩907.3 billion. Through trials up to December 31, 2014, the Company submitted its responses that the Japan court did not have jurisdiction on this lawsuit as it should be judged by Korean law and the Company developed grain oriented electrical steel sheets using the Company's own technologies. As of December 31, 2014, the court has not made any judgments on this matter. Since the Company does not believe that it has any present obligation, the Company has not recorded any provision for this lawsuit as of December 31, 2014.

2) Other lawsuits and claims

The Company is involved in 38 other lawsuits and claims for alleged damages aggregating to ₩87.2 billion as defendant as of December 31, 2014, which arose in the ordinary course of business. The Company has recognized provisions amounting to ₩400 million for 1 lawsuit based on its reliable estimate of outflow of resources. However, the Company has not recognized any provisions for other 38 lawsuits and claims since the Company believes that it does not have a present obligation as of December 31, 2014.

(e) The Company has provided a supplemental funding agreement, as the largest shareholder, as requested from the creditors, including Norddeutsche Landesbank, for seamless funding to the construction of new power plant by POSCO Energy Co., Ltd.

POSCO
Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

39. Cash Flows from Operating Activities

Changes in operating assets and liabilities for the years ended December 31, 2014 and 2013 were as follows:

<i>(in millions of Won)</i>	2014	2013
Trade accounts and notes receivable, net ₩	213,875	679,054
Other accounts receivable	(84,958)	68,281
Advance payments	(4,956)	1,162
Prepaid expenses	(317)	18,502
Inventories	136,875	860,472
Long-term guarantee deposits	(297)	(616)
Other long-term assets	-	(1,120)
Trade accounts payable and notes payable	42,711	(242,871)
Other accounts payable	(65,758)	(367,521)
Accrued expenses	104,423	(119,505)
Advances received	67,968	(23,575)
Withholdings	2,513	(5,058)
Unearned revenue	(385)	(4,427)
Other long-term liabilities	8,109	(1,069)
Derivatives liabilities	(36,964)	-
Payment severance benefits	(84,600)	(70,170)
Plan assets	(100,285)	(103,559)
₩	<u>197,954</u>	<u>687,980</u>

40. Non-Cash Transactions

Significant non-cash transactions for the years ended December 31, 2014 and 2013 were as follows:

<i>(in millions of Won)</i>	2014	2013
Construction-in-progress transferred to other accounts ₩	3,562,232	2,501,603
Acquisition of short-term financial statements through issuance of treasury stocks	-	804,496
Financial guarantee liabilities	7,730	20,812
Investment in subsidiaries transferred to assets held for sale	468,443	1,304
Available-for-sale investment transferred to assets held for sale	580,062	-
Investments in subsidiary by contribution of property, plant and equipment	558,915	-

POSCO
Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

Notice to Readers

This report is annexed in relation to the audit of the separate financial statements as of December 31, 2014 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Joint-stock Companies of the Republic of Korea.

Independent Auditors' Review Report on Internal Accounting Control System

English Translation of a Report Originally Issued in Korean

To the President of
POSCO:

We have reviewed the accompanying Report on the Operations of Internal Accounting Control System ("IACS") of POSCO (the "Company") as of December 31, 2014. The Company's management is responsible for designing and maintaining effective IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying report of management's assessment of IACS, the Company's management stated: "Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2014, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee."

We conducted our review in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those Standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether Report on the Operations of Internal Accounting Control System is free of material misstatement. Our review consists principally of obtaining an understanding of the Company's IACS, inquiries of company personnel about the details of the report, and tracing to related documents we considered necessary in the circumstances. We have not performed an audit and, accordingly, we do not express an audit opinion.

A company's IACS is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in conformity with Korean International Financial Reporting Standards. Because of its inherent limitations, however, IACS may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that Report on the Operations of Internal Accounting Control System as of December 31, 2014 is not prepared in all material respects, in accordance with IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company's IACS in existence as of December 31, 2014. We did not review the Company's IACS subsequent to December 31, 2014. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

Seoul, Korea
February 25, 2015

POSCO
Notes to the Separate Financial Statements
As of December 31, 2014 and 2013, Continued

Report on the Operations of Internal Accounting Control System

English Translation of a Report Originally Issued in Korean

Report on the Operations of Internal Accounting Control System

To the Board of Directors and Audit Committee of
POSCO:

I, as the Internal Accounting Control Officer ("IACO") of POSCO (the Company"), have assessed the status of the design and operations of the Company' s internal accounting control system("IACS") as of December 31, 2014.

The Company' s management, including IACO, is responsible for the design and operations of its IACS. I, as the IACO, have assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial statement preparation and presentation for external uses. I, as the IACO, applied the IACS Standards established by the IACS Operations Committee for the assessment of design and operations of the IACS.

Based on the assessment of the operations of the IACS, the Company' s IACS has been effectively designed and is operating as of December 31, 2014, in all material respects, in accordance with the IACS Standards issued by the IACS Operations Committee.

January 27, 2015



Kwon, Oh-Joon, Chief Executive Officer



Lee, Young-Hoon, Internal Accounting Control Officer