

# **POSCO**

**Separate Financial Statements  
December 31, 2013 and 2012**

**(With Independent Auditors' Report Thereon)**

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## **Independent Auditors' Report**

Based on a report originally issued in Korean

The Board of Directors and Stockholders  
POSCO:

We have audited the accompanying separate statements of financial position of POSCO (the "Company") as of December 31, 2013 and 2012 and the related separate statements of comprehensive income, changes in equity and cash flows for the years then ended. Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these separate financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the separate financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2013 and 2012 and its financial performance and its cash flows for the years then ended, in conformity with Korean International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to the following:

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. Accordingly, this report and the accompanying separate financial statements are for use by those knowledgeable about Korean auditing standards and their application in practice.

*KPMG Samjong Accounting Corp.*

Seoul, Korea  
February 25, 2014

This report is effective as of February 25, 2014, 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, 2013 and 2012**

(in millions of Won)

|  | <u>Notes</u> | <u>December 31, 2013</u> | <u>December 31, 2012</u> |
|--|--------------|--------------------------|--------------------------|
| <b>Assets</b>  |              |                          |                          |
| Cash and cash equivalents                                  | 4,522        | ₩ 1,394,315              | 1,752,560                |
| Trade accounts and notes receivable, net                   | 6,22,37      | 3,393,444                | 4,087,030                |
| Other receivables, net                                     | 7,22,37      | 281,161                  | 394,762                  |
| Other short-term financial assets                          | 8,22         | 2,318,816                | 928,778                  |
| Inventories  | 9,34         | 4,538,657                | 5,403,660                |
| Assets held for sale                                       | 10           | 1,304                    | -                        |
| Other current assets                                       | 11           | <u>25,782</u>            | <u>42,681</u>            |
| <b>Total current assets</b>                                |              | <u>11,953,479</u>        | <u>12,609,471</u>        |
| Long-term trade accounts and notes receivable, net         | 6,22         | 4,464                    | 274                      |
| Other receivables, net                                     | 7,22         | 45,738                   | 60,652                   |
| Other long-term financial assets                           | 8,22         | 3,362,594                | 2,968,113                |
| Investments in subsidiaries, associates and joint ventures | 12           | 15,092,836               | 14,100,053               |
| Investment property, net                                   | 13           | 92,879                   | 110,526                  |
| Property, plant and equipment, net                         | 14           | 23,240,603               | 22,166,735               |
| Intangible assets, net                                     | 15           | 438,783                  | 293,841                  |
| Other long-term assets                                     | 11           | <u>10,902</u>            | <u>10,771</u>            |
| <b>Total non-current assets</b>                            |              | <u>42,288,799</u>        | <u>39,710,965</u>        |
| <b>Total assets</b>  |              | <u>₩ 54,242,278</u>      | <u>52,320,436</u>        |

See accompanying notes to the separate financial statements.

**POSCO**  
**Separate Statements of Financial Position, Continued**  
**As of December 31, 2013 and 2012**

(in millions of Won)

|   | <u>Notes</u> | <u>December 31, 2013</u> | <u>December 31, 2012</u> |
|---|--------------|--------------------------|--------------------------|
| <b>Liabilities</b>                                |              |                          |                          |
| Trade accounts and notes payable                  | 22,37        | ₩ 735,457                | 978,581                  |
| Short-term borrowings                             | 4,616,22     | 1,931,283                | 2,116,540                |
| Other payables                                    | 17,22,37     | 791,883                  | 1,270,040                |
| Other short-term financial liabilities            | 18,22        | 46,009                   | 16,892                   |
| Current income tax liabilities                    | 35           | 153,278                  | 84,355                   |
| Provisions  | 19           | 8,501                    | 6,239                    |
| Other current liabilities                         | 21           | 38,109                   | 70,865                   |
| <b>Total current liabilities</b>                  |              | <u>3,704,520</u>         | <u>4,543,512</u>         |
| Long-term borrowings                              | 4,816,22     | 6,731,788                | 7,487,234                |
| Other payables                                    | 17,22        | 124,679                  | 128,812                  |
| Other long-term financial liabilities             | 18,22        | 231,539                  | 72,920                   |
| Net defined benefit liabilities                   | 20           | 100,650                  | 140,256                  |
| Deferred tax liabilities                          | 35           | 1,034,102                | 779,312                  |
| Other long-term liabilities                       | 21           | 3,538                    | 3,842                    |
| <b>Total non-current liabilities</b>              |              | <u>8,226,296</u>         | <u>8,612,376</u>         |
| <b>Total liabilities</b>                          |              | <u>11,930,816</u>        | <u>13,155,888</u>        |
| <b>Shareholders' Equity</b>                       |              |                          |                          |
| Share capital                                     | 23           | 482,403                  | 482,403                  |
| Capital surplus                                   | 23           | 1,233,040                | 1,227,692                |
| Hybrid bonds                                      | 24           | 996,919                  | -                        |
| Reserves  | 25           | 403,939                  | 3,362                    |
| Treasury shares                                   | 26           | (1,579,123)              | (2,391,406)              |
| Retained earnings                                 | 27           | 40,774,284               | 39,842,497               |
| <b>Total shareholder's equity</b>                 | 4            | <u>42,311,462</u>        | <u>39,164,548</u>        |
| <b>Total liabilities and shareholders' equity</b> |              | <u>₩ 54,242,278</u>      | <u>52,320,436</u>        |

See accompanying notes to the separate financial statements.

**POSCO**  
**Separate Statements of Comprehensive Income**  
**For the years ended December 31, 2013 and 2012**

(in millions of Won, except per share informations)

|  | <u>Notes</u>   | <u>2013</u>         | <u>2012</u>         |
|--|----------------|---------------------|---------------------|
| <b>Revenue</b>   | 28,37          | ₩ 30,543,545        | 35,664,933          |
| <b>Cost of sales</b>   | 9,20,30,34,37  | <u>(26,494,617)</u> | <u>(31,041,900)</u> |
| <b>Gross profit</b>  |                | 4,048,928           | 4,623,033           |
| Selling and administrative expenses  |                |                     |                     |
| Administrative expenses  | 20,22,29,30,34 | (892,966)           | (853,908)           |
| Selling expenses   | 29,30,34       | <u>(940,829)</u>    | <u>(979,528)</u>    |
| <b>Operating profit</b>  | 31             | <u>2,215,133</u>    | <u>2,789,597</u>    |
| Finance income and costs   |                |                     |                     |
| Finance income   | 22,32          | 967,073             | 1,356,539           |
| Finance costs  | 22,32          | (918,360)           | (759,291)           |
| Other non-operating income and expenses  |                |                     |                     |
| Other non-operating income   | 31,33,37       | 140,048             | 69,737              |
| Other non-operating expenses   | 31,33,34,37    | <u>(418,599)</u>    | <u>(334,301)</u>    |
| <b>Profit before income tax</b>  |                | 1,985,295           | 3,122,281           |
| Income tax expense   | 35             | <u>(402,699)</u>    | <u>(622,758)</u>    |
| <b>Profit for the period</b>   |                | 1,582,596           | 2,499,523           |
| <b>Other comprehensive income</b>  |                |                     |                     |
| Items that will not be reclassified subsequently to profit or loss :               |                |                     |                     |
| Remeasurements of defined benefit pension plans, net of tax                        | 20             | (8,692)             | (45,824)            |
| 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        | <u>400,577</u>      | <u>(153,345)</u>    |
| <b>Total comprehensive income</b>  |                | <u>₩ 1,974,481</u>  | <u>2,300,354</u>    |
| <b>Basic and diluted earnings per share</b>  | 36             | ₩ 20,052            | 32,359              |

See accompanying notes to the separate financial statements.

**POSCO**  
**Separate Statements of Changes in Equity**  
**For the years ended December 31, 2013 and 2012**

(in millions of Won)

|  | <u>Share capital</u> | <u>Capital surplus</u> | <u>Hybrid bonds</u> | <u>Reserves</u> | <u>Tresury shares</u> | <u>Retained earnings</u> | <u>Total</u>      |
|--|----------------------|------------------------|---------------------|-----------------|-----------------------|--------------------------|-------------------|
| <b>Balance as of January 1, 2012</b>   | ₩ 482,403            | 1,227,692              | -                   | 156,707         | (2,391,406)           | 38,122,620               | 37,598,016        |
| <b>Comprehensive income :</b>  |                      |                        |                     |                 |                       |                          |                   |
| Profit for the period  | -                    | -                      | -                   | -               | -                     | 2,499,523                | 2,499,523         |
| Net changes in unrealized fair value of available-for-sale investments, net of tax | -                    | -                      | -                   | (153,345)       | -                     | -                        | (153,345)         |
| Remeasurements of defined benefit pension plans, net of tax                        | -                    | -                      | -                   | -               | -                     | (45,824)                 | (45,824)          |
| <b>Transactions with owners of the Company, recognized directly in equity :</b>    |                      |                        |                     |                 |                       |                          |                   |
| Year-end dividends   | -                    | -                      | -                   | -               | -                     | (579,333)                | (579,333)         |
| Interim dividends  | -                    | -                      | -                   | -               | -                     | (154,489)                | (154,489)         |
| <b>Balance as of December 31, 2012</b>   | <u>₩ 482,403</u>     | <u>1,227,692</u>       | <u>-</u>            | <u>3,362</u>    | <u>(2,391,406)</u>    | <u>39,842,497</u>        | <u>39,164,548</u> |
|  | <u>Share capital</u> | <u>Capital surplus</u> | <u>Hybrid bonds</u> | <u>Reserves</u> | <u>Tresury shares</u> | <u>Retained earnings</u> | <u>Total</u>      |
| <b>Balance as of January 1, 2013</b>   | ₩ 482,403            | 1,227,692              | -                   | 3,362           | (2,391,406)           | 39,842,497               | 39,164,548        |
| <b>Comprehensive income :</b>  |                      |                        |                     |                 |                       |                          |                   |
| Profit for the period  | -                    | -                      | -                   | -               | -                     | 1,582,596                | 1,582,596         |
| Net changes in unrealized fair value of available-for-sale investments, net of tax | -                    | -                      | -                   | 400,577         | -                     | -                        | 400,577           |
| Remeasurements of defined benefit pension plans, net of tax                        | -                    | -                      | -                   | -               | -                     | (8,692)                  | (8,692)           |
| <b>Transactions with owners of the Company, recognized directly in equity :</b>    |                      |                        |                     |                 |                       |                          |                   |
| 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           |
| <b>Balance as of December 31, 2013</b>   | <u>₩ 482,403</u>     | <u>1,233,040</u>       | <u>996,919</u>      | <u>403,939</u>  | <u>(1,579,123)</u>    | <u>40,774,284</u>        | <u>42,311,462</u> |

See accompanying notes to the separate financial statements.

# POSCO

## Separate Statements of Cash Flows

### For the years ended December 31, 2013 and 2012

| <i>(in millions of Won)</i>   | Notes | December 31, 2013 | December 31, 2012 |
|---|-------|-------------------|-------------------|
| <b>Cash flows from operating activities</b>   |       |                   |                   |
| Profit for the period   |       | ₩ 1,582,596       | 2,499,523         |
| Adjustments for:  |       |                   |                   |
| Costs for defined benefit plans   |       | 122,656           | 107,107           |
| Depreciation  |       | 1,932,002         | 1,840,807         |
| Amortization  |       | 38,067            | 40,386            |
| Finance income  |       | (659,054)         | (1,079,341)       |
| Finance costs   |       | 655,855           | 542,944           |
| Gain on disposal of property, plant and equipment                                   |       | (6,773)           | (27,688)          |
| Loss on disposal of property, plant and equipment                                   |       | 94,533            | 84,990            |
| Loss on disposal of investments in subsidiaries, associates and joint ventures      |       | 12,295            | 17,575            |
| Impairment loss on investments in subsidiaries, associates and joint ventures       |       | 235,794           | 1,102             |
| Gain on disposal of assets held for sale  |       | (67,875)          | (1,150)           |
| Income tax expense  |       | 402,699           | 622,758           |
| Others  |       | 3,683             | 18,948            |
| Changes in operating assets and liabilities   | 39    | 687,980           | 1,470,440         |
| Interest received   |       | 109,073           | 111,309           |
| Interest paid   |       | (390,175)         | (443,470)         |
| Dividends received  |       | 232,281           | 175,556           |
| Income taxes paid   |       | (222,111)         | (310,907)         |
| Net cash provided by operating activities   |       | ₩ 4,763,526       | 5,670,889         |
| <b>Cash flows from investing activities</b>   |       |                   |                   |
|   | 40    |                   |                   |
| Proceeds from disposal of short-term financial instruments                          |       | 3,528,479         | 3,182,714         |
| 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                            |       | 194,820           | 601,185           |
| Collection of long-term loans   |       | 14,441            | 18,754            |
| Proceeds from disposal of investment in subsidiaries, associates and joint ventures |       | 6,114             | 37,134            |
| Proceeds from disposal of assets held for sale                                      |       | -                 | 3,378             |
| Proceeds from disposal of intangible assets   |       | 1,100             | 747               |
| Acquisition of short-term financial investments                                     |       | (4,144,157)       | (2,982,224)       |
| Acquisition of available-for-sale investments                                       |       | (71,045)          | (130,845)         |
| Increase in long-term loans   |       | (3,354)           | (12,687)          |
| Acquisition of investment in subsidiaries, associates and joint ventures            |       | (1,193,501)       | (1,056,628)       |
| Acquisition of property, plant and equipment  |       | (3,013,628)       | (2,494,862)       |
| Proceeds from (net payment for) disposal of property, plant and equipment           |       | (14,297)          | 29,323            |
| Acquisition of intangible assets  |       | (103,041)         | (92,776)          |
| Net cash used in investing activities   |       | ₩ (4,768,064)     | (2,896,787)       |
| <b>Cash flows from financing activities</b>   |       |                   |                   |
| Proceeds from borrowings  |       | 2,431,539         | 3,855,933         |
| Increase in long-term financial liabilities   |       | 3,766             | 3,033             |
| Receipt of government grants  |       | 5,000             | -                 |
| Proceeds from disposal of treasury shares   |       | 14,019            | -                 |
| Proceeds from issuance of hybrid bonds  |       | 996,919           | -                 |
| Repayment of borrowings   |       | (3,132,803)       | (5,281,336)       |
| Decrease in long-term financial liabilities   |       | (3,009)           | (3,674)           |
| Decrease in derivative liabilities  |       | (23,348)          | -                 |
| Payment of cash dividends   |       | (617,570)         | (733,380)         |
| Payment of interest of hybrid bonds   |       | (21,860)          | -                 |
| Net cash used in financing activities   |       | ₩ (347,347)       | (2,159,424)       |
| <b>Effect of exchange rate changes on cash held</b>                                 |       | (6,360)           | -                 |
| <b>Net increase (decrease) in cash and cash equivalents</b>                         |       | (358,245)         | 614,678           |
| <b>Cash and cash equivalents</b>  |       |                   |                   |
| Cash and cash equivalents at beginning of the period                                |       | 1,752,560         | 1,137,882         |
| Cash and cash equivalents at end of the period                                      |       | ₩ 1,394,315       | 1,752,560         |

See accompanying notes to the separate financial statements.

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

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**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 foreign 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 eight of its overseas liaison offices.

As of December 31, 2013 and 2012, major shareholders are as follows:

| Share holder's name                                 | 2013              |               | 2012              |               |
|---|-------------------|---------------|-------------------|---------------|
|   | Number of shares  | Ownership(%)  | Number of shares  | Ownership(%)  |
| National Pension Service                            | 6,577,907         | 7.54          | 5,225,654         | 7.54          |
| Nippon Steel & Sumitomo Metal Corporation(*1)       | 4,394,712         | 5.04          | 4,394,712         | 5.04          |
| Hyundai Heavy Industries Co., Ltd. and subsidiaries | 2,197,707         | 2.52          | 2,183,997         | 2.52          |
| Pohang University of Science and Technology         | 1,905,000         | 2.18          | 1,905,000         | 2.18          |
| KB Financial group Inc. and subsidiaries            | 1,846,994         | 2.12          | 1,919,773         | 2.12          |
| Others  | 70,264,515        | 80.60         | 71,557,699        | 80.60         |
|   | <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.

As of December 31, 2013, 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.

These financial statements are separate financial statements prepared in accordance with K-IFRS No. 1027 “*Consolidated and Separate Financial Statements*” presented by a parent, an investor in an associate or a venture in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

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**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 judgements**

The preparation of the 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 in which the estimates are revised and in any future periods affected.

(a) Judgements

Information about critical judgements 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 assets
- Note 13 - Investment property, net
- Note 14 - Property, plant and equipment, net

(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

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

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(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 financial officer.

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 - quoted prices (unadjusted) 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 (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 - inputs for the assets or liability that are not based on observable market data (unobservable inputs).

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 notes:

- Note 22 – Financial instruments

**Changes in accounting policies**

Except for the change below, the Company has consistently applied the accounting policies set out in note 3 to all periods presented in these separate financial statements.

The Company has adopted the following new standards and amendments to standards with a date of initial application of January 1, 2013.

- (a) K-IFRS No. 1001, "*Presentation of Financial Statements*"
- (b) K-IFRS No. 1019, "*Employee Benefits*"
- (c) K-IFRS No. 1107, "*Financial Instruments: Disclosures*"
- (d) K-IFRS No. 1113, "*Fair Value Measurement*"

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

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The details of changes in accounting policies are as follows:

(a) Classification of other comprehensive income

As a result of the amendments to K-IFRS No. 1001, the Company has modified the presentation of items of other comprehensive income in its statement of comprehensive income to present

separately items that would be reclassified to profit or loss from those that would never be reclassified to profit or loss. Comparative information has been re-presented accordingly.

(b) Post-employment defined benefit plan

As a result of the amendments to K-IFRS No. 1019, the Company has changed its accounting policy with respect the basis for determining the income or expense related to its post-employment defined benefit plans. Under the amendments to K-IFRS No. 1019, 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. Consequently, the net interest on the net defined benefit liability (asset) now comprises: interest cost on the defined benefit obligation, interest income on plan assets, and interest on the effect on the asset ceiling. Previously, the Company determined interest income on plan assets based on their long-term rate of expected return. The impact of the amendments on the Company's separate financial statements is not significant.

(c) Offsetting of financial assets and financial liabilities

As a result of the amendments to K-IFRS No. 1107, the Company has expanded its disclosures about the offsetting of financial assets and financial liabilities (Note 22).

(d) Fair value measurement

K-IFRS No. 1113, establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other K-IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other K-IFRSs, including K-IFRS No. 1107. As a result, the Company has included additional disclosures in this regard (Note 22).

In accordance with the transitional provisions of K-IFRS No. 1113, the Company has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Company's assets and liabilities.

**Impact of changes in accounting policies**

As management believes the impact of the amendments to K-IFRS No. 1019 and 1113 on the Company's prior year's separate financial statements is not significant, the comparative period's separate financial statements are not restated.

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**Approval of financial statement**

The separate financial statements were authorized for issue by the Board of Directors on January 29, 2014, and will be submitted for approval at the shareholders' meeting to be held on March 14, 2014.

**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.

The comparative amounts in separate statements of comprehensive income have been re-presented as a result of a change in the accounting policy regarding the presentation of items of other comprehensive income.

**Investments in Subsidiaries, Associates and Joint Ventures**

These separate financial statements are prepared and presented in accordance with K-IFRS No. 1027 "*Consolidated and 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 was initially determined.

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

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**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 investments, 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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(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.

**Inventories**

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

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

**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).

**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.

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**Property, plant and equipment**

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

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

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

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

Items of property, plant and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use. Other than land, the costs of an asset less its estimated residual value are depreciated. 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               | 20-40 years |
| Structures              | 20-40 years |
| Machinery and equipment | 15 years    |
| Vehicles                | 4-9 years   |
| Tools                   | 4 years     |
| Furniture and fixtures  | 4 years     |
| Lease assets            | 18 years    |

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

**Borrowing costs**

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

To the extent that the Company borrows funds specifically for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. The Company immediately recognizes other borrowing costs as an expense. To the extent that the Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Company shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. 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 | 5-10 years |
| Development costs            | 4 years    |
| Port facilities usage rights | 5-75 years |
| Other intangible assets      | 4-20 years |

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

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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.

(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.

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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 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
- (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 equity instrument classified as available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If financial assets have objective evidence that they are impaired, impairment losses are measured and recognized.

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(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.

(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.

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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.

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.

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**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.

(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).

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**Employee benefits**

(a) Short-term employee benefits

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

(b) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, less the fair value of any related assets. The present value is determined by discounting the expected future cash flows using the interest rate of corporate bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

(c) Retirement benefits: Defined contribution plans

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

(d) Retirement benefits: Defined benefit plans

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

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

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

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.

A provision is used only for expenditures for which the provision was originally recognized.

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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 Company’s hybrid bond has been classified as an equity instrument.

**Revenue**

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

(a) Sale of goods

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

(b) 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.

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**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 taxes**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to 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.

(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.

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

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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.

**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, 2013, and the Company has not early adopted them. Management believes the impact of the amendments on the Company’s separate financial statements is not significant.

(a) Amendments to K-IFRS No. 1032 “*Financial Instruments : Presentation*”

The amendments clarified application guidance related to offsetting of a financial asset and a financial liability. The amendments are mandatorily effective for annual periods beginning on or after January 1, 2014 with earlier adoption permitted.

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

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**4. Financial risk management**

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

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

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

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
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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 strategic investments. Management believes that the Company is capable of raising funds by borrowing or financing if the Company is not able to generate cash flow requirements from its operations. The Company has committed borrowing facilities with various banks.

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.

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

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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.

(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.

The equity attributable to owners as of December 31, 2013 and 2012 are as follows:

| <i>(in millions of Won)</i>     | <u>2013</u>      | <u>2012</u>      |
|---------------------------------|------------------|------------------|
| Total borrowings                | 8,663,071        | 9,603,774        |
| Less: Cash and cash equivalents | <u>1,394,315</u> | <u>1,752,560</u> |
| Net borrowings                  | 7,268,756        | 7,851,214        |
| Total equity                    | 42,311,462       | 39,164,548       |
| Net borrowings-to-equity ratio  | 17.18%           | 20.05%           |

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

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**5. Cash and Cash Equivalents**

Cash and cash equivalents as of December 31, 2013 and 2012 are as follows:

| <i>(in millions of Won)</i>  | <u>2013</u>        | <u>2012</u>      |
|------------------------------|--------------------|------------------|
| Checking accounts            | ₩ 302,434          | 660              |
| Time deposits                | 859,148            | 1,320,000        |
| Money market trust           | 152,500            | 321,400          |
| Money market funds           | 30,000             | 110,000          |
| Money market deposit account | 50,233             | 500              |
|                              | <u>₩ 1,394,315</u> | <u>1,752,560</u> |

**6. Trade Accounts and Notes Receivable**

Trade accounts and notes receivable as of December 31, 2013 and 2012 are as follows:

| <i>(in millions of Won)</i>           | <u>2013</u>        | <u>2012</u>      |
|---------------------------------------|--------------------|------------------|
| Current                               |                    |                  |
| Trade accounts and notes receivable   | ₩ 3,403,316        | 4,099,006        |
| Less: Allowance for doubtful accounts | (9,872)            | (11,976)         |
|                                       | <u>₩ 3,393,444</u> | <u>4,087,030</u> |
| Non-current                           |                    |                  |
| Trade accounts and notes receivable   | ₩ 7,806            | 502              |
| Less: Present value discount          | (3,114)            | -                |
| Less: Allowance for doubtful accounts | (228)              | (228)            |
|                                       | <u>₩ 4,464</u>     | <u>274</u>       |

The trade accounts and notes receivable sold to financial institutions, for which the derecognition conditions were not met, amounted to ₩203,138 million and ₩258,680 million as of December 31, 2013 and 2012, respectively, and are included in bank borrowings (Note 16).

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

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**7. Other Receivables**

Other receivables as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

|                                       | <u>2013</u>      | <u>2012</u>    |
|---------------------------------------|------------------|----------------|
| Current                               |                  |                |
| Other accounts receivable             | ₩ 281,667        | 391,264        |
| Accrued income                        | 10,055           | 12,531         |
| Other checking accounts               | 10               | 1,538          |
| Less: Allowance for doubtful accounts | (10,571)         | (10,571)       |
|                                       | <u>₩ 281,161</u> | <u>394,762</u> |
| Non-current                           |                  |                |
| Long-term loans                       | ₩ 54,945         | 66,775         |
| Long-term other accounts receivable   | 2,723            | 6,410          |
| Deposits                              | 2,523            | 1,920          |
| Less: Allowance for doubtful accounts | (14,453)         | (14,453)       |
|                                       | <u>₩ 45,738</u>  | <u>60,652</u>  |

**8. Other Financial Assets**

(a) Other financial assets as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

|  | <u>2013</u>        | <u>2012</u>      |
|--|--------------------|------------------|
| Current  |                    |                  |
| Short-term available-for-sale securities (bonds)             | ₩ -                | 100,000          |
| Current portion of held-to-maturity securities (bonds)       | -                  | 29,981           |
| Short-term financial instruments(*1)                         | 2,317,867          | 786,098          |
| Cash deposits(*2)  | 949                | 12,699           |
|  | <u>₩ 2,318,816</u> | <u>928,778</u>   |
| Non-current  |                    |                  |
| Derivatives assets held for trading                          | ₩ 7,788            | 6,016            |
| Long-term available-for-sale securities (equity instruments) | 3,333,915          | 2,942,915        |
| Long-term available-for-sale securities (bonds)              | 20,355             | 18,642           |
| Long-term available-for-sale securities (others)             | 500                | 500              |
| Cash deposits(*3)  | 36                 | 40               |
|  | <u>₩ 3,362,594</u> | <u>2,968,113</u> |

(\*1) Short-term financial instruments amounting to ₩4,700 million and ₩3,400 million are provided as collateral in relation to long term borrowings from National Forestry Cooperatives Federation as of December 31, 2013 and 2012, respectively.

(\*2) Deposit is restricted in relation to government assigned project.

(\*3) 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, Continued**  
**As of December 31, 2013 and 2012**

(b) Long-term available-for-sale equity securities as of December 31, 2013 and 2012 are as follows:

(in millions of Won)

|   | 2013             |               |                  |            |   |                             | 2012       |            |
|---|------------------|---------------|------------------|------------|---|-----------------------------|------------|------------|
|   | Number of shares | Ownership (%) | Acquisition cost | Fair value | Net changes in fair value of available-for-sale investments | Accumulated impairment loss | Book value | Book value |
| <b>Marketable equity securities</b>       |                  |               |                  |            |   |                             |            |            |
| Nippon Steel & Sumitomo Metal Corporation | 238,352,000      | 2.38          | ₩ 719,622        | 842,909    | 123,287   | -                           | 842,909    | 624,423    |
| SK Telecom Co., Ltd.(*1)                  | 1,795,862        | 2.22          | 462,749          | 419,933    | 189,901   | (232,717)                   | 419,933    | 350,210    |
| KB Financial group Inc.(*2)               | 11,590,550       | 3.00          | 536,517          | 489,701    | 93,304  | (140,120)                   | 489,701    | 439,282    |
| Hyundai Heavy Industries Co., Ltd.        | 1,477,000        | 1.94          | 343,506          | 379,589    | 36,083  | -                           | 379,589    | 357,434    |
| Shinhan Financial group Inc.              | 4,369,881        | 0.92          | 228,778          | 206,695    | 84,059  | (106,142)                   | 206,695    | 169,770    |
| Hana Financial group Inc.                 | 2,430,498        | 1.00          | 15,633           | 106,699    | 91,066  | -                           | 106,699    | 84,338     |
| Others (11 companies)(*3)                 |                  |               | 150,780          | 108,895    | 35,322  | (77,207)                    | 108,895    | 157,284    |
|   |                  |               | 2,457,585        | 2,554,421  | 653,022   | (556,186)                   | 2,554,421  | 2,182,741  |
| <b>Non-marketable equity securities</b>   |                  |               |                  |            |   |                             |            |            |
| The Siam United Steel(*4)                 | 11,071,000       | 12.30         | 34,658           | 57,643     | 45,510  | (22,525)                    | 57,643     | 50,717     |
| Nacional Minerios S.A.(*4)                | 30,784,625       | 6.48          | 668,634          | 517,193    | (151,441)   | -                           | 517,193    | 517,683    |
| Dongbu Metal Co., Ltd.(*4)                | 3,000,000        | 10.00         | 98,242           | 85,371     | (12,871)  | -                           | 85,371     | 96,126     |
| Troika Fund(*4)                           | 10,664,872,584   | 3.66          | 10,665           | 9,095      | (1,570)   | -                           | 9,095      | 6,499      |
| Others (36 companies)(*5,*6)              |                  |               | 121,915          | 110,192    | 251   | (11,974)                    | 110,192    | 89,149     |
|   |                  |               | 934,114          | 779,494    | (120,121)   | (34,499)                    | 779,494    | 760,174    |
|   |                  |               | ₩ 3,391,699      | 3,333,915  | 532,901   | (590,685)                   | 3,333,915  | 2,942,915  |

(\*1) As of December 31, 2013, 1,795,860 shares equivalent to 16,162,743 American Depository Receipts (“ADRs”) of SK Telecom Co., Ltd. have been pledged as collateral for the exchangeable bonds issued.

(\*2) The Company recognized ₩140,120 million of impairment loss on investment in KB Financial Group Inc. for the year ended December 31, 2013 due to significant decline in the fair value of its shares for a prolonged period.

(\*3) The Company recognized ₩15,265 million, ₩7,745 million and ₩4,098 million of impairment loss on investment in PT. Krakatau Steel, Steel Flower Co., Ltd. and DAEHO P&C Co., Ltd, respectively, for the year ended December 31, 2013 due to significant decline in the fair value of their shares.

(\*4) Fair value is based on valuation performed by an external professional evaluation agency.

(\*5) The Company recognized ₩3,577 million of impairment loss on investment in Korea Private Certified Emission Reductions Fund No.1 for the year ended December 31, 2013 due to significant decline in the fair value of its shares.

(\*6) These non-marketable equity securities are recorded at cost since fair value cannot be reliably measured.

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

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**9. Inventories**

Inventories as of December 31, 2013 and 2012 are as follows:

| <i>(in millions of Won)</i>               | <b>2013</b>        | <b>2012</b>      |
|---|--------------------|------------------|
| Finished goods                            | ₩ 755,286          | 870,917          |
| Semi-finished goods                       | 1,259,390          | 1,446,058        |
| By-products                               | 13,793             | 11,399           |
| Raw materials                             | 983,902            | 1,297,926        |
| Fuel and materials                        | 520,236            | 607,908          |
| Materials-in-transit                      | 1,009,996          | 1,169,201        |
| Others                                    | 586                | 621              |
|   | <u>4,543,189</u>   | <u>5,404,030</u> |
| Less: Allowance for inventories valuation | (4,532)            | (370)            |
|   | <u>₩ 4,538,657</u> | <u>5,403,660</u> |

The amount of valuation losses of inventories recognized within cost of sales during the years ended December 31, 2013 and 2012 were ₩4,532 million and ₩370 million, respectively.

**10. Non-Current Assets Held for Sale**

Details of non-current assets held for sale as of December 31, 2013 and 2012 are as follows:

| <i>(in millions of Won)</i>  | <b>2013</b> | <b>2012</b> |
|------------------------------|-------------|-------------|
| Investment in associates(*1) | ₩ 1,304     | -           |

(\*1) The Company determined to dispose of the shares of POSVINA Co., Ltd., an associate of the Company. The Company recorded an impairment loss for assets held for sale of ₩1,814 million based on the difference between the carrying amount and fair value less cost to sell of the investment in POSVINA Co., Ltd. during the year ended December 31, 2013.

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

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**11. Other Assets**

Other assets as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

|  | <u>2013</u>     | <u>2012</u>   |
|--|-----------------|---------------|
| <b>Other current assets</b>            |                 |               |
| Advance payments                       | ₩ 4,871         | 4,505         |
| Prepaid expenses                       | <u>20,911</u>   | <u>38,176</u> |
|  | <u>25,782</u>   | <u>42,681</u> |
| <b>Other long-term assets</b>          |                 |               |
| Long-term prepaid expenses             | 6,980           | 8,216         |
| Others                                 | 3,935           | 2,568         |
| Less : Allowance for doubtful accounts | <u>(13)</u>     | <u>(13)</u>   |
|  | <u>₩ 10,902</u> | <u>10,771</u> |

**12. Investments in Subsidiaries, Associates and Joint ventures**

(a) Investments in subsidiaries, associates and joint ventures as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

|                | <u>2013</u>         | <u>2012</u>       |
|----------------|---------------------|-------------------|
| Subsidiaries   | 12,316,564          | 12,163,345        |
| Associates     | 825,197             | 559,988           |
| Joint ventures | <u>1,951,075</u>    | <u>1,376,720</u>  |
|                | <u>₩ 15,092,836</u> | <u>14,100,053</u> |

# POSCO

## Notes to the Separate Financial Statements, Continued

### As of December 31, 2013 and 2012

(b) Details of subsidiaries and carrying values as of December 31, 2013 and 2012 are as follows:

(in millions of Won)

| [Domestic]                             | Country | Principal operations                            | 2013             |               |                  |                 | 2012       |            |
|--|---------|---|------------------|---------------|------------------|-----------------|------------|------------|
|  |         |   | Number of shares | Ownership (%) | Acquisition cost | Net asset value | Book value | Book value |
| Daewoo International Corporation       | Korea   | Trading   | 68,681,566       | 60.31         | ₩ 3,371,481      | 2,215,646       | 3,371,481  | 3,371,481  |
| POSCO ENGINEERING & CONSTRUCTION, LTD. | Korea   | Engineering and Construction                    | 32,876,418       | 89.53         | 1,510,716        | 2,970,887       | 1,510,716  | 1,510,716  |
| POSCO ENERGY CO., LTD.                 | Korea   | Generation of Electricity                       | 40,234,508       | 89.02         | 658,176          | 1,589,280       | 658,176    | 658,176    |
| POSCO Specialty Steel Co., Ltd.        | Korea   | Steel manufacturing and sales                   | 26,000,000       | 72.09         | 628,842          | 1,259,107       | 628,842    | 628,842    |
| POSCO Processing&Service               | Korea   | Steel sales and service                         | 17,155,000       | 95.31         | 421,927          | 693,895         | 421,927    | 421,927    |
| POSCO AST                              | Korea   | Steel manufacturing and sales                   | 17,386,952       | 100.00        | 176,609          | 153,598         | 176,609    | 176,609    |
| POSCO Specialty Steel Co., Ltd.        | Korea   | Coated steel manufacturing                      | 3,412,000        | 56.87         | 108,421          | 169,564         | 108,421    | 108,421    |
| POSCO M-TECH(*1)                       | Korea   | Packing materials manufacturing                 | 20,342,460       | 48.85         | 107,278          | 153,202         | 107,278    | 107,278    |
| POSTECH Venture Capital Co., Ltd.      | Korea   | Investment in venture companies                 | 19,700,000       | 95.00         | 103,780          | 107,417         | 103,780    | 103,780    |
| POSCO CHEMTECH                         | Korea   | Manufacturing and sales                         | 3,544,200        | 60.00         | 100,535          | 449,272         | 100,535    | 100,535    |
| POSCO ICT                              | Korea   | Computer hardware and software distribution     | 99,403,282       | 65.38         | 70,990           | 406,240         | 70,990     | 70,990     |
| POSMATE(*2)                            | Korea   | Business facility maintenance                   | 806,318          | 54.46         | 63,222           | 158,039         | 63,222     | -          |
| POSHMETAL Co., Ltd.                    | Korea   | Steel manufacturing and sales                   | 10,023,000       | 65.00         | 49,452           | 9,082           | 49,452     | 49,452     |
| POSCO Family Strategy Fund             | Korea   | Financial investment                            | 400              | 60.79         | 40,000           | 61,026          | 40,000     | 40,000     |
| Busan E&E Co., Ltd.(*3)                | Korea   | Municipal solid waste fuel and power generation | 6,029,660        | 70.00         | 30,148           | 39,678          | 30,148     | 30,148     |
| Others (12 companies)                  |         |   |                  |               | 178,264          | 425,073         | 178,264    | 239,528    |
|  |         |   |                  |               | ₩ 7,619,841      | 10,861,006      | 7,619,841  | 7,617,883  |

(in millions of Won)

| [Foreign]   | Country      | Principal operations                     | 2013             |               |                  |                 | 2012       |            |
|---|--------------|--|------------------|---------------|------------------|-----------------|------------|------------|
|   |              |  | Number of shares | Ownership (%) | Acquisition cost | Net asset value | Book value | Book value |
| PT. KRAKATAU POSCO                                    | Indonesia    | Steel manufacturing and sales            | 693,700          | 70.00         | ₩ 764,198        | 972,767         | 808,492    | 732,503    |
| POSCO Thainox Public Co., Ltd.(*4)                    | Thailand     | Stainless steel manufacturing and sales  | 6,620,532,219    | 84.93         | 551,807          | 284,084         | 340,249    | 551,807    |
| POSCO Australia Pty. Ltd.                             | Australia    | Iron ore sales and mine development      | 761,775          | 100.00        | 330,623          | 643,016         | 330,623    | 330,623    |
| POSCO WA Pty. Ltd.                                    | Australia    | Steel sales and mine development         | 418,340,038      | 100.00        | 446,093          | 317,212         | 446,093    | 312,851    |
| POSCO Maharashtra Steel Private Ltd.                  | India        | Steel manufacturing and sales            | 150,076,072      | 100.00        | 343,564          | 110,589         | 355,987    | 302,053    |
| Zhangjiagang Pohang Stainless Steel Co., Ltd.         | China        | Stainless steel manufacturing and sales  | -                | 58.60         | 283,845          | 499,827         | 284,753    | 285,201    |
| POSCO-China Holding Corp.                             | China        | Investment management                    | -                | 100.00        | 240,430          | 252,494         | 240,430    | 225,436    |
| POSCO-India Private Ltd.                              | India        | Steel manufacturing and sales            | 764,999,999      | 99.99         | 184,815          | 114,872         | 184,815    | 184,815    |
| POSCO-Mexico S.A. DE C.V.                             | Mexico       | Plate steel manufacturing                | 2,686,705,272    | 84.84         | 180,069          | 199,937         | 182,080    | 182,048    |
| POSCO-Vietnam Co., Ltd.                               | Vietnam      | Steel manufacturing                      | -                | 85.00         | 154,691          | 32,055          | 157,295    | 155,428    |
| POSCO VST Co., Ltd.                                   | Vietnam      | Stainless steel manufacturing            | -                | 95.65         | 144,573          | 27,833          | 145,288    | 145,462    |
| POSCO America Corporation                             | USA          | Trading-Steel                            | 391,042          | 99.45         | 140,381          | 52,404          | 140,381    | 140,381    |
| POSCO(Guangdong) Automotive Steel Co., Ltd.           | China        | Steel manufacturing and selling          | 117,187,089      | 83.64         | 130,751          | 124,368         | 131,291    | 131,618    |
| POSCO ASSAN TST STEEL Industry                        | Turkey       | Steel manufacturing and sales            | 144,579,160      | 60.00         | 92,800           | 42,633          | 95,710     | 96,215     |
| POSCO Investment Co., Ltd.                            | Hong Kong    | Finance                                  | 4,999,999        | 99.99         | 85,521           | 100,166         | 87,211     | 86,323     |
| POSCO-JAPAN Co., Ltd.                                 | Japan        | Trading-Steel                            | 90,438           | 100.00        | 68,436           | 106,747         | 68,436     | 68,436     |
| Qingdao Pohang Stainless Steel Co., Ltd.              | China        | Stainless steel manufacturing and sales  | -                | 70.00         | 65,982           | 90,927          | 65,982     | 65,982     |
| POSCO (Suzhou) Automotive Processing Center Co., Ltd. | China        | Steel manufacturing and sales            | -                | 90.00         | 62,494           | 113,655         | 62,494     | 62,494     |
| POSCO Electrical Steel India Private Limited          | India        | Electrical steel manufacturing and sales | 24,120,664       | 100.00        | 57,119           | 31,507          | 58,662     | 48,058     |
| POSCO AFRICA (PROPRIETARY) LIMITED                    | South Africa | Trading                                  | 1,390            | 100.00        | 50,297           | 44,854          | 50,297     | 5,629      |
| POSCO China Dalian Plate Processing Center Co., Ltd.  | China        | Heavy plate processing and marketing     | -                | 80.00         | 32,992           | 20,657          | 32,992     | 32,992     |
| POSCO Asia Co., Ltd.                                  | Hong Kong    | Steel transit trade                      | 9,360,000        | 100.00        | 32,189           | 39,216          | 32,189     | 32,189     |
| POSCO (Guangdong) Steel Co., Ltd.                     | China        | Plate steel sheet manufacturing          | -                | 87.04         | 31,299           | 44,424          | 31,299     | 31,299     |
| POSCO-Malaysia SDN. BHD.                              | Malaysia     | Steel manufacturing and sales            | 98,486,000       | 80.07         | 31,027           | (22,292)        | 31,027     | 31,027     |
| POSCO-URUGUAY S.A.                                    | Uruguay      | Wood manufacturing and sales             | 526,105,608      | 98.04         | 29,341           | 22,685          | 29,341     | 27,724     |
| Others (30 companies)                                 |              |  |                  |               | 303,304          | 436,761         | 303,306    | 278,868    |
|   |              |  |                  |               | 4,838,641        | 4,703,398       | 4,696,723  | 4,545,462  |
|   |              |  |                  |               | ₩ 12,458,482     | 15,564,404      | 12,516,564 | 12,163,345 |

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

- (\*1) As of December 31, 2013, it is 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.
- (\*2) It is reclassified from associate to subsidiary due to the merger with Seoung Gwang Co., Ltd. during the year ended December 31, 2013.
- (\*3) As of December 31, 2013 this investment is collateral for the Company's guarantee provided to certain borrowings of its subsidiary from banks.
- (\*4) As of December 31, 2013, there is objective evidence of impairment due to a prolonged decline on the fair value of the security. Recoverable amounts were determined based on fair value less cost to sell, which was calculated by adding a 28.8% control premium to current stock price as December 31, 2013. The Company recognized impairment loss of ₩160,492 million as the carrying value was higher than its recoverable amount as of December 31, 2013.

(c) Details of associates and carrying values as of December 31, 2013 and 2012 are as follows:

(in millions of Won)

| [Domestic]   | Country       | Principal operations                 | 2013             |               |                  |                  | 2012           |                |
|--|---------------|--------------------------------------|------------------|---------------|------------------|------------------|----------------|----------------|
|  |               |                                      | Number of shares | Ownership (%) | Acquisition cost | Net asset value  | Book value     | Book value     |
| EQP POSCO Global NOI NaturalResources PEF                            | Korea         | Mine investment                      | 169,106,080,000  | 25.80         | ₩ 169,106        | 651,815          | 169,106        | -              |
| POSCO PLANTEC Co., Ltd.<br>(formerly, SUNGIN GEOTEC Co., Ltd.)(*1,3) | Korea         | Industrial machinery manufacturing   | 22,516,988       | 36.20         | 261,088          | 134,928          | 185,786        | 159,878        |
| SNNC   | Korea         | Material manufacturing               | 18,130,000       | 49.00         | 100,655          | 268,522          | 100,655        | 100,655        |
| POSMATE(*2)  | Korea         | Business facilities maintenance      | -                | -             | -                | -                | -              | 33,295         |
| Others (5 companies)   |               |                                      |                  |               | 18,921           | 74,971           | 18,921         | 9,811          |
|  |               |                                      |                  |               | <u>549,770</u>   | <u>1,130,236</u> | <u>474,468</u> | <u>303,639</u> |
| [Foreign]  |               |                                      |                  |               |                  |                  |                |                |
| Nickel Mining Company SAS  | New Caledonia | Raw material manufacturing and sales | 3,234,698        | 49.00         | 189,197          | 325,028          | 189,197        | 189,197        |
| 7623704 Canada Inc.(*3)  | Canada        | Mine investment                      | 114,452,000      | 10.40         | 124,341          | 1,161,348        | 124,341        | -              |
| Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd.           | China         | Tinplate manufacturing and sales     | -                | 24.00         | 11,003           | 66,352           | 11,003         | 11,003         |
| Others (8 companies)   |               |                                      |                  |               | 26,159           | 20,936           | 26,188         | 56,149         |
|  |               |                                      |                  |               | <u>350,700</u>   | <u>1,573,664</u> | <u>350,729</u> | <u>256,349</u> |
|  |               |                                      |                  |               | <u>₩ 900,470</u> | <u>2,703,900</u> | <u>825,197</u> | <u>559,988</u> |

- (\*1) Sungjin Geotec Co., Ltd. has changed its name to POSCO PLANTEC Co., Ltd. after it merged with POSCO PLANTEC Co., Ltd. during the year ended December 31, 2013.
- (\*2) It is reclassified from associate to subsidiary due to the merger with Seoung Gwang Co., Ltd. during the year ended December 31, 2013.
- (\*3) Although the Company holds less than 20% ownership, the Company classifies its investment in 7623704 Canada Inc. as investments in associates, as the Company has significant influence over the entity pursuant to the related contractual arrangement.
- (\*4) As of December 31, 2013, there is objective evidence of impairment due to a prolonged decline on the fair value of the security. Recoverable amounts were determined based on fair value less cost to sell, which was calculated by adding a 20.7% control premium to current stock price as of December 31, 2013. The Company recognized impairment loss of ₩75,302 million as the carrying value was higher than its recoverable amount as of December 31, 2013.

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

(d) Details of joint ventures and carrying values as of December 31, 2013 and 2012 are as follows:

(in millions of Won)

|                                      | Country   | Principal operations          | 2013             |               |                  |                 | 2012       |            |
|--------------------------------------|-----------|-------------------------------|------------------|---------------|------------------|-----------------|------------|------------|
|                                      |           |                               | Number of shares | Ownership (%) | Acquisition cost | Net asset value | Book value | Book value |
| Roy Hill Holdings Pty Ltd.           | Australia | Mine development              | 10,494,377       | 10.00         | ₩ 983,569        | 2,459,097       | 983,569    | 537,369    |
| POSCO-NPS Niobium LLC                | USA       | Mine development              | 325,050,000      | 50.00         | 364,609          | 686,978         | 364,609    | 364,609    |
| KOBRASCO                             | Brazil    | Facilities lease              | 2,010,719,185    | 50.00         | 98,962           | 190,465         | 98,962     | 98,962     |
| CSP - Companhia Siderurgica do Pecem | Brazil    | Steel manufacturing and sales | 660,301,330      | 20.00         | 393,925          | 1,442,143       | 393,925    | 265,740    |
| Others (4 companies)                 |           |                               |                  |               | 110,004          | 438,773         | 110,010    | 110,040    |
|                                      |           |                               |                  |               | ₩ 1,951,069      | 5,217,456       | 1,951,075  | 1,376,720  |

**13. Investment Property, Net**

(a) Investment property as of December 31, 2013 and 2012 are as follows:

(in millions of Won)

|            | 2013             |                          |            | 2012             |                          |            |
|------------|------------------|--------------------------|------------|------------------|--------------------------|------------|
|            | Acquisition cost | Accumulated depreciation | Book value | Acquisition cost | Accumulated depreciation | Book value |
| Land       | ₩ 36,020         | -                        | 36,020     | 41,811           | -                        | 41,811     |
| Buildings  | 95,564           | (42,882)                 | 52,682     | 110,927          | (47,230)                 | 63,697     |
| Structures | 7,009            | (2,832)                  | 4,177      | 8,136            | (3,118)                  | 5,018      |
| Total      | ₩ 138,593        | (45,714)                 | 92,879     | 160,874          | (50,348)                 | 110,526    |

The fair value of investment property as of December 31, 2013 is ₩290,136 million. The Company used the prior year's fair value for the investment property since it is believed to be approximately same.

(b) Changes in the carrying value of investment property for the years ended December 31, 2013 and 2012 were as follows:

1) 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  |
| Total      | ₩ 110,526 | (2,979)          | (14,668)     | 92,879 |

(\*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.

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

2) For the year ended December 31, 2012

(in millions of Won)

|            |   | <b>Beginning</b> | <b>Depreciation(*1)</b> | <b>Transfer(*2)</b> | <b>Ending</b> |
|------------|---|------------------|-------------------------|---------------------|---------------|
| Land       | ₩ | 43,258           | -                       | (1,447)             | 41,811        |
| Buildings  |   | 68,776           | (2,905)                 | (2,174)             | 63,697        |
| Structures |   | 5,384            | (194)                   | (172)               | 5,018         |
| Total      | ₩ | 117,418          | (3,099)                 | (3,793)             | 110,526       |

(\*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.

**14. Property, Plant and Equipment, Net**

(a) Property, plant and equipment as of December 31, 2013 and 2012 are as follows:

(in millions of Won)

|                          |   | 2013             |                          |                        |                   |            | 2012             |                          |                        |            |
|--------------------------|---|------------------|--------------------------|------------------------|-------------------|------------|------------------|--------------------------|------------------------|------------|
|                          |   | Acquisition cost | Accumulated depreciation | Accumulated impairment | Government grants | Book value | Acquisition cost | Accumulated depreciation | Accumulated impairment | Book value |
| Land                     | ₩ | 1,397,271        | -                        | -                      | -                 | 1,397,271  | 1,367,822        | -                        | -                      | 1,367,822  |
| Buildings                |   | 5,433,167        | (2,794,762)              | (631)                  | -                 | 2,637,774  | 5,287,226        | (2,552,379)              | (8)                    | 2,734,839  |
| Structures               |   | 4,277,603        | (1,808,087)              | (470)                  | -                 | 2,469,046  | 3,742,988        | (1,629,238)              | -                      | 2,113,750  |
| Machinery and equipment  |   | 32,428,259       | (19,221,165)             | (4,384)                | -                 | 13,202,710 | 30,838,413       | (17,949,647)             | (152)                  | 12,888,614 |
| Vehicles                 |   | 189,666          | (178,897)                | -                      | -                 | 10,769     | 184,858          | (171,819)                | -                      | 13,039     |
| Tools                    |   | 188,204          | (162,524)                | -                      | -                 | 25,680     | 180,045          | (150,352)                | -                      | 29,693     |
| Furniture and fixtures   |   | 254,663          | (206,987)                | (282)                  | -                 | 47,394     | 253,742          | (186,306)                | (5)                    | 67,431     |
| Finance lease assets     |   | 11,466           | (4,459)                  | -                      | -                 | 7,007      | 11,466           | (3,822)                  | -                      | 7,644      |
| Construction-in-progress |   | 3,447,952        | -                        | -                      | (5,000)           | 3,442,952  | 2,943,903        | -                        | -                      | 2,943,903  |
| Total                    | ₩ | 47,628,251       | (24,376,881)             | (5,767)                | (5,000)           | 23,240,603 | 44,810,463       | (22,643,563)             | (165)                  | 22,166,735 |

(b) Changes in the carrying value of property, plant and equipment for the years ended December 31, 2013 and 2012 were as follows:

1) For the year ended December 31, 2013

(in millions of Won)

|                          |   | <b>Beginning</b> | <b>Acquisitions</b> | <b>Disposals</b> | <b>Depreciation</b> | <b>Others(*1)</b> | <b>Ending</b> |
|--------------------------|---|------------------|---------------------|------------------|---------------------|-------------------|---------------|
| 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     |
| Total                    | ₩ | 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 intangible assets and other property, plant and equipment and investment property.

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

2) For the year ended December 31, 2012

| <i>(in millions of Won)</i> |   | <u>Beginning</u>  | <u>Acquisitions</u> | <u>Disposals</u> | <u>Depreciation</u> | <u>Others&gt;(*1)</u> | <u>Ending</u>     |
|-----------------------------|---|-------------------|---------------------|------------------|---------------------|-----------------------|-------------------|
| Land                        | ₩ | 1,275,564         | -                   | (10,242)         | -                   | 102,500               | 1,367,822         |
| Buildings                   |   | 2,831,757         | 7,512               | (5,269)          | (237,038)           | 137,877               | 2,734,839         |
| Structures                  |   | 2,061,348         | 11,448              | (21,146)         | (165,632)           | 227,732               | 2,113,750         |
| Machinery and equipment     |   | 12,916,329        | 80,565              | (49,789)         | (1,382,901)         | 1,324,410             | 12,888,614        |
| Vehicles                    |   | 19,341            | 256                 | (22)             | (7,893)             | 1,357                 | 13,039            |
| Tools                       |   | 38,022            | 2,367               | (2)              | (15,123)            | 4,429                 | 29,693            |
| Furniture and fixtures      |   | 72,334            | 4,726               | (156)            | (28,484)            | 19,011                | 67,431            |
| Finance lease assets        |   | 8,281             | -                   | -                | (637)               | -                     | 7,644             |
| Construction-in-progress    |   | 2,310,159         | 2,452,832           | -                | -                   | (1,819,088)           | 2,943,903         |
| Total                       | ₩ | <u>21,533,135</u> | <u>2,559,706</u>    | <u>(86,626)</u>  | <u>(1,837,708)</u>  | <u>(1,772)</u>        | <u>22,166,735</u> |

(\*1) Represents assets transferred from construction-in-progress to intangible assets and other property, plant and equipment as well as assets transferred from investment property and assets held for sale.

(c) Borrowing costs capitalized and the capitalized interest rate for the years ended December 31, 2013 and 2012 are as follows:

| <i>(in millions of Won)</i>  | <u>2013</u> | <u>2012</u> |
|------------------------------|-------------|-------------|
| Weighted average expenditure | 2,894,479   | 1,469,474   |
| Borrowing costs capitalized  | 137,221     | 66,371      |
| Capitalization rate          | 4.74%       | 4.52%       |

**15. Intangible Assets, Net**

(a) Intangible assets as of December 31, 2013, December 31, 2012 are as follows:

| <i>(in millions of Won)</i>  |   | <u>2013</u>             |                                 |                               |                   | <u>2012</u>             |                                 |                               |                   |
|------------------------------|---|-------------------------|---------------------------------|-------------------------------|-------------------|-------------------------|---------------------------------|-------------------------------|-------------------|
|                              |   | <u>Acquisition cost</u> | <u>Accumulated amortization</u> | <u>Accumulated impairment</u> | <u>Book value</u> | <u>Acquisition cost</u> | <u>Accumulated amortization</u> | <u>Accumulated impairment</u> | <u>Book value</u> |
| Intellectual property rights | ₩ | 18,970                  | (5,158)                         | -                             | 13,812            | 12,490                  | (3,586)                         | -                             | 8,904             |
| Membership                   |   | 55,672                  | -                               | (6,795)                       | 48,877            | 55,775                  | -                               | (6,215)                       | 49,560            |
| Development expense          |   | 95,514                  | (66,046)                        | -                             | 29,468            | 79,982                  | (49,890)                        | -                             | 30,092            |
| Port facilities usage rights |   | 509,375                 | (337,166)                       | -                             | 172,209           | 414,884                 | (326,901)                       | -                             | 87,983            |
| Construction-in-progress     |   | 153,719                 | -                               | -                             | 153,719           | 96,035                  | -                               | -                             | 96,035            |
| Other intangible assets      |   | 280,804                 | (260,106)                       | -                             | 20,698            | 338,491                 | (317,224)                       | -                             | 21,267            |
| Total                        | ₩ | <u>1,114,054</u>        | <u>(668,476)</u>                | <u>(6,795)</u>                | <u>438,783</u>    | <u>997,657</u>          | <u>(697,601)</u>                | <u>(6,215)</u>                | <u>293,841</u>    |

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

(b) Changes in carrying values of intangible assets for the years ended December 31, 2013 and 2012 were as follows:

1) For the year ended December 31, 2013

(in millions of Won)

|                              |   | <u>Beginning</u> | <u>Acquisitions</u> | <u>Disposals</u> | <u>Amortization</u> | <u>Impairment(*2)</u> | <u>Transfer(*3)</u> | <u>Ending</u>  |
|------------------------------|---|------------------|---------------------|------------------|---------------------|-----------------------|---------------------|----------------|
| 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.

2) For the year ended December 31, 2012

(in millions of Won)

|                              |   | <u>Beginning</u> | <u>Acquisitions</u> | <u>Disposals</u> | <u>Amortization</u> | <u>Impairment(*2)</u> | <u>Transfer(*3)</u> | <u>Ending</u>  |
|------------------------------|---|------------------|---------------------|------------------|---------------------|-----------------------|---------------------|----------------|
| Intellectual property rights | ₩ | 6,376            | 400                 | (494)            | (1,053)             | -                     | 3,675               | 8,904          |
| Membership(*1)               |   | 44,523           | 767                 | (992)            | -                   | (6,495)               | 11,757              | 49,560         |
| Development expense          |   | 29,182           | 548                 | -                | (16,905)            | -                     | 17,267              | 30,092         |
| Port facilities usage rights |   | 99,553           | -                   | -                | (11,570)            | -                     | -                   | 87,983         |
| Construction in progress     |   | 22,000           | 90,269              | -                | -                   | -                     | (16,234)            | 96,035         |
| Other intangible assets      |   | 21,262           | 2,320               | -                | (10,858)            | -                     | 8,543               | 21,267         |
|                              | ₩ | <u>222,896</u>   | <u>94,304</u>       | <u>(1,486)</u>   | <u>(40,386)</u>     | <u>(6,495)</u>        | <u>25,008</u>       | <u>293,841</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. Also represents membership transferred from financial instruments as the estimate for the possibility of membership renewal is changed.

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

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**16. Borrowings**

(a) Borrowings as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

|  | <u>2013</u>        | <u>2012</u>      |
|--|--------------------|------------------|
| <b>Short-term borrowings</b>                                 |                    |                  |
| Short-term borrowings  | ₩ 203,138          | 796,662          |
| Current portion of long-term borrowings                      | 188,381            | 34,769           |
| Current portion of loans from foreign financial institutions | 927                | 901              |
| Current portion of debentures                                | 1,540,109          | 1,283,742        |
| Less : Current portion of discount on debentures issued      | (1,272)            | (1,953)          |
| Add : Current portion of premium on debentures redemption    | -                  | 2,419            |
|  | <u>₩ 1,931,283</u> | <u>2,116,540</u> |
| <b>Long-term borrowings</b>                                  |                    |                  |
| Long-term borrowings   | ₩ 648,251          | 843,015          |
| Loans from foreign financial institution                     | 1,140              | 2,009            |
| Debentures   | 6,107,973          | 6,680,192        |
| Less : Discount on debentures issued                         | (38,167)           | (53,617)         |
| Add : Premium on debentures redemption                       | 12,591             | 15,635           |
|  | <u>₩ 6,731,788</u> | <u>7,487,234</u> |

(b) Short-term borrowings as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

| <u>Bank</u>   | <u>2013</u>      | <u>2012</u>    |
|---|------------------|----------------|
| Royal Bank of Scotland  | ₩ -              | 93,230         |
| Deutsche Bank   | -                | 133,833        |
| Bank of America   | -                | 114,093        |
| DBS Bank  | -                | 121,544        |
| JP Morgan Chase & Co.   | -                | 75,282         |
| Others (Transfer of account receivables<br>not qualify for derecognition) | 203,138          | 258,680        |
|   | <u>₩ 203,138</u> | <u>796,662</u> |

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(c) Current portion of long-term borrowings as of December 31, 2013 and 2012 are as follows:

| <i>(in millions of Won)</i>                  |                           |                           |                           | Annual                   |   |             |                  |                  |
|--|---------------------------|---------------------------|---------------------------|--------------------------|---|-------------|------------------|------------------|
|  | <b>Borrowers</b>          | <b>Issuance date</b>      | <b>Maturity date</b>      | <b>interest rate (%)</b> |   | <b>2013</b> | <b>2012</b>      |                  |
| Borrowings                                   | Woori Bank and others     | 2006.10.31~<br>2013.05.08 | 2017.03.15~<br>2041.05.08 | 0.75~1.75                | ₩ | 14,969      | 12,236           |                  |
| Borrowings                                   | Korea EXIM Bank           | 2010.02.18~<br>2013.07.03 | 2017.02.18~<br>2018.03.23 | 4.09~4.50                |   | 173,412     | 22,533           |                  |
| Loans from foreign<br>financial institutions | NATIXIS(*1)               | 1984.06.30~<br>1986.03.31 | 2014.12.30~<br>2017.03.31 | 2.00                     |   | 927         | 901              |                  |
| Debentures                                   | Domestic debentures 292   | 2009.01.20                | 2014.01.20                | 5.40                     |   | 499,975     | 499,711          |                  |
| Debentures                                   | Global fund 1 and another | 2009.03.26~<br>2011.10.20 | 2014.03.26~<br>2014.10.20 | 1.67~8.75                |   | 1,038,862   | 784,497          |                  |
|  |                           |                           |                           |                          |   | <u>₩</u>    | <u>1,728,145</u> | <u>1,319,878</u> |

(\*1) As of December 31, 2013, 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, 2013 and 2012 are as follows:

| <i>(in millions of Won)</i>                  |                                       |                           |                           | Annual                   |   |             |                  |                  |
|--|---------------------------------------|---------------------------|---------------------------|--------------------------|---|-------------|------------------|------------------|
|  | <b>Borrowers</b>                      | <b>Issuance date</b>      | <b>Maturity date</b>      | <b>interest rate (%)</b> |   | <b>2013</b> | <b>2012</b>      |                  |
| Borrowings                                   | Woori Bank and others(*1)             | 2006.10.31~<br>2013.05.08 | 2017.03.15~<br>2041.05.08 | 0.75~1.75                | ₩ | 71,194      | 85,519           |                  |
| Borrowings                                   | Korea National<br>Oil Corporation     | 2007.12.27~<br>2013.12.30 | 2022.06.25~<br>2026.12.29 | Government bond -2.25    |   | 13,593      | 13,657           |                  |
| Borrowings                                   | Korea EXIM Bank                       | 2010.02.18~<br>2013.07.03 | 2017.02.18~<br>2018.03.23 | 4.09~4.50                |   | 563,464     | 743,839          |                  |
| Loans from foreign<br>financial institutions | NATIXIS(*2)                           | 1986.03.31                | 2017.03.31                | 2.00                     |   | 1,140       | 2,009            |                  |
| Debentures                                   | Domestic debentures 301<br>and others | 2010.08.04~<br>2013.10.04 | 2015.08.04~<br>2023.10.04 | 3.35~4.81                |   | 3,292,417   | 3,092,140        |                  |
| Debentures                                   | Exchangeable Bond(*3)<br>and others   | 2006.08.10~<br>2013.12.11 | 2016.08.10~<br>2021.12.22 | 0~5.88                   |   | 2,789,980   | 3,550,070        |                  |
|  |                                       |                           |                           |                          |   | <u>₩</u>    | <u>6,731,788</u> | <u>7,487,234</u> |

(\*1) Short-term financial instruments amounting to ₩4,700 million and ₩3,400 million, respectively, are collateral for long-term borrowings from National Forestry Cooperatives Federation as of December 31, 2013 and 2012.

(\*2) As of December 31, 2013, Korea Development Bank has provided guarantees to the Company for loans from foreign financial institutions.

(\*3) The Company issued bonds exchangeable to SK Telecom Co., Ltd. ADRs through Zeus (Cayman) Ltd., an SPV. The Company accounted for these exchangeable bonds as long-term borrowings. The Company provides guarantees for Zeus (Cayman) Ltd.

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
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**17. Other Payables**

Other payables as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

|                            | <u>2013</u>      | <u>2012</u>      |
|----------------------------|------------------|------------------|
| Current                    |                  |                  |
| Accounts payable           | ₩ 463,196        | 826,075          |
| Accrued expenses(*1)       | 306,723          | 427,314          |
| Dividend payable           | 9,180            | 6,493            |
| Finance lease liabilities  | 1,124            | 1,088            |
| Withholdings               | 11,660           | 9,070            |
|                            | <u>₩ 791,883</u> | <u>1,270,040</u> |
| Non-current                |                  |                  |
| Long-term accounts payable | ₩ 91,827         | 88,938           |
| Accrued expenses           | 22,922           | 24,664           |
| Finance lease liabilities  | 5,042            | 6,246            |
| Long-term withholdings     | 4,888            | 8,964            |
|                            | <u>₩ 124,679</u> | <u>128,812</u>   |

(\*1) During the year ended December 31, 2012, a fine of ₩98,326 million was imposed for price-fixing galvanized steel sheets as a result of the Korea Fair Trade Commission's investigation.

**18. Other Financial Liabilities**

Other financial liabilities as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

|                                    | <u>2013</u>      | <u>2012</u>   |
|------------------------------------|------------------|---------------|
| Current                            |                  |               |
| Derivative instruments liabilities | ₩ 36,964         | 9,499         |
| Financial guarantee liabilities    | 9,045            | 7,393         |
|                                    | <u>₩ 46,009</u>  | <u>16,892</u> |
| Non-current                        |                  |               |
| Derivative instruments liabilities | ₩ 175,463        | 31,256        |
| Financial guarantee liabilities    | 56,076           | 41,664        |
|                                    | <u>₩ 231,539</u> | <u>72,920</u> |

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

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**19. Provisions**

Changes in provisions for the years ended December 31, 2013 and 2012 were as follows:

1) For the year ended December 31, 2013

| <i>(in millions of Won)</i>                  |   | <u>Beginning</u> | <u>Increase</u> | <u>Utilization</u> | <u>Ending</u> |
|--|---|------------------|-----------------|--------------------|---------------|
| Estimated allowance at the end of period(*1) | ₩ | 6,239            | 12,428          | (10,166)           | 8,501         |

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

2) For the year ended December 31, 2012

| <i>(in millions of Won)</i>                  |   | <u>Beginning</u> | <u>Increase</u> | <u>Utilization</u> | <u>Ending</u> |
|--|---|------------------|-----------------|--------------------|---------------|
| Estimated allowance at the end of period(*1) | ₩ | 4,451            | 241,498         | (239,710)          | 6,239         |

(\*1) Represents the provision for bonuses for all employees.

**20. Employee Benefits**

(a) Defined contribution plans

The Company operates a defined contribution plan for participating employees. Though the Company pays fixed contributions into a separate fund, employee benefits relating to employee service rendered is based on the contributions to the funds and the investment earnings on it. Plan assets are managed by a trustee within a fund separate from the Company's assets.

The expenses related to post-employment benefit under defined contribution plans for the years ended December 31, 2013 and 2012 were as follows:

| <i>(in millions of Won)</i>   |   | <u>2013</u> | <u>2012</u> |
|---|---|-------------|-------------|
| Expense related to post-employment benefit under defined contribution plans | ₩ | 15,903      | 13,032      |

(b) Defined benefit plans

The Company also operates a defined benefit pension plan for employees. The employees who chose a defined benefit pension plan will receive a defined payment upon termination of their employment if they fulfill the condition to qualify as a recipient. Before the termination of employment, the Company recognizes the pension liability related to defined benefit plans at the end of the reporting period, and measures it at the present value of the defined benefit obligation less the fair value of the plan assets. The Company uses the projected unit credit method in the actuarial valuation of plan assets and the defined benefit obligation.

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

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(c) The amounts recognized in relation to net defined benefit liabilities in the statements of financial position as of December 31, 2013 and 2012 are as follows:

| <i>(in millions of Won)</i>         | <u>2013</u>      | <u>2012</u>      |
|-------------------------------------|------------------|------------------|
| Present value of funded obligations | ₩ 905,918        | 817,618          |
| Fair value of plan assets           | <u>(805,268)</u> | <u>(677,362)</u> |
| Net defined benefit liabilities     | <u>₩ 100,650</u> | <u>140,256</u>   |

(d) The changes in present value of defined benefit obligations for the years ended December 31, 2013 and 2012 were as follows:

| <i>(in millions of Won)</i>                           | <u>2013</u>      | <u>2012</u>     |
|---|------------------|-----------------|
| Defined benefit obligation at the beginning of period | ₩ 817,618        | 690,321         |
| Current service costs                                 | 118,975          | 99,066          |
| Interest costs  | 27,942           | 31,156          |
| Remeasurement :                                       | 11,553           | 63,184          |
| - Loss from change in financial assumptions           | 13,555           | 74,728          |
| - Loss(Gain) from change in demographic assumptions   | 277              | (1,640)         |
| - Others  | (2,279)          | (9,904)         |
| Benefits paid   | <u>(70,170)</u>  | <u>(66,109)</u> |
| Defined benefit obligation at the end of period       | <u>₩ 905,918</u> | <u>817,618</u>  |

(e) The changes in the fair value of plan assets for the years ended December 31, 2013 and 2012 were as follows:

| <i>(in millions of Won)</i>                          | <u>2013</u>      | <u>2012</u>     |
|--|------------------|-----------------|
| Fair value of plan assets at the beginning of period | ₩ 677,362        | 513,673         |
| Interest on plan assets                              | 24,261           | 23,115          |
| Remeasurement of plan assets                         | 86               | 2,732           |
| Contributions to plan assets(*1)                     | 140,000          | 180,000         |
| Benefits paid  | <u>(36,441)</u>  | <u>(42,158)</u> |
| Fair value of plan assets at the end of period       | <u>₩ 805,268</u> | <u>677,362</u>  |

(\*1) The Company expects to make a contribution of ₩140,000 million to the defined benefit plan assets in 2014.

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

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(f) The fair value of plan assets as of December 31, 2013 and 2012 are as follows:

| <i>(in millions of Won)</i> | <u>2013</u>      | <u>2012</u>    |
|-----------------------------|------------------|----------------|
| Deposits                    | ₩ 805,202        | 677,296        |
| Others                      | 66               | 66             |
| Total                       | <u>₩ 805,268</u> | <u>677,362</u> |

(g) The amounts recognized in the statements of comprehensive income for the years ended December 31, 2013 and 2012 were as follows:

| <i>(in millions of Won)</i> | <u>2013</u>      | <u>2012</u>    |
|-----------------------------|------------------|----------------|
| Current service costs       | ₩ 118,975        | 99,066         |
| Net interest costs(*1)      | 3,681            | 8,041          |
|                             | <u>₩ 122,656</u> | <u>107,107</u> |

(\*1) The actual return on plan assets amounted to ₩24,347 million and ₩25,847 million for the years ended December 31, 2013 and 2012, respectively.

The above expenses by function were as follows:

| <i>(in millions of Won)</i>         | <u>2013</u>      | <u>2012</u>    |
|-------------------------------------|------------------|----------------|
| Cost of sales                       | ₩ 97,490         | 85,298         |
| Selling and administrative expenses | 23,834           | 20,897         |
| Others                              | 1,332            | 912            |
| Total                               | <u>₩ 122,656</u> | <u>107,107</u> |

(h) Actuarial gains (losses), net of tax recognized in other comprehensive income for the year ended December 31, 2013 and 2012 were as follows:

| <i>(in millions of Won)</i> | <u>2013</u>        | <u>2012</u>      |
|-----------------------------|--------------------|------------------|
| Beginning                   | ₩ (149,770)        | (103,947)        |
| Current actuarial losses    | (11,467)           | (60,452)         |
| Tax effects                 | 2,775              | 14,629           |
| Ending                      | <u>₩ (158,462)</u> | <u>(149,770)</u> |

**POSCO**  
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(i) The principal actuarial assumptions as of December 31, 2013 and 2012 are as follows:

|   | <u>2013</u> | <u>2012</u> |
|---|-------------|-------------|
| Discount rate(*1)                         | 3.95%       | 3.47%       |
| Expected future increases in salaries(*2) | 3.30%       | 3.30%       |

(\*1) Discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of our benefits obligations and that are denominated in the same currency in which the benefits are expected to be paid.

(\*2) The expected future increases in salaries are based on the average salary increase rate for past three years.

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

(j) 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:

| <i>(in millions of Won)</i>           | <u>1% Increase</u> |                      | <u>1% Decrease</u> |                      |
|---------------------------------------|--------------------|----------------------|--------------------|----------------------|
|                                       | <u>Amount</u>      | <u>Percentage(%)</u> | <u>Amount</u>      | <u>Percentage(%)</u> |
| Discount rate                         | ₩ (65,987)         | (7.3)                | ₩ 75,505           | 8.3                  |
| Expected future increases in salaries | 75,234             | 8.3                  | (66,959)           | (7.4)                |

(k) As of December 31, 2013 the maturity of the expected benefit payments are as follows :

| <i>(in millions of Won)</i> | <u>Within</u> | <u>1 year</u>    | <u>5 years</u>    | <u>10 years</u>   | <u>Later than</u> | <u>Total</u> |
|-----------------------------|---------------|------------------|-------------------|-------------------|-------------------|--------------|
|                             | <u>1 year</u> | <u>- 5 years</u> | <u>- 10 years</u> | <u>- 20 years</u> | <u>20 years</u>   |              |
| Benefits paid               | ₩ 1,897       | 72,674           | 315,343           | 702,647           | 168,978           | ₩ 1,261,539  |

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

**21. Other Liabilities**

Other liabilities as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

|                    | <u>2013</u>    | <u>2012</u>   |
|--------------------|----------------|---------------|
| <b>Current</b>     |                |               |
| Advances received  | ₩ 20,912       | 44,488        |
| Withholding        | 15,905         | 20,962        |
| Unearned revenue   | 1,292          | 5,415         |
|                    | <u>38,109</u>  | <u>70,865</u> |
| <b>Non-current</b> |                |               |
| Unearned revenue   | 538            | 842           |
| Others             | 3,000          | 3,000         |
|                    | <u>₩ 3,538</u> | <u>3,842</u>  |

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
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**22. Financial Instruments**

(a) Classification of financial instruments

1) Financial assets as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

|   | <u>2013</u>         | <u>2012</u>      |
|---|---------------------|------------------|
| Financial assets at fair value through profit or loss |                     |                  |
| Derivatives assets held for trading                   | ₩ 7,788             | 6,016            |
| Available-for-sale financial assets                   | 3,354,770           | 3,062,057        |
| Held-to-maturity investments                          | -                   | 29,981           |
| Loans and receivables                                 | 7,263,709           | 6,833,586        |
|   | <u>₩ 10,626,267</u> | <u>9,931,640</u> |

2) Financial liabilities as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

|  | <u>2013</u>         | <u>2012</u>       |
|--|---------------------|-------------------|
| Financial liabilities at fair value through profit or loss |                     |                   |
| Derivatives liabilities held for trading                   | ₩ 212,427           | 40,755            |
| Financial liabilities measured as amortized cost           |                     |                   |
| Trade accounts and notes payable                           | 735,457             | 978,581           |
| Borrowings   | 8,663,071           | 9,603,774         |
| Financial guarantee liabilities(*1)                        | 65,121              | 49,057            |
| Others   | 916,562             | 1,300,526         |
|  | <u>10,380,211</u>   | <u>11,931,938</u> |
|  | <u>₩ 10,592,638</u> | <u>11,972,693</u> |

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(\*1) Financial liabilities were recognized in connection with financial guarantee contracts as of December 31, 2013. The details of the amount of guarantees provided are as follows:

(in millions of Won)

| Guarantee beneficiary                            | Financial institution                        | Foreign currency | Won equivalent |               |           |
|--|--|------------------|----------------|---------------|-----------|
| POSCO(Guangdong)<br>Automotive Steel Co., Ltd.   | ANZ  | USD              | 10,000,000     | 10,553        |           |
|  | BOA  | USD              | 30,000,000     | 31,659        |           |
|  | BTMU   | USD              | 24,000,000     | 25,327        |           |
|  | DBS  | USD              | 35,000,000     | 36,936        |           |
|  | ING  | USD              | 23,600,000     | 24,905        |           |
|  | SMBC   | USD              | 35,000,000     | 36,936        |           |
| Zhangjiagang Pohang<br>Stainless Steel Co., Ltd. | BTMU   | USD              | 30,000,000     | 31,659        |           |
|  | Credit Agricole                              | USD              | 50,000,000     | 52,765        |           |
|  | Mizuho                                       | USD              | 80,000,000     | 84,424        |           |
| POSCO Maharashtra<br>Steel Pvt. Ltd.             | Citi   | USD              | 60,000,000     | 63,318        |           |
|  | DBS  | USD              | 100,000,000    | 105,530       |           |
|  | HSBC   | USD              | 80,000,000     | 84,424        |           |
|  | ING  | USD              | 30,000,000     | 31,659        |           |
|  | KDB  | USD              | 30,000,000     | 31,659        |           |
|  | Export-Import Bank of Korea                  | USD              | 193,000,000    | 203,673       |           |
|  | SC   | USD              | 40,000,000     | 42,212        |           |
|  | SCB  | USD              | 33,069,000     | 34,898        |           |
|  | POSCO ASSAN TST STEEL Industry               | SMBC and others  | USD            | 188,392,500   | 198,811   |
|  | POSCO Electrical Steel India Private Limited | ING and others   | USD            | 83,784,000    | 88,417    |
| POSCO Investment Co., Ltd.                       | BOC  | CNY              | 350,000,000    | 60,932        |           |
|  | BOA  | USD              | 45,000,000     | 47,489        |           |
|  | BTMU   | USD              | 30,000,000     | 31,659        |           |
|  | HSBC   | USD              | 50,000,000     | 52,765        |           |
|  | ING  | USD              | 30,000,000     | 31,659        |           |
|  | JP Morgan                                    | USD              | 50,000,000     | 52,765        |           |
|  | SCB  | USD              | 45,000,000     | 47,489        |           |
|  | SMBC   | USD              | 30,000,000     | 31,659        |           |
|  | POSCO-Mexico S.A. DE C.V                     | BOA              | USD            | 40,000,000    | 42,212    |
|  |  | HSBC             | USD            | 40,000,000    | 42,212    |
|  |  | KDB              | USD            | 50,000,000    | 52,765    |
|  |  | Mizuho           | USD            | 45,000,000    | 47,489    |
|  |  | SMBC             | USD            | 69,725,000    | 73,581    |
| POSCO-Vietnam Co., Ltd.                          | Export-Import Bank of Korea                  | USD              | 196,000,000    | 206,839       |           |
| POSCO VST Co., Ltd.                              | ANZ  | USD              | 25,000,000     | 26,383        |           |
|  | HSBC   | USD              | 20,000,000     | 21,106        |           |
|  | Mizuho                                       | USD              | 20,000,000     | 21,106        |           |
| POSUK Titanium LLP                               | Shinhan Bank                                 | USD              | 18,000,000     | 18,995        |           |
| PT. KRAKATAU POSCO                               | ANZ  | USD              | 73,500,000     | 77,565        |           |
|  | BOA  | USD              | 35,000,000     | 36,936        |           |
|  | BTMU   | USD              | 119,000,000    | 125,581       |           |
|  | Credit Suisse AG                             | USD              | 91,000,000     | 96,032        |           |
|  | HSBC   | USD              | 91,000,000     | 96,032        |           |
|  | Export-Import Bank of Korea                  | USD              | 567,000,000    | 598,355       |           |
|  | Mizuho                                       | USD              | 105,000,000    | 110,807       |           |
|  | SCB  | USD              | 107,800,000    | 113,760       |           |
|  | SMBC   | USD              | 140,000,000    | 147,741       |           |
|  | The Tokyo Star Bank, Ltd.                    | USD              | 21,000,000     | 22,160        |           |
|  | United Spiral Pipe, LLC                      | Shinhan Bank     | USD            | 24,500,000    | 25,854    |
|  |  |                  | USD            | 3,334,370,500 | 3,518,761 |
|  |  | CNY              | 350,000,000    | 60,932        |           |

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

3) Finance income and costs by category of financial instrument for the year ended December 31, 2013 and 2012 were as follows:

① December 31, 2013

(in millions of Won)

|  | Finance income and costs |                     |  |  |                           |           |           | Other comprehensive income |
|--|--------------------------|---------------------|--|--|---------------------------|-----------|-----------|----------------------------|
|  | Interest income (cost)   | Dividend income(*1) | Gain and loss on foreign currency transactions | Gain and loss on foreign currency translations | Gain and loss on disposal | Others    | Total     |                            |
| Financial assets at fair value through profit or loss      | ₩ -                      | -                   | -  | -  | 8,869                     | 1,773     | 10,642    | -                          |
| Available-for-sale financial assets                        | 4,568                    | 45,829              | -  | -  | 97,013                    | (170,805) | (23,395)  | 400,577                    |
| Held-to-maturity investments                               | 367                      | -                   | -  | -  | -                         | -         | 367       | -                          |
| Loans and receivables                                      | 101,737                  | -                   | (8,194)  | (11,425)                                       | (80)                      | (898)     | 81,140    | -                          |
| Financial liabilities at fair value through profit or loss | -                        | -                   | -  | -  | -                         | (195,719) | (195,719) | -                          |
| Financial liabilities at amortized cost                    | (271,020)                | -                   | 46,749   | 257,880  | -                         | (314)     | 33,295    | -                          |
|  | ₩ (164,348)              | 45,829              | 38,555   | 246,455  | 105,802                   | (365,963) | (93,670)  | 400,577                    |

(\*1) 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.

② December 31, 2012

(in millions of Won)

|  | Finance income and costs |                     |  |  |                           |          |          | Other comprehensive loss |
|--|--------------------------|---------------------|--|--|---------------------------|----------|----------|--------------------------|
|  | Interest income (cost)   | Dividend income(*1) | Gain and loss on foreign currency transactions | Gain and loss on foreign currency translations | Gain and loss on disposal | Others   | Total    |                          |
| Financial assets at fair value through profit or loss      | ₩ -                      | -                   | -  | -  | (1,084)                   | 6,016    | 4,932    | -                        |
| Available-for-sale financial assets                        | 970                      | 110,897             | -  | -  | 72,028                    | (63,466) | 120,429  | (153,345)                |
| Held-to-maturity investments                               | 1,580                    | -                   | -  | -  | -                         | -        | 1,580    | -                        |
| Loans and receivables                                      | 111,263                  | -                   | (62,901)                                       | (24,476)                                       | (182)                     | (569)    | 23,135   | -                        |
| Financial liabilities at fair value through profit or loss | -                        | -                   | -  | -  | -                         | (27,984) | (27,984) | -                        |
| Financial liabilities at amortized cost                    | (391,767)                | -                   | 126,193  | 628,822  | -                         | (606)    | 362,642  | -                        |
|  | ₩ (277,954)              | 110,897             | 63,292   | 604,346  | 70,762                    | (86,609) | 484,734  | (153,345)                |

(\*1) Finance income in the statement of comprehensive income includes the dividends from subsidiaries, associates, and joint ventures of ₩112,514 million for the year ended December 31, 2012.

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

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(b) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the Company's maximum exposure to credit risk. The maximum exposures to credit risk as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

|   | <u>2013</u>        | <u>2012</u>      |
|---|--------------------|------------------|
| Cash and cash equivalents                             | ₩ 1,394,315        | 1,752,560        |
| Financial assets at fair value through profit or loss | 7,788              | 6,016            |
| Available-for-sale financial assets                   | 20,855             | 119,142          |
| Held-to-maturity investments                          | -                  | 29,981           |
| Loans and other receivables                           | 2,471,486          | 993,722          |
| Trade accounts and notes receivable                   | 3,393,444          | 4,087,030        |
| Long-term trade accounts and notes receivable         | 4,464              | 274              |
|   | <u>₩ 7,292,352</u> | <u>6,988,725</u> |

The Company provided financial guarantees for the repayment of loans of subsidiaries, associates, and joint ventures. As of December 31, 2013 and 2012, the maximum exposure to credit risk amounted to ₩3,579,693 million and ₩3,651,631 million, respectively.

2) Impairment losses on financial assets

① Allowance for doubtful accounts as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

|                                     | <u>2013</u>     | <u>2012</u>   |
|-------------------------------------|-----------------|---------------|
| Trade accounts and notes receivable | ₩ 10,100        | 12,204        |
| Other accounts receivable           | 10,571          | 10,571        |
| Long-term loans                     | 14,453          | 14,453        |
| Other assets                        | 13              | 13            |
|                                     | <u>₩ 35,137</u> | <u>37,241</u> |

② Impairment losses on financial assets for the years ended December 31, 2013 and 2012 were as follows:

*(in millions of Won)*

|  | <u>2013</u>      | <u>2012</u>   |
|--|------------------|---------------|
| Bad debt expenses                                | ₩ 3,980          | 10,613        |
| Impairment loss on available-for-sale securities | 170,805          | 63,466        |
|  | <u>₩ 174,785</u> | <u>74,079</u> |

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

- ③ The aging schedule and the impaired losses of trade accounts and notes receivable as of December 31, 2013 and 2012 are as follows:

(in millions of Won)

|                            | 2013                                |               | 2012                     |               |
|----------------------------|-------------------------------------|---------------|--------------------------|---------------|
|                            | Trade accounts and notes receivable | Impairment    | Trade accounts and notes | Impairment    |
| Not due                    | ₩ 3,072,283                         | -             | 3,758,894                | -             |
| Over due less than 1 month | 68,759                              | 58            | 120,848                  | 11            |
| 1 month - 3 months         | 26,657                              | 674           | 103,407                  | 584           |
| 3 months - 12 months       | 174,479                             | 1,241         | 102,255                  | 9,458         |
| over 12 months             | 65,830                              | 8,127         | 14,104                   | 2,151         |
|                            | <u>₩ 3,408,008</u>                  | <u>10,100</u> | <u>4,099,508</u>         | <u>12,204</u> |

- ④ Changes in the allowance for doubtful accounts for the years ended December 31, 2013 and 2012 were as follows:

(in millions of Won)

|                   | 2013            | 2012          |
|-------------------|-----------------|---------------|
| Beginning         | ₩ 37,241        | 27,212        |
| Bad debt expenses | 3,980           | 10,613        |
| Others            | (6,084)         | (584)         |
| Ending            | <u>₩ 35,137</u> | <u>37,241</u> |

(c) Liquidity risk

- 1) Contractual maturities for non-derivative financial liabilities, including estimated interest, are as follows:

(in millions of Won)

|                                     | Book value          | Contractual cash flow(*3) | Within 3 months  | 3 months - 6 months | 6 months - 1 year | 1 year - 5 years | Later than 5 years |
|-------------------------------------|---------------------|---------------------------|------------------|---------------------|-------------------|------------------|--------------------|
| Trade accounts payable              | ₩ 735,457           | 735,457                   | 735,457          | -                   | -                 | -                | -                  |
| Borrowings(*1)                      | 8,663,071           | 9,827,387                 | 1,563,946        | 90,360              | 567,062           | 5,247,369        | 2,358,650          |
| Financial guarantee liabilities(*2) | 65,121              | 3,579,693                 | 3,579,693        | -                   | -                 | -                | -                  |
| Other financial liabilities         | 916,562             | 919,516                   | 779,375          | 279                 | 12,229            | 127,633          | -                  |
|                                     | <u>₩ 10,380,211</u> | <u>15,062,053</u>         | <u>6,658,471</u> | <u>90,639</u>       | <u>579,291</u>    | <u>5,375,002</u> | <u>2,358,650</u>   |

- (\*1) Includes cash flows of embedded derivatives instruments in relation to exchangeable bonds (exchange right).  
(\*2) For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.  
(\*3) Includes estimated interest.

- 2) The maturity analysis of derivative financial liabilities is as follows:

(in millions of Won)

|                  | Within 3 months | 3 months - 6 months | 6 months - 1 year | Later than 1 years | Total         |
|------------------|-----------------|---------------------|-------------------|--------------------|---------------|
| Currency futures | ₩ 6,611         | -                   | -                 | -                  | 6,611         |
| Currency swaps   | -               | -                   | 30,353            | -                  | 30,353        |
|                  | <u>₩ 6,611</u>  | <u>-</u>            | <u>30,353</u>     | <u>-</u>           | <u>36,964</u> |

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

(d) Currency risk

1) The Company has exposure to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The exposure to currency risk as of December 31, 2013 and 2012 are as follows:

| <i>(in millions of Won)</i> | <b>2013</b>        |                  | <b>2012</b>      |                  |
|-----------------------------|--------------------|------------------|------------------|------------------|
|                             | Assets             | Liabilities      | Assets           | Liabilities      |
| USD                         | ₩ 701,159          | 3,815,529        | 876,780          | 4,599,558        |
| JPY                         | 450,938            | 1,370,603        | 62,602           | 1,863,516        |
| CNH                         | 76,678             | -                | -                | -                |
| EUR                         | 7,208              | 3,131            | 25,127           | 5,554            |
| Others                      | 38,337             | 226              | 46,306           | 149              |
|                             | <u>₩ 1,274,320</u> | <u>5,189,489</u> | <u>1,010,815</u> | <u>6,468,777</u> |

2) As of December 31, 2013 and 2012, provided that functional currency against foreign currencies other than functional currency hypothetically strengthens or weakens by 10%, the changes in gain or loss during the years ended December 31, 2013 and 2012 were as follows:

| <i>(in millions of Won)</i> | <b>2013</b>  |              | <b>2012</b>  |              |
|-----------------------------|--------------|--------------|--------------|--------------|
|                             | 10% increase | 10% decrease | 10% increase | 10% decrease |
| USD                         | ₩ (311,437)  | 311,437      | (372,278)    | 372,278      |
| JPY                         | (91,967)     | 91,967       | (180,091)    | 180,091      |
| CNH                         | 7,668        | (7,668)      | -            | -            |
| EUR                         | 408          | (408)        | 1,957        | (1,957)      |

(e) Interest rate risk

1) The carrying amount of interest-bearing financial instruments as of December 31, 2013 and 2012 are as follows:

| <i>(in millions of Won)</i> | <b>2013</b>          | <b>2012</b>        |
|-----------------------------|----------------------|--------------------|
| Fixed rate                  |                      |                    |
| Financial assets            | ₩ 3,773,978          | 2,752,342          |
| Financial liabilities       | (8,580,517)          | (9,508,984)        |
|                             | <u>₩ (4,806,539)</u> | <u>(6,756,642)</u> |
| Variable rate               |                      |                    |
| Financial liabilities       | ₩ (82,554)           | (94,790)           |

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

The Company does not account for derivative instruments such as interest swaps as hedges in fair value hedging accounting. Therefore, fluctuations in interest rates do not affect gain or loss.

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

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

As of December 31, 2013 and 2012, provided that other factors remain the same and the interest rate of borrowings with floating rates increases or decreases by 1%, the changes in interest expense for the year ended December 31, 2013 and 2012 were as follows:

| <i>(in millions of Won)</i>         | 2013        |             | 2012        |             |
|-------------------------------------|-------------|-------------|-------------|-------------|
|                                     | 1% increase | 1% decrease | 1% increase | 1% decrease |
| Variable rate financial instruments | (826)       | 826         | (948)       | 948         |

(h) Offsetting financial assets and financial liabilities

As of December 31, 2013 and 2012, financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows:

1) December 31, 2013

| <i>(in millions of Won)</i>                | Gross amounts of recognized financial instruments | Gross amounts of recognized financial instruments set off in the statement of financial position | Net amounts of financial instruments presented in the statement of financial position | Related amounts not set off in the statement of financial position |                                     | Net amount |
|--|---|--|---|--|-------------------------------------|------------|
|  |   |  |   | Financial Instruments  | Cash collateral received or pledged |            |
| Financial Assets                           |   |  |   |  |                                     |            |
| Trade accounts and notes receivable, net ₩ | 203,138   | -  | 203,138   | (203,138)  | -                                   | -          |
| Financial Liabilities                      |   |  |   |  |                                     |            |
| Short-term borrowings                      | 203,138   | -  | 203,138   | (203,138)  | -                                   | -          |

2) December 31, 2012

| <i>(in millions of Won)</i>                | Gross amounts of recognized financial instruments | Gross amounts of recognized financial instruments set off in the statement of financial position | Net amounts of financial instruments presented in the statement of financial position | Related amounts not set off in the statement of financial position |                                     | Net amount |
|--|---|--|---|--|-------------------------------------|------------|
|  |   |  |   | Financial Instruments  | Cash collateral received or pledged |            |
| Financial Assets                           |   |  |   |  |                                     |            |
| Trade accounts and notes receivable, net ₩ | 258,680   | -  | 258,680   | (258,680)  | -                                   | -          |
| Financial Liabilities                      |   |  |   |  |                                     |            |
| Short-term borrowings                      | 258,680   | -  | 258,680   | (258,680)  | -                                   | -          |

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

(g) Fair value

1) Fair value and book value

The carrying amount and the fair value of financial instruments as of December 31, 2013 and 2012 are as follows :

| <i>(in millions of Won)</i>                  | <b>2013</b>         |                   | <b>2012</b>         |                   |
|--|---------------------|-------------------|---------------------|-------------------|
|  | <u>Book Value</u>   | <u>Fair Value</u> | <u>Book Value</u>   | <u>Fair Value</u> |
| Assets measured at fair value                |                     |                   |                     |                   |
| Available-for-sale financial assets(*1)      | ₩ 3,224,711         | 3,224,711         | ₩ 2,853,766         | 2,853,766         |
| Derivatives assets held for trading(*2)      | 7,788               | 7,788             | 6,016               | 6,016             |
|  | <u>3,232,499</u>    | <u>3,232,499</u>  | <u>2,859,782</u>    | <u>2,859,782</u>  |
| Assets measured amortised cost(*3)           |                     |                   |                     |                   |
| Cash and cash equivalents                    | 1,394,315           | 1,394,315         | 1,752,560           | 1,752,560         |
| Trade accounts and note receivable, net      | 3,397,908           | 3,397,908         | 4,087,304           | 4,087,304         |
| Loans and other receivables                  | 2,471,486           | 2,471,486         | 993,722             | 993,722           |
| Held-to-maturity investments                 | -                   | -                 | 29,981              | 29,981            |
|  | <u>7,263,709</u>    | <u>7,263,709</u>  | <u>6,863,567</u>    | <u>6,863,567</u>  |
| Liabilities measured at fair value           |                     |                   |                     |                   |
| Derivatives liabilities held for trading(*2) | 212,427             | 212,427           | 40,755              | 40,755            |
| Liabilities measured amortised cost(*3)      |                     |                   |                     |                   |
| Trade accounts and notes payable             | 735,457             | 735,457           | 978,581             | 978,581           |
| Borrowings                                   | 8,663,071           | 8,943,063         | 9,603,774           | 10,145,751        |
| Financial guarantee liabilities              | 65,121              | 65,121            | 49,057              | 49,057            |
| Others                                       | 916,562             | 916,562           | 1,300,526           | 1,300,526         |
|  | <u>₩ 10,380,211</u> | <u>10,660,203</u> | <u>₩ 11,931,938</u> | <u>12,473,915</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.

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

2) Interest rate for determining fair value

Interest rates used to discount the estimated cash flows as of December 31, 2013 and 2012 are as follows:

|            | <u>2013</u> | <u>2012</u> |
|------------|-------------|-------------|
| Borrowings | 0.76~4.08   | 1.47 ~ 4.50 |

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

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3) The fair value hierarchy

- ① The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in measurements.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.

Level 3: inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs).

- ② The fair value of financial instruments by fair value hierarchy as of December 31, 2013 and 2012 are as follows:

a. December 31, 2013

| <i>(in millions of Won)</i>              | <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          |

b. December 31, 2012

| <i>(in millions of Won)</i>              | <u>Level 1</u>     | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>     |
|--|--------------------|----------------|----------------|------------------|
| Financial Assets                         |                    |                |                |                  |
| Available-for-sale financial assets      | ₩ 2,182,741        | -              | 671,025        | 2,853,766        |
| Derivatives assets held for trading      | -                  | 6,016          | -              | 6,016            |
|  | <u>₩ 2,182,741</u> | <u>6,016</u>   | <u>671,025</u> | <u>2,859,782</u> |
| Financial Liabilities                    |                    |                |                |                  |
| Derivatives liabilities held for trading | ₩ -                | 40,755         | -              | 40,755           |

- ③ Changes in financial assets classified as level 3 for the years ended December 31, 2013 and 2012 were as follows:

| <i>(in millions of Won)</i> | <u>2013</u>      | <u>2012</u>    |
|-----------------------------|------------------|----------------|
| Beginning                   | ₩ 671,025        | 855,519        |
| Change to level 3           | 6,857            | 8,372          |
| Other comprehensive income  | (4,015)          | (192,866)      |
| Impairment                  | (3,577)          | -              |
| Ending                      | <u>₩ 670,290</u> | <u>671,025</u> |

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

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**23. Share Capital and Capital Surplus**

(a) Share Capital as of December 31, 2013 and 2012 are as follows:

*(Share, Won)*

|                    | <u>2013</u>       | <u>2012</u>     |
|--------------------|-------------------|-----------------|
| 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, 2013, total numbers of ADRs of 53,749,064 are equivalent to 13,437,266 shares of common stock.

(\*2) As of December 31, 2013, 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, 2013 and 2012 were as follows:

*(share)*

|                             | <u>2013</u>          |                        |                                     | <u>2012</u>          |                        |                                     |
|-----------------------------|----------------------|------------------------|-------------------------------------|----------------------|------------------------|-------------------------------------|
|                             | <u>Issued shares</u> | <u>Treasury shares</u> | <u>Number of outstanding shares</u> | <u>Issued shares</u> | <u>Treasury shares</u> | <u>Number of outstanding shares</u> |
| Beginning                   | ₩ 87,186,835         | (9,942,391)            | 77,244,444                          | 87,186,835           | (9,942,391)            | 77,244,444                          |
| Disposal of treasury shares | -                    | 2,539,180              | 2,539,180                           | -                    | -                      | -                                   |
| Ending                      | 87,186,835           | (7,403,211)            | 79,783,624                          | 87,186,835           | (9,942,391)            | 77,244,444                          |

(c) Capital surplus as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

|                                     | <u>2013</u>        | <u>2012</u>      |
|-------------------------------------|--------------------|------------------|
| Additional paid in capital          | ₩ 463,825          | 463,825          |
| Gain on disposal of treasury shares | 769,215            | 763,867          |
|                                     | <u>₩ 1,233,040</u> | <u>1,227,692</u> |

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

**24. Hybrid Bonds**

(a) Hybrid bonds classified as equity as of December 31, 2013 are as follows:

(in millions of Won)

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

(\*1) Details of hybrid bonds as of December 31, 2013 are as follows:

| (in millions of Won)        | <u>Hybrid bond 1-1</u>   | <u>Hybrid bond 1-2</u>  |
|-----------------------------|--|---|
| 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%<br>reset every 5 years as follows;<br>· After 5 years : return on government bond (5 years) + 1.3%<br>· After 10 years : additionally + 0.25% according to Step-up clauses<br>· After 25 years : additionally + 0.75% | Issue date ~ 2023-06-12 : 4.6%<br>reset every 10 years as follows;<br>· After 10 years : return on government bond (10 years) + 1.4%<br>· After 10 years : additionally + 0.25% according to Step-up clauses<br>· After 30 years : additionally + 0.75% |
| Interest payments condition | Quarterly<br>(Optional deferral of interest payment is available to the Company)   | Quarterly<br>(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, 2013 amounts to ₩2,301 million.

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

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**25. Reserves**

(a) Reserves as of December 31, 2013 and 2012 are as follows:

| <i>(in millions of Won)</i>   | <u>2013</u> | <u>2012</u> |
|---|-------------|-------------|
| Accumulated changes in the unrealized fair value<br>of available-for-sale investments, net of tax | ₩ 403,939   | 3,362       |

(b) Changes in the accumulated unrealized fair value of available-for-sale investments for the years ended December 31, 2013 and 2012 were as follows:

| <i>(in millions of Won)</i>  | <u>2013</u>      | <u>2012</u>  |
|--|------------------|--------------|
| Beginning balance  | ₩ 3,362          | 156,707      |
| Changes in unrealized fair value of available-for-sale investments | 467,942          | (206,555)    |
| Reclassification to profit or loss upon disposal                   | (93,976)         | (75,518)     |
| Impairment of available -for-sale securities                       | 170,805          | 63,466       |
| Tax effects  | (144,194)        | 65,262       |
| Ending balance   | <u>₩ 403,939</u> | <u>3,362</u> |

**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, 2013 and 2012 were as follows:

| <i>(shares, in millions of Won)</i> | <u>2013</u>                 |                    | <u>2012</u>                 |                  |
|-------------------------------------|-----------------------------|--------------------|-----------------------------|------------------|
|                                     | <u>Number of<br/>shares</u> | <u>Amount</u>      | <u>Number of<br/>shares</u> | <u>Amount</u>    |
| Beginning                           | 9,942,391                   | ₩ 2,391,406        | 9,942,391                   | 2,391,406        |
| Disposal of treasury shares         | (2,539,180)                 | (812,283)          | -                           | -                |
| Ending                              | <u>7,403,211</u>            | <u>₩ 1,579,123</u> | <u>9,942,391</u>            | <u>2,391,406</u> |

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

**27. Retained Earnings**

(a) Retained earnings as of December 31, 2013 and 2012 are summarized as follows:

| <i>(in millions of Won)</i>                           | <u>2013</u>         | <u>2012</u>       |
|---|---------------------|-------------------|
| Legal reserve   | ₩ 241,202           | 241,202           |
| Reserve for business rationalization                  | 918,300             | 918,300           |
| Reserve for research and manpower development         | 1,573,333           | 1,530,000         |
| Appropriated retained earnings for business expansion | 34,310,500          | 32,710,500        |
| Appropriated retained earnings for dividends          | 2,044,113           | 1,858,725         |
| Unappropriated retained earnings                      | <u>1,686,836</u>    | <u>2,583,770</u>  |
|   | <u>₩ 40,774,284</u> | <u>39,842,497</u> |

(b) Statements of appropriation of retained earnings as of December 31, 2013 and 2012 are as follows:

| <i>(in millions of Won)</i>  | <u>2013</u>      | <u>2012</u>      |
|--|------------------|------------------|
| <b>Retained earnings before appropriation</b>                              |                  |                  |
| Unappropriated retained earnings carried over from prior year              | ₩ 291,582        | 284,559          |
| Actuarial losses   | (8,692)          | (45,824)         |
| Interests of Hybrid bonds  | (24,161)         | -                |
| Interim dividends  | (154,489)        | (154,489)        |
| Dividends (ratio) per share  |                  |                  |
| ₩2,000 (40%) in 2013   |                  |                  |
| ₩2,000 (40%) in 2012   |                  |                  |
| Profit for the period  | <u>1,582,596</u> | <u>2,499,523</u> |
|  | 1,686,836        | 2,583,769        |
| <b>Transfer from discretionary reserve</b>                                 |                  |                  |
| Reserve for research and manpower development                              | 383,333          | 266,667          |
| Appropriated retained earnings for dividends                               | 237,543          | -                |
|  | <u>620,876</u>   | <u>266,667</u>   |
| <b>Appropriation of retained earnings</b>                                  |                  |                  |
| Cash dividends   |                  |                  |
| Dividends (ratio) per share  |                  |                  |
| ₩6,000 (120%) in 2013  | 478,702          | 463,467          |
| ₩6,000 (120%) in 2012  |                  |                  |
| Reserve for research and manpower development                              | 410,000          | 310,000          |
| Appropriated retained earnings for business expansion                      | 1,200,000        | 1,600,000        |
| Appropriated retained earnings for dividends                               | -                | 185,387          |
|  | <u>2,088,702</u> | <u>2,558,854</u> |
| <b>Unappropriated retained earnings carried forward to subsequent year</b> | <u>₩ 219,010</u> | <u>291,582</u>   |

The date of appropriation for 2013 is expected to be March 14, 2014 and the date of appropriation for 2012 was March, 22, 2013.

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**Notes to the Separate Financial Statements, Continued**  
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**28. Revenue**

Details of revenue for the years ended December 31, 2013 and 2012 were as follows:

| <i>(in millions of Won)</i> | <u>2013</u>         | <u>2012</u>       |
|-----------------------------|---------------------|-------------------|
| Revenues                    |                     |                   |
| Sales of goods              | ₩ 30,436,474        | 35,552,319        |
| Others                      | 107,071             | 112,614           |
|                             | <u>₩ 30,543,545</u> | <u>35,664,933</u> |

**29. Selling and Administrative Expenses**

(a) Administrative expenses

Administrative expenses for the years ended December 31, 2013 and 2012 were as follows:

| <i>(in millions of Won)</i>                  | <u>2013</u>      | <u>2012</u>    |
|--|------------------|----------------|
| Wages and salaries                           | ₩ 198,726        | 182,393        |
| Expenses related to post-employment benefits | 23,994           | 21,006         |
| Other employee benefits                      | 44,630           | 60,682         |
| Travel                                       | 14,906           | 15,666         |
| Depreciation                                 | 25,074           | 24,733         |
| Amortization                                 | 18,126           | 18,214         |
| Rental                                       | 54,931           | 41,332         |
| Repairs                                      | 13,623           | 14,090         |
| Advertising                                  | 89,584           | 102,744        |
| Research & development                       | 150,786          | 136,537        |
| Service fees                                 | 183,053          | 154,363        |
| Vehicles maintenance                         | 7,012            | 7,153          |
| Industry association fee                     | 7,710            | 7,364          |
| Training                                     | 9,593            | 12,007         |
| Conference                                   | 4,956            | 5,178          |
| Bad debt expenses                            | 3,980            | 10,613         |
| Others                                       | 42,282           | 39,833         |
|  | <u>₩ 892,966</u> | <u>853,908</u> |

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**Notes to the Separate Financial Statements, Continued**  
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(b) Selling expenses

Selling expenses for the years ended December 31, 2013 and 2012 were as follows:

| <i>(in millions of Won)</i>                | <b>2013</b>      | <b>2012</b>    |
|--|------------------|----------------|
| Freight and custody expenses               | ₩ 842,424        | 873,482        |
| Operating expenses for distribution center | 9,370            | 8,955          |
| Sales commissions                          | 70,397           | 75,207         |
| Sales advertising                          | 3,145            | 4,168          |
| Sales promotion                            | 6,375            | 6,206          |
| Sample                                     | 1,247            | 1,932          |
| Sales insurance premium                    | 7,871            | 9,578          |
|  | <u>₩ 940,829</u> | <u>979,528</u> |

**30. Research and Development Expenditures Recognized as Expense**

Research and development expenditures recognized as expenses for the years ended December 31, 2013 and 2012 were as follows:

| <i>(in millions of Won)</i>         | <b>2013</b>      | <b>2012</b>    |
|-------------------------------------|------------------|----------------|
| Selling and administrative expenses | ₩ 150,786        | 136,537        |
| Cost of sales                       | 364,876          | 376,650        |
|                                     | <u>₩ 515,662</u> | <u>513,187</u> |

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
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**31. Adjusted Operating Profit**

Adjusted operating profits which include the other profits or losses excluded from operating profit but reflect the results of the Company's operations for the years ended December 31, 2013 and 2012 were as follows:

| <i>(in millions of Won)</i>   | <u>2013</u>        | <u>2012</u>      |
|---|--------------------|------------------|
| Operating profits on the statement of comprehensive income                      | ₩ 2,215,133        | 2,789,597        |
| Add   |                    |                  |
| Gain on disposals of property, plant and equipment                              | 6,773              | 27,688           |
| Gain on disposals of investments in subsidiaries, associates and joint ventures | 14,544             | 8,693            |
| Reversal of impairment loss of property, plant and equipment                    | -                  | 1,606            |
| Gain on disposals of assets held for sale                                       | 67,875             | 1,150            |
| Others  | 50,856             | 30,600           |
|   | <u>140,048</u>     | <u>69,737</u>    |
| Deduct  |                    |                  |
| Loss on disposals of property, plant and equipment                              | (94,533)           | (84,990)         |
| Impairment loss on property, plant and equipment                                | (5,697)            | -                |
| Impairment loss on intangible assets  | (581)              | (6,495)          |
| Loss on disposals of intangible assets  | (315)              | (617)            |
| Donations   | (40,319)           | (62,684)         |
| Idle tangible assets expenses   | (16,800)           | (30,743)         |
| Impairment loss on investments in subsidiaries, associates and joint ventures   | (235,794)          | (1,102)          |
| Loss on disposals of investments in subsidiaries, associates and joint ventures | (12,295)           | (17,575)         |
| Impairment loss on assets held for sale   | (1,814)            | -                |
| Loss on disposals of assets held for sale                                       | -                  | (9,391)          |
| Others  | (10,451)           | (120,704)        |
|   | <u>(418,599)</u>   | <u>(334,301)</u> |
| Adjusted operating profit   | <u>₩ 1,936,582</u> | <u>2,525,033</u> |

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**Notes to the Separate Financial Statements, Continued**  
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**32. Finance Income and Costs**

Details of finance income and costs for the years ended December 31, 2013 and 2012 were as follows:

| <i>(in millions of Won)</i>                            | <u>2013</u>      | <u>2012</u>      |
|--|------------------|------------------|
| Finance income   |                  |                  |
| Interest income  | ₩ 106,672        | 113,813          |
| Dividend income  | 188,212          | 223,411          |
| Gain on disposals of financial assets held for trading | -                | 556              |
| Gain on derivative transactions                        | 9,144            | -                |
| Gain on foreign currency transactions                  | 299,574          | 276,642          |
| Gain on foreign currency translations                  | 264,614          | 639,565          |
| Gain on disposals of available-for-sale investment     | 97,085           | 96,441           |
| Others   | 1,772            | 6,111            |
|  | <u>967,073</u>   | <u>1,356,539</u> |
| Finance costs  |                  |                  |
| Interest expenses                                      | 271,020          | 391,767          |
| Loss on foreign currency transactions                  | 261,019          | 213,350          |
| Loss on foreign currency translations                  | 18,159           | 35,219           |
| Loss on valuation of derivatives                       | 195,719          | -                |
| Impairment loss on available-for-sale investment       | 170,805          | 63,466           |
| Others   | 1,638            | 55,489           |
|  | <u>₩ 918,360</u> | <u>759,291</u>   |

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**Notes to the Separate Financial Statements, Continued**  
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**33. Other Non-Operating Income and Expenses**

Details of other non-operating income and expenses for the years ended December 31, 2013 and 2012 were as follows:

| <i>(in millions of Won)</i>   | <u>2013</u>      | <u>2012</u>    |
|---|------------------|----------------|
| Other non-operating income  |                  |                |
| Gain on disposals of property, plant and equipment                              | ₩ 6,773          | 27,688         |
| Gain on disposals of investments in subsidiaries, associates and joint ventures | 14,544           | 8,693          |
| Reversal of impairment loss of property, plant and equipment                    | -                | 1,606          |
| Gain on disposals of assets held for sale                                       | 67,875           | 1,150          |
| Others  | <u>50,856</u>    | <u>30,600</u>  |
|   | <u>140,048</u>   | <u>69,737</u>  |
| Other non-operating expenses  |                  |                |
| Loss on disposals of property, plant and equipment                              | 94,533           | 84,990         |
| Impairment loss on property, plant and equipment                                | 5,697            | -              |
| Impairment loss on intangible assets  | 581              | 6,495          |
| Loss on disposals of intangible assets  | 315              | 617            |
| Donations   | 40,319           | 62,684         |
| Idle tangible assets expenses   | 16,800           | 30,743         |
| Impairment loss on investments in subsidiaries, associates and joint ventures   | 235,794          | 1,102          |
| Loss on disposals of investments in subsidiaries, associates and joint ventures | 12,295           | 17,575         |
| Impairment loss on assets held for sale   | 1,814            | -              |
| Loss on disposals of assets held for sale                                       | -                | 9,391          |
| Others  | <u>10,451</u>    | <u>120,704</u> |
|   | <u>₩ 418,599</u> | <u>334,301</u> |

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
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**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, 2013 and 2012 were as follows (excluding finance costs and income tax expenses):

| <i>(in millions of Won)</i>                        | <u><b>2013</b></u>  | <u><b>2012</b></u> |
|--|---------------------|--------------------|
| Changes in inventories(*1)                         | ₩ 304,068           | 570,136            |
| Raw materials and consumables used                 | 19,380,227          | 24,090,512         |
| Employee benefits expenses(*3)                     | 1,425,008           | 1,335,949          |
| Outsourced processing cost                         | 2,078,917           | 1,996,707          |
| Depreciation(*2)                                   | 1,932,002           | 1,840,807          |
| Amortization                                       | 38,067              | 40,386             |
| Ordinary research & development expenses           | 515,662             | 513,187            |
| Electricity and water expenses                     | 836,199             | 634,045            |
| Service fees                                       | 243,954             | 218,019            |
| Advertising  | 89,584              | 102,744            |
| Freight and custody expenses                       | 842,424             | 873,482            |
| Sales commissions                                  | 70,397              | 75,207             |
| Loss on disposals of property, plant and equipment | 94,533              | 84,990             |
| Other expenses                                     | 895,969             | 833,466            |
|  | <u>₩ 28,747,011</u> | <u>33,209,637</u>  |

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

(\*2) Includes depreciation of investment property.

(\*3) The details of employee benefits expenses for the years ended December 31, 2013 and 2012 were as follows:

| <i>(in millions of Won)</i>                  | <u><b>2013</b></u> | <u><b>2012</b></u> |
|--|--------------------|--------------------|
| Wages and salaries                           | ₩ 1,286,449        | 1,215,810          |
| Expenses related to post-employment benefits | 138,559            | 120,139            |
|  | <u>₩ 1,425,008</u> | <u>1,335,949</u>   |

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
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**35. Income Taxes**

(a) Income tax expense for the years ended December 31, 2013 and 2012 are as follows:

| <i>(in millions of Won)</i>                           | <u>2013</u>      | <u>2012</u>    |
|---|------------------|----------------|
| Current income taxes(*1)                              | ₩ 291,035        | 212,107        |
| Deferred income taxes                                 | 254,790          | 330,760        |
| Less: Items credited directly to shareholders' equity | (143,126)        | 79,891         |
| Income tax expense                                    | <u>₩ 402,699</u> | <u>622,758</u> |

(\*1) Additional tax payments (or tax returns) arising from finalized tax assessment are added or deducted in current income taxes.

(b) The expected amount of income tax expense based on statutory rates compared to the actual amount of taxes recorded by the Company for the years ended December 31, 2013 and 2012 are as follows:

| <i>(in millions of Won)</i>                   | <u>2013</u>      | <u>2012</u>    |
|---|------------------|----------------|
| Profit before income tax expense              | ₩ 1,985,295      | 3,122,281      |
| Income tax expense computed at statutory rate | 480,441          | 755,592        |
| Adjustments:                                  | (77,742)         | (132,834)      |
| Tax credit                                    | (134,670)        | (160,139)      |
| Additional payment of income taxes            | 2,253            | 3,328          |
| Investments in subsidiaries and associates    | 57,823           | -              |
| Tax effect due to permanent differences       | (11,071)         | 29,722         |
| Others  | 7,923            | (5,745)        |
| Income tax expense                            | <u>₩ 402,699</u> | <u>622,758</u> |
| Effective tax rate (%)                        | 20.3%            | 19.9%          |

(c) The income taxes credited (charged) directly to equity for the years ended December 31, 2013 and 2012 were as follows:

| <i>(in millions of Won)</i>   | <u>2013</u>        | <u>2012</u>   |
|---|--------------------|---------------|
| Net changes in the unrealized fair value of available-for-sale securities | ₩ (144,194)        | 65,262        |
| Defined benefit plan actuarial losses                                     | 2,775              | 14,629        |
| Gain on disposal of treasury shares                                       | (1,707)            | -             |
|   | <u>₩ (143,126)</u> | <u>79,891</u> |

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**Notes to the Separate Financial Statements, Continued**  
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(d) The movements in deferred tax assets (liabilities) for the years ended December 31, 2013 and 2012 were as follows:

(in millions of Won)

|  | 2013               |                  |                    | 2012             |                  |                    |
|--|--------------------|------------------|--------------------|------------------|------------------|--------------------|
|  | Dec.31, 2012       | Inc(Dec)         | Dec.31, 2013       | Dec.31, 2011     | Inc(Dec)         | Dec.31, 2012       |
| <b>Deferred income tax due to temporary differences</b>    |                    |                  |                    |                  |                  |                    |
| Reserve for special repairs                                | ₩ (29,013)         | 551              | (28,462)           | (29,659)         | 646              | (29,013)           |
| Reserve for technology developments                        | (368,647)          | (6,453)          | (375,100)          | (358,160)        | (10,487)         | (368,647)          |
| Depreciation   | (56,394)           | 8,261            | (48,133)           | (63,228)         | 6,834            | (56,394)           |
| Prepaid expenses   | 29,781             | (2,101)          | 27,680             | 21,879           | 7,902            | 29,781             |
| Revaluation of property, plant and equipment               | (789,056)          | (213,742)        | (1,002,798)        | (553,205)        | (235,851)        | (789,056)          |
| Loss on foreign currency translation                       | (52,508)           | (122,422)        | (174,930)          | 93,911           | (146,419)        | (52,508)           |
| Defined benefit obligations                                | 157,559            | 26,830           | 184,389            | 102,738          | 54,821           | 157,559            |
| Plan assets  | (161,152)          | (33,773)         | (194,925)          | (124,536)        | (36,616)         | (161,152)          |
| Accrued revenue  | (2,575)            | 643              | (1,932)            | (2,314)          | (261)            | (2,575)            |
| Others   | 162,669            | 127,759          | 290,428            | 283,880          | (121,211)        | 162,669            |
|  | <u>(1,109,336)</u> | <u>(214,447)</u> | <u>(1,323,783)</u> | <u>(628,694)</u> | <u>(480,642)</u> | <u>(1,109,336)</u> |
| <b>Deferred tax from tax credit</b>                        |                    |                  |                    |                  |                  |                    |
| Tax credit carryforward                                    | 266,977            | 101,076          | 368,053            | 196,986          | 69,991           | 266,977            |
|  | <u>266,977</u>     | <u>101,076</u>   | <u>368,053</u>     | <u>196,986</u>   | <u>69,991</u>    | <u>266,977</u>     |
| <b>Deferred income taxes recognized directly to equity</b> |                    |                  |                    |                  |                  |                    |
| Loss(gain) on valuation of available-for-sale securities   | 15,232             | (144,194)        | (128,962)          | (50,030)         | 65,262           | 15,232             |
| Defined benefit plan actuarial losses                      | 47,815             | 2,775            | 50,590             | 33,186           | 14,629           | 47,815             |
|  | <u>63,047</u>      | <u>(141,419)</u> | <u>(78,372)</u>    | <u>(16,844)</u>  | <u>79,891</u>    | <u>63,047</u>      |
|  | <u>₩ (779,312)</u> | <u>(254,790)</u> | <u>(1,034,102)</u> | <u>(448,552)</u> | <u>(330,760)</u> | <u>(779,312)</u>   |

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(e) Deferred tax assets (liabilities) as of December 31, 2013, December 31, 2012 are as follows:

(in millions of Won)

|  | 2013               |                    |                    | 2012             |                    |                    |
|--|--------------------|--------------------|--------------------|------------------|--------------------|--------------------|
|  | Assets             | Liabilities        | Net                | Assets           | Liabilities        | Net                |
| <b>Deferred income tax due to temporary differences</b>    |                    |                    |                    |                  |                    |                    |
| Reserve for special repairs                                | ₩ -                | (28,462)           | (28,462)           | -                | (29,013)           | (29,013)           |
| Reserve for technology developments                        | -                  | (375,100)          | (375,100)          | -                | (368,647)          | (368,647)          |
| Depreciation   | 12,961             | (61,094)           | (48,133)           | 13,373           | (69,767)           | (56,394)           |
| Prepaid expenses   | 27,680             | -                  | 27,680             | 29,781           | -                  | 29,781             |
| Revaluation of property, plant and equipment               | -                  | (1,002,798)        | (1,002,798)        | -                | (789,056)          | (789,056)          |
| Loss on foreign currency translation                       | 60,196             | (235,126)          | (174,930)          | 150,083          | (202,591)          | (52,508)           |
| Defined benefit obligations                                | 184,389            | -                  | 184,389            | 157,559          | -                  | 157,559            |
| Plan assets  | -                  | (194,925)          | (194,925)          | -                | (161,152)          | (161,152)          |
| Accrued revenue  | -                  | (1,932)            | (1,932)            | -                | (2,575)            | (2,575)            |
| Others   | 303,332            | (12,904)           | 290,428            | 569,505          | (406,836)          | 162,669            |
|  | <u>588,558</u>     | <u>(1,912,341)</u> | <u>(1,323,783)</u> | <u>920,301</u>   | <u>(2,029,637)</u> | <u>(1,109,336)</u> |
| <b>Deferred tax from tax credit</b>                        |                    |                    |                    |                  |                    |                    |
| Tax credit carryforward                                    | 368,053            | -                  | 368,053            | 266,977          | -                  | 266,977            |
|  | <u>368,053</u>     | <u>-</u>           | <u>368,053</u>     | <u>266,977</u>   | <u>-</u>           | <u>266,977</u>     |
| <b>Deferred income taxes recognized directly to equity</b> |                    |                    |                    |                  |                    |                    |
| Loss (gain) on valuation of available-for-sale securities  | 40,404             | (169,366)          | (128,962)          | 87,249           | (72,017)           | 15,232             |
| Defined benefit plan actuarial losses                      | 50,590             | -                  | 50,590             | 47,815           | -                  | 47,815             |
|  | <u>90,994</u>      | <u>(169,366)</u>   | <u>(78,372)</u>    | <u>135,064</u>   | <u>(72,017)</u>    | <u>63,047</u>      |
|  | <u>₩ 1,047,605</u> | <u>(2,081,707)</u> | <u>(1,034,102)</u> | <u>1,322,342</u> | <u>(2,101,654)</u> | <u>(779,312)</u>   |

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**36. Earnings per Share**

(a) Basic and diluted earnings per share for the years ended December 31, 2013 and 2012 were as follows:

| <i>(in millions of Won<br/>except per share information)</i> | <u>2013</u>       | <u>2012</u>       |
|--|-------------------|-------------------|
| Profit for the period  | ₩ 1,582,596       | 2,499,523         |
| Interests of hybrid bonds                                    | (18,314)          | -                 |
| Weighted-average number of<br>common shares outstanding(*1)  | <u>78,009,654</u> | <u>77,244,444</u> |
| Basic and diluted earnings per share                         | <u>₩ 20,052</u>   | <u>32,359</u>     |

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

| <i>(share)</i>  | <u>2013</u>        | <u>2012</u>        |
|---|--------------------|--------------------|
| Total number of common shares issued                    | 87,186,835         | 87,186,835         |
| Weighted-average number of treasury shares              | <u>(9,177,181)</u> | <u>(9,942,391)</u> |
| Weighted-average number of<br>common shares outstanding | <u>78,009,654</u>  | <u>77,244,444</u>  |

Since there were no potential shares of common stock which had dilutive effects as of December 31, 2013 and 2012, diluted earnings per share is equal to basic earnings per share.

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**37. Related Party Transactions**

(a) Significant transactions with related companies for the years ended December 31, 2013 and 2012 are as follows:

1) For the year ended December 31, 2013

(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              |
| <b>Subsidiaries(*3)</b>   |                      |               |                     |                         |                          |                            |                |                    |
| POSCO ENGINEERING & CONSTRUCTION Co., 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 PLANTEC 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             |
| POSHMETAL 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> |
| <b>Associates and joint ventures(*3)</b>                            |                      |               |                     |                         |                          |                            |                |                    |
| SNNC  | 1,532                | 458           | 1,990               | 402,639                 | -                        | -                          | -              | 402,639            |
| POSCO PLANTEC Co., Ltd.(*4)<br>(formerly, SUNGJIN GEOTEC Co., Ltd.) | 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                            | 19,906               | -             | 19,906              | -                       | -                        | -                          | -              | -                  |
| POSCO-SAMSUNG Suzhou 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) Sales and others 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 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, 2013, the Company provided guarantees to related parties (note 22).

(\*4) Sungjin Geotec Co., Ltd. merged with POSCO Plant Engineering Co., Ltd. and changed its name to POSCO PLANTEC Co., Ltd..

# POSCO

## Notes to the Separate Financial Statements, Continued

### As of December 31, 2013 and 2012

#### 2) For the year ended December 31, 2012

(in millions of Won)

|  | Sales and others    |               |                     | Purchase and others  |                          |                            |                | Total              |
|--|---------------------|---------------|---------------------|----------------------|--------------------------|----------------------------|----------------|--------------------|
|  | Sales               | Others        | Total               | Purchase of material | Purchase of fixed assets | Outsourced processing cost | Others         |                    |
| <b>Subsidiaries</b>  |                     |               |                     |                      |                          |                            |                |                    |
| POSCO ENGINEERING & CONSTRUCTION Co., LTD.                   | ₩ 27,401            | 709           | ₩ 28,110            | ₩ 46                 | 1,408,787                | 7                          | 42,246         | ₩ 1,451,086        |
| POSCO Processing&Service                                     | 897,017             | 34            | 897,051             | 1,392,988            | -                        | -                          | 2,903          | 1,395,891          |
| POSCO COATED & COLOR STEEL Co., Ltd.                         | 489,507             | 38            | 489,545             | -                    | -                        | 5,574                      | 922            | 6,496              |
| POSCO PLANTEC Co., Ltd.                                      | 3,253               | 63            | 3,316               | 3,331                | 233,788                  | 23,372                     | 17,455         | 277,946            |
| POSCO ICT  | 1,330               | 217           | 1,547               | 1,151                | 285,093                  | 31,050                     | 151,621        | 468,915            |
| eNtoB Corporation  | -                   | 11            | 11                  | 211,449              | 3,490                    | 225                        | 20,978         | 236,142            |
| POSCO CHEMTECH   | 492,720             | 19,197        | 511,917             | 507,215              | 10,153                   | 279,507                    | 1,275          | 798,150            |
| POSCO M-TECH   | 27,770              | 136           | 27,906              | 130,363              | 9,018                    | 176,263                    | 2,904          | 318,548            |
| POSCO ENERGY CO., LTD.                                       | 87,387              | 820           | 88,207              | -                    | 482                      | -                          | 1,772          | 2,254              |
| POSCO TMC Co., Ltd.  | 230,215             | 20            | 230,235             | 25                   | -                        | 995                        | 12             | 1,032              |
| POSCO AST  | 278,446             | 17            | 278,463             | 8,114                | -                        | 50,320                     | 213            | 58,647             |
| POSHMETAL Co., Ltd.  | 23,882              | 130           | 24,012              | 149,809              | 180                      | -                          | 5              | 149,994            |
| Daewoo International Corporation                             | 4,271,317           | 133           | 4,271,450           | 10,562               | -                        | 389                        | 4,780          | 15,731             |
| POSCO NST Co., Ltd.  | 212,534             | 2             | 212,536             | 1,229                | -                        | 2,147                      | 242            | 3,618              |
| POSCO America Corporation                                    | 726,450             | -             | 726,450             | -                    | -                        | -                          | 733            | 733                |
| POSCO Canada Ltd.  | -                   | -             | -                   | 205,129              | -                        | -                          | -              | 205,129            |
| POSCO Asia Co., Ltd.   | 1,928,881           | 627           | 1,929,508           | 105,392              | 592                      | -                          | 1,329          | 1,931,319          |
| POSCO (Thailand) Company Limited                             | 119,031             | 247           | 119,278             | -                    | -                        | -                          | 182            | 182                |
| Qingdao Pohang Stainless Steel Co., Ltd.                     | 62,347              | 2             | 62,349              | -                    | -                        | -                          | -              | -                  |
| POSCO(Suzhou) Automotive Processing Center Co., Ltd.         | 128,974             | -             | 128,974             | -                    | -                        | -                          | -              | -                  |
| POSCO JAPAN Co., Ltd.  | 1,439,580           | -             | 1,439,580           | 20,472               | 2,857                    | -                          | 5,381          | 28,710             |
| POSCO-India Pune Processing Center. Pvt. Ltd.                | 164,450             | 33            | 164,483             | -                    | -                        | -                          | 15             | 15                 |
| POSCO MEXICO S.A. DE C.V.                                    | 337,921             | 724           | 338,645             | -                    | -                        | -                          | 492            | 492                |
| POSCO Maharashtra Steel Private Limited                      | 154,055             | 1,587         | 155,642             | -                    | -                        | -                          | -              | -                  |
| DAEWOO INTERNATIONAL SINGAPORE PTE. LTD.                     | -                   | -             | -                   | 73,471               | -                        | -                          | -              | 73,471             |
| Others   | 569,076             | 2,787         | 571,863             | 81,411               | 56,570                   | 17,673                     | 132,115        | 287,669            |
|  | <u>₩ 12,673,544</u> | <u>27,534</u> | <u>₩ 12,701,078</u> | <u>₩ 2,902,157</u>   | <u>2,011,010</u>         | <u>587,522</u>             | <u>387,575</u> | <u>₩ 5,888,264</u> |
| <b>Associates and joint ventures</b>                         |                     |               |                     |                      |                          |                            |                |                    |
| POSMATE  | 951                 | 21,093        | 22,044              | 1,058                | 21                       | 14,947                     | 30,032         | 46,058             |
| SNNC   | 2,162               | 349           | 2,511               | 379,050              | -                        | -                          | -              | 379,050            |
| POSCO PLANTEC Co., Ltd. (formerly, SUNGHIN GEOTEC Co., Ltd.) | 27,697              | -             | 27,697              | -                    | -                        | -                          | -              | -                  |
| Dongbang Special Steel Co., Ltd.                             | 89,094              | -             | 89,094              | -                    | -                        | -                          | -              | -                  |
| POSCHROME (PROPRIETARY) LIMITED                              | -                   | 58            | 58                  | 68,079               | -                        | -                          | -              | 68,079             |
| PT. POSMI Steel Indonesia                                    | 9,696               | -             | 9,696               | -                    | -                        | -                          | -              | -                  |
| POSK(Pinghu) Steel Processing Center Co., Ltd.               | 3,889               | -             | 3,889               | -                    | -                        | -                          | -              | -                  |
| POSCO-SAMSUNG-Slovakia Processing Center                     | 16,309              | -             | 16,309              | -                    | -                        | -                          | -              | -                  |
| POSCO-SAMSUNG Suzhou Processing Center Co., Ltd.             | 26,280              | -             | 26,280              | -                    | -                        | -                          | -              | -                  |
| Others   | 7,774               | 117           | 7,891               | 5,303                | -                        | 6,579                      | 2,530          | 14,412             |
|  | <u>₩ 183,852</u>    | <u>21,617</u> | <u>₩ 205,469</u>    | <u>₩ 453,490</u>     | <u>21</u>                | <u>21,526</u>              | <u>32,562</u>  | <u>₩ 507,599</u>   |
|  | <u>₩ 12,857,396</u> | <u>49,151</u> | <u>₩ 12,906,547</u> | <u>₩ 3,355,647</u>   | <u>2,011,031</u>         | <u>609,048</u>             | <u>420,137</u> | <u>₩ 6,395,863</u> |

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

(b) The related account balances of significant transactions with related companies as of December 31, 2013 and 2012 are as follows:

1) 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     |
| <b>Subsidiaries</b>   |                                     |         |             |                                  |                  |        |           |
| POSCO ENGINEERING & CONSTRUCTION Co., 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     |
| eToB 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     |
| POSHIMETAL 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    |
|   | ₩ 984,484                           | 133,283 | ₩ 1,117,767 | ₩ 105,051                        | 231,080          | 28,890 | ₩ 365,021 |
| <b>Associates and joint ventures</b>                            |                                     |         |             |                                  |                  |        |           |
| SNNC  | 140                                 | 40      | 180         | 16,669                           | -                | -      | 16,669    |
| POSCO PLANTEC Co., Ltd.<br>(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       |
|   | ₩ 1,019                             | 4,236   | ₩ 5,255     | ₩ 17,341                         | 2                | -      | ₩ 17,343  |
|   | ₩ 985,503                           | 137,519 | ₩ 1,123,022 | ₩ 122,392                        | 231,082          | 28,890 | ₩ 382,364 |

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

2) December 31, 2012

(in millions of Won)

|  | Receivables                         |        |             | Payables                         |                  |        |           |
|--|-------------------------------------|--------|-------------|----------------------------------|------------------|--------|-----------|
|  | Trade accounts and notes receivable | Others | Total       | Trade accounts and notes payable | Accounts payable | Others | Total     |
| <b>Subsidiaries</b>  |                                     |        |             |                                  |                  |        |           |
| POSCO ENGINEERING & CONSTRUCTION Co., LTD.                   | ₩ 5,084                             | 2,893  | ₩ 7,977     | ₩ -                              | 403,630          | -      | ₩ 403,630 |
| POSCO Processing&Service                                     | 64,206                              | 358    | 64,564      | 28,723                           | 3,949            | -      | 32,672    |
| POSCO COATED & COLOR STEEL Co., Ltd.                         | 108,465                             | 40     | 108,505     | 114                              | -                | 2,504  | 2,618     |
| POSCO PLANTEC Co., Ltd.                                      | 59                                  | 208    | 267         | 3,066                            | 29,231           | -      | 32,297    |
| POSCO ICT  | -                                   | 287    | 287         | 248                              | 84,432           | 6,617  | 91,297    |
| eToB Corporation   | -                                   | 3      | 3           | 7,246                            | 9,323            | 12     | 16,581    |
| POSCO CHEMTECH   | 43,086                              | 3,988  | 47,074      | 52,485                           | 13,300           | 18,753 | 84,538    |
| POSCO M-TECH   | 1,230                               | 63     | 1,293       | 8,226                            | 10,900           | 17,866 | 36,992    |
| POSCO ENERGY CO., LTD.                                       | 9,177                               | 2,934  | 12,111      | -                                | 2,292            | -      | 2,292     |
| POSCO TMC Co., Ltd.  | 64,832                              | 30     | 64,862      | 1                                | -                | 144    | 145       |
| POSCO AST  | 64,542                              | 1,033  | 65,575      | 90                               | 2,919            | 4,791  | 7,800     |
| POSHIMETAL Co., Ltd.   | 1,233                               | 221    | 1,454       | -                                | 15,191           | -      | 15,191    |
| Daewoo International Corporation                             | 357,446                             | 1,378  | 358,824     | 685                              | -                | 45     | 730       |
| POSCO America Corporation                                    | 63,545                              | -      | 63,545      | -                                | -                | -      | -         |
| POSCO Canada Ltd.  | -                                   | -      | -           | 12,973                           | -                | -      | 12,973    |
| POSCO Asia Co., Ltd.   | 102,666                             | 183    | 102,849     | 2,244                            | -                | -      | 2,244     |
| POSCO (Thailand) Company Limited                             | 17,965                              | 21     | 17,986      | -                                | -                | -      | -         |
| Qingdao Pohang Stainless Steel Co., Ltd.                     | 8,710                               | -      | 8,710       | -                                | -                | -      | -         |
| POSCO JAPAN Co., Ltd.  | 35,400                              | -      | 35,400      | 673                              | -                | -      | 673       |
| POSCO MEXICO S.A. DE C.V.                                    | 131,372                             | 297    | 131,669     | -                                | -                | -      | -         |
| POSCO Maharashtra Steel Private Limited                      | 55,249                              | 2,628  | 57,877      | -                                | -                | -      | -         |
| Others   | 49,679                              | 5,500  | 55,179      | 5,920                            | 22,509           | 3,359  | 31,788    |
|  | ₩ 1,183,946                         | 22,065 | ₩ 1,206,011 | ₩ 122,694                        | 597,676          | 54,091 | ₩ 774,461 |
| <b>Associates and joint ventures</b>                         |                                     |        |             |                                  |                  |        |           |
| POSMATE  | -                                   | 78     | 78          | 168                              | 2,175            | 3,972  | 6,315     |
| SNNC   | 194                                 | 35     | 229         | 37,145                           | -                | -      | 37,145    |
| POSCO PLANTEC Co., Ltd. (formerly, SUNGJIN GEOTEC Co., Ltd.) | 4,849                               | -      | 4,849       | -                                | -                | -      | -         |
| POSCHROME (PROPRIETARY) LIMITED                              | -                                   | -      | -           | 2,273                            | -                | -      | 2,273     |
| Others   | -                                   | 453    | 453         | 804                              | -                | -      | 804       |
|  | ₩ 5,043                             | 566    | ₩ 5,609     | ₩ 40,390                         | 2,175            | 3,972  | ₩ 46,537  |
|  | ₩ 1,188,989                         | 22,631 | ₩ 1,211,620 | ₩ 163,084                        | 599,851          | 58,063 | ₩ 820,998 |

(c) For the years ended December 31, 2013 and 2012, details of compensation to key management officers were as follows:

(in millions of Won)

|                     | <b>2013</b> | <b>2012</b> |
|---------------------|-------------|-------------|
| Short-term benefits | ₩ 31,332    | 34,471      |
| Long-term benefits  | 8,004       | 14,934      |
| Retirement benefits | 6,296       | 6,644       |
|                     | ₩ 45,632    | 56,049      |

Key management officers include directors (including non-standing directors), executive officials and fellow officials who have significant influence and responsibilities in the Company's business and operations. In addition to the compensation described above, the Company provided stock appreciation rights to its executive officers and recorded stock compensation expenses amounted to ₩436 million for the year ended December 31, 2012 (2013: nil).

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

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**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).

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

Management regularly analyzes current information about these matters and provides provisions for probable contingent losses including the estimate of legal expense to resolve the matters. Internal and external lawyers are used for these assessments. In making the decision regarding the need for provisions, management considers the degree of probability of an unfavorable outcome and the ability to make a sufficiently reliable estimate of the amount of loss.

(b) 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, 2013, 193million tons of iron ore and 14 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, 2013, the Company entered into commitments with Korea National Oil Corporation for long-term foreign currency borrowings, which are limited up to the amount of USD 6.86 million, USD 6.58 million and USD 4.12 million. The borrowings are related to the exploration of gas hydrates in Aral Sea, Uzbekistan, the exploration of gas hydrates in Namangan-Chust and the exploration of gas hydrates in Western Fergana-Chenavard, respectively. The repayment of the borrowings depends on the success of the projects. The Company is not liable for the repayment of full or part of the money 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.

As of December 31, 2013, the Company has provided two blank promissory notes and a blank check 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.

**POSCO**  
**Notes to the Separate Financial Statements, Continued**  
**As of December 31, 2013 and 2012**

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(c) 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 JPY 98.6 billion (₩990.6 billion). Through trials to the year ended December 31, 2013, 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, 2013, the Japan court has not made any judgments on this matter. Since the Company does not believe that it is probable that an outflow of resources will be required, the Company has not recorded any provision for this lawsuit as of December 31, 2013.

In addition, Nippon Steel & Sumitomo Metal Corporation filed a civil lawsuit in the New Jersey federal court, United States, against POSCO and POSCO America Co., Ltd., a subsidiary of POSCO, claiming infringement of intellectual property rights related to the production of grain oriented electrical steel sheets. As of December 31, 2013, no claim amount has been made and the Company is under discovery proceedings related to this matter. Due to the early stage of the litigation and the inherent uncertainties, the Company is not able to reliably estimate the amount of compensation and timing, if any, that might be awarded to Nippon Steel & Sumitomo Metal Corporation. Consequently, it is not possible for the Company to make an estimate of the expected financial effect that will result from the ultimate resolution of this civil lawsuit. Therefore, the Company has not recorded any provision for this lawsuit in the U.S. as of December 31, 2013.

2) Other lawsuits and claims

The Company is involved in 37 other lawsuits and claims for alleged damages aggregating to ₩69 billion as of December 31, 2013, which arose in the ordinary course of business. In the opinion of management, these 37 lawsuits and claims will not have a material adverse effect on the Company's financial position, operating results or cash flows. Additionally, no provision is recorded in connection with these 37 lawsuits and claims as of December 31, 2013 because the Company has not concluded that a probable loss has occurred on any of the lawsuits and claims.

(d) 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, Continued**  
**As of December 31, 2013 and 2012**

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**39. Cash Flows from Operating Activities**

Changes in operating assets and liabilities for the years ended December 31, 2013 and 2012 were as follows:

| <i>(in millions of Won)</i>              | <u>2013</u>      | <u>2012</u>      |
|--|------------------|------------------|
| Financial assets held for trading        | ₩ -              | 50,132           |
| Trade accounts and notes receivable, net | 679,054          | 107,670          |
| Other accounts receivable                | 68,281           | (25,074)         |
| Accrued income                           | -                | 601              |
| Advance payments                         | 1,162            | 307              |
| Prepaid expenses                         | 18,502           | (18,273)         |
| Inventories                              | 860,472          | 1,740,679        |
| Long-term guarantee deposits             | (616)            | (85)             |
| Other long-term assets                   | (1,120)          | (348)            |
| Trade accounts payable                   | (242,871)        | (415,787)        |
| Other accounts payable                   | (367,521)        | 19,072           |
| Accrued expenses                         | (119,505)        | 192,539          |
| Advances received                        | (23,575)         | 23,339           |
| Withholdings                             | (5,058)          | (4,572)          |
| Unearned revenue                         | (4,427)          | 3,284            |
| Other long-term liabilities              | (1,069)          | 907              |
| Payment severance benefits               | (70,170)         | (66,109)         |
| Plan assets                              | (103,559)        | (137,842)        |
|  | <u>₩ 687,980</u> | <u>1,470,440</u> |

**40. Non-Cash Transactions**

Significant non-cash transactions for the years ended December 31, 2013 and 2012 are as follows:

| <i>(in millions of Won)</i>  | <u>2013</u> | <u>2012</u> |
|--|-------------|-------------|
| Construction-in-progress transferred to other accounts                                 | ₩ 2,501,603 | 1,927,489   |
| Other non-current asset transferred to investments<br>in associates and joint ventures | -           | 257,878     |
| Acquisition of short-term financial statements<br>through issuance of treasury stocks  | 804,496     | -           |
| Financial guarantee liabilities  | 20,812      | 45,442      |

**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, 2013. 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, 2013, 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, 2013 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, 2013. We did not review the Company's IACS subsequent to December 31, 2013. 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.

*KPMG Samjong Accounting Corp.*

Seoul, Korea  
February 25, 2014

### Notice to Readers

This report is annexed in relation to the audit of the separate financial statements as of December 31, 2013 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.

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, 2013.

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, 2013, in all material respects, in accordance with the IACS Standards issued by the IACS Operations Committee.

January 27, 2014

  
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Chung, Joon-Yang, Chief Executive Officer

  
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Park, Ki-Hong, Internal Accounting Control Officer